
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016

Commission file number 1-5318

KENNAMETAL INC.

(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction of incorporation or organization)

25-0900168

(I.R.S. Employer Identification No.)

**600 Grant Street
Suite 5100**

Pittsburgh, Pennsylvania

(Address of principal executive offices)

15219-2706

(Zip Code)

Website: www.kennametal.com

Registrant's telephone number, including area code: **(412) 248-8000**

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

Indicate the number of shares outstanding of each of the issuer's classes of capital stock, as of the latest practicable date.

Title of Each Class	Outstanding at October 31, 2016
Capital Stock, par value \$1.25 per share	79,933,935

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KENNAMETAL INC.
FORM 10-Q
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016

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FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q contains “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are statements that do not relate strictly to historical or current facts. You can identify forward-looking statements by the fact they use words such as “should,” “anticipate,” “estimate,” “approximate,” “expect,” “may,” “will,” “project,” “intend,” “plan,” “believe” and other words of similar meaning and expression in connection with any discussion of future operating or financial performance or events. We have also included forward looking statements in this Quarterly Report on Form 10-Q concerning, among other things, our strategy, goals, plans and projections regarding our financial position, liquidity and capital resources, results of operations, market position and product development. These statements are based on current estimates that involve inherent risks and uncertainties. Should one or more of these risks or uncertainties materialize, or should the assumptions underlying the forward-looking statements prove incorrect, our actual results could vary materially from our current expectations. There are a number of factors that could cause our actual results to differ from those indicated in the forward-looking statements. They include: economic recession; our ability to achieve all anticipated benefits of restructuring initiatives; our foreign operations and international markets, such as currency exchange rates, different regulatory environments, trade barriers, exchange controls, and social and political instability; changes in the regulatory environment in which we operate, including environmental, health and safety regulations; potential for future goodwill and other intangible asset impairment charges; our ability to protect and defend our intellectual property; continuity and security of information technology infrastructure; competition; our ability to retain our management and employees; demands on management resources; availability and cost of the raw materials we use to manufacture our products; product liability claims; integrating acquisitions and achieving the expected savings and synergies; global or regional catastrophic events; demand for and market acceptance of our products; business divestitures; energy costs; commodity prices; labor relations; and implementation of environmental remediation matters. We provide additional information about many of the specific risks we face in the “Risk Factors” Section of our Annual Report on Form 10-K. We can give no assurance that any goal or plan set forth in forward-looking statements can be achieved and readers are cautioned not to place undue reliance on such statements, which speak only as of the date made. We undertake no obligation to release publicly any revisions to forward-looking statements as a result of future events or developments.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

KENNAMETAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share amounts)	Three Months Ended September 30,	
	2016	2015
Sales	\$ 477,140	\$ 555,354
Cost of goods sold	333,610	404,130
Gross profit	143,530	151,224
Operating expense	119,865	129,243
Restructuring charges (Note 7)	28,605	9,120
Amortization of intangibles	4,271	6,247
Operating (loss) income	(9,211)	6,614
Interest expense	6,993	6,979
Other expense, net	118	1,087
Loss before income taxes	(16,322)	(1,452)
Provision for income taxes	4,879	4,252
Net loss	(21,201)	(5,704)
Less: Net income attributable to noncontrolling interests	455	522
Net loss attributable to Kennametal	\$ (21,656)	\$ (6,226)
PER SHARE DATA ATTRIBUTABLE TO KENNAMETAL SHAREHOLDERS		
Basic loss per share	\$ (0.27)	\$ (0.08)
Diluted loss per share	\$ (0.27)	\$ (0.08)
Dividends per share	\$ 0.20	\$ 0.20
Basic weighted average shares outstanding	80,054	79,728
Diluted weighted average shares outstanding	80,054	79,728

KENNAMETAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)	Three Months Ended September 30,	
	2016	2015
Net loss	\$ (21,201)	\$ (5,704)
Other comprehensive loss, net of tax		
Unrealized (loss) gain on derivatives designated and qualified as cash flow hedges	(126)	525
Reclassification of unrealized loss (gain) on expired derivatives designated and qualified as cash flow hedges	387	(1,766)
Unrecognized net pension and other postretirement benefit gain	630	999
Reclassification of net pension and other postretirement benefit loss	1,834	1,219
Foreign currency translation adjustments	1,164	(18,849)
Total other comprehensive income (loss), net of tax	3,889	(17,872)
Total comprehensive loss	(17,312)	(23,576)
Less: comprehensive income (loss) attributable to noncontrolling interests	870	(17)
Comprehensive loss attributable to Kennametal Shareholders	\$ (18,182)	\$ (23,559)

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**KENNAMETAL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

(in thousands, except per share data)	September 30, 2016	June 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 119,411	\$ 161,579
Accounts receivable, less allowance for doubtful accounts of \$12,743 and \$12,724, respectively	348,470	370,916
Inventories (Note 10)	459,296	458,830
Deferred income taxes (Note 3)	—	26,713
Other current assets	64,660	57,303
Total current assets	991,837	1,075,341
Property, plant and equipment:		
Land and buildings	356,765	353,789
Machinery and equipment	1,533,220	1,511,462
Less accumulated depreciation	(1,154,537)	(1,134,611)
Property, plant and equipment, net	735,448	730,640
Other assets:		
Investments in affiliated companies	2	2
Goodwill (Note 17)	298,718	298,487
Other intangible assets, less accumulated amortization of \$117,186 and \$114,093, respectively (Note 17)	202,871	207,208
Deferred income taxes (Note 3)	35,862	14,459
Other	42,695	36,646
Total other assets	580,148	556,802
Total assets	\$ 2,307,433	\$ 2,362,783
LIABILITIES		
Current liabilities:		
Current maturities of long-term debt and capital leases	\$ 374	\$ 732
Notes payable to banks	1,007	1,163
Accounts payable	176,004	182,039
Accrued income taxes	17,504	16,602
Accrued expenses	61,237	74,470
Other current liabilities	146,448	152,269
Total current liabilities	402,574	427,275
Long-term debt and capital leases, less current maturities (Notes 3 and 11)	694,027	693,548
Deferred income taxes	13,280	17,126
Accrued pension and postretirement benefits	200,998	201,473
Accrued income taxes	2,342	3,100
Other liabilities	24,804	24,460
Total liabilities	1,338,025	1,366,982
EQUITY (Note 15)		
Kennametal Shareholders' Equity:		
Preferred stock, no par value; 5,000 shares authorized; none issued	—	—
Capital stock, \$1.25 par value; 120,000 shares authorized; 79,927 and 79,694 shares issued, respectively	99,908	99,618
Additional paid-in capital	443,226	436,617
Retained earnings	742,961	780,597
Accumulated other comprehensive loss	(349,035)	(352,509)
Total Kennametal Shareholders' Equity	937,060	964,323
Noncontrolling interests	32,348	31,478
Total equity	969,408	995,801
Total liabilities and equity	\$ 2,307,433	\$ 2,362,783

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**KENNAMETAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW (UNAUDITED)**

(in thousands)	Three Months Ended September 30,	
	2016	2015
OPERATING ACTIVITIES		
Net loss	\$ (21,201)	\$ (5,704)
Adjustments for non-cash items:		
Depreciation	23,167	25,312
Amortization	4,271	6,247
Stock-based compensation expense	9,088	7,016
Restructuring charges (Note 7)	(77)	3,049
Deferred income tax provision	456	14,381
Other	(1,312)	7,141
Changes in certain assets and liabilities:		
Accounts receivable	23,111	35,481
Inventories	838	20,288
Accounts payable and accrued liabilities	(3,836)	(27,813)
Accrued income taxes	(521)	(28,597)
Accrued pension and postretirement benefits	(5,644)	(11,416)
Other	(6,480)	(6,678)
Net cash flow provided by operating activities	21,860	38,707
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(42,264)	(37,217)
Disposals of property, plant and equipment	1,138	1,933
Other	159	(72)
Net cash flow used for investing activities	(40,967)	(35,356)
FINANCING ACTIVITIES		
Net (decrease) increase in notes payable	(128)	386
Net increase in short-term revolving and other lines of credit	—	9,600
Term debt borrowings	—	16,618
Term debt repayments	(244)	(27,337)
Purchase of capital stock	(63)	(80)
Dividend reinvestment and the effect of employee benefit and stock plans	(433)	401
Cash dividends paid to Shareholders	(15,980)	(15,915)
Other	(6,576)	4,075
Net cash flow used for financing activities	(23,424)	(12,252)
Effect of exchange rate changes on cash and cash equivalents	363	606
CASH AND CASH EQUIVALENTS		
Net decrease in cash and cash equivalents	(42,168)	(8,295)
Cash and cash equivalents, beginning of period	161,579	105,494
Cash and cash equivalents, end of period	\$ 119,411	\$ 97,199

The accompanying notes are an integral part of these condensed consolidated financial statements.

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KENNAMETAL INC. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

Kennametal Inc. was incorporated in Pennsylvania in 1943. Kennametal Inc. and its subsidiaries (collectively, Kennametal or the Company) are a leading global manufacturer and supplier of tooling, engineered components and advanced materials consumed in production processes. We believe that our reputation for manufacturing excellence, as well as our technological expertise and innovation we deliver in our products and services, helps us to achieve a leading position in our primary markets. End users of our products include metalworking and machinery manufacturers and suppliers across a diverse array of industries, including the aerospace, defense, transportation, machine tool, light machinery and heavy machinery, as well as producers and suppliers in a number of equipment-intensive industries such as coal mining, road construction and quarrying, as well as oil and gas exploration, refining, production and supply. Our end users' applications range from airframes to mining operations, engines to oil wells and turbochargers to processing.

In order to take advantage of the growth opportunities of our WIDIA brand, we implemented a new operating structure.

A key attribute of the new structure is the establishment of the WIDIA operating segment. In order to better leverage the opportunities that lie in this business, in addition to being more agile and competitive in the marketplace, we are placing higher levels of focus, determination and leadership in the business. The Industrial and WIDIA segments in 2017 were formed from the 2016 Industrial segment. We now have three global reportable operating segments: Industrial, WIDIA, and Infrastructure.

2. BASIS OF PRESENTATION

The condensed consolidated financial statements, which include our accounts and those of our majority-owned subsidiaries, should be read in conjunction with our 2016 Annual Report on Form 10-K. The condensed consolidated balance sheet as of June 30, 2016 was derived from the audited balance sheet included in our 2016 Annual Report on Form 10-K. These interim statements are unaudited; however, we believe that all adjustments necessary for a fair statement of the results of the interim periods were made and all adjustments are normal recurring adjustments. The results for the three months ended September 30, 2016 and 2015 are not necessarily indicative of the results to be expected for a full fiscal year. Unless otherwise specified, any reference to a "year" is to a fiscal year ended June 30. For example, a reference to 2017 is to the fiscal year ending June 30, 2017. When used in this Form 10-Q, unless the context requires otherwise, the terms "we," "our" and "us" refer to Kennametal Inc. and its subsidiaries.

3. NEW ACCOUNTING STANDARDS

Adopted

In November 2015, the Financial Accounting Standards Board (FASB) issued guidance on balance sheet classification of deferred taxes. The amendments in this guidance require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position, in comparison to the previous practice of separating deferred income tax liabilities and assets into current and noncurrent amounts on the balance sheet. We adopted this guidance July 1, 2016 on a prospective basis. Therefore, prior period balance sheets were not retrospectively adjusted. Current deferred tax assets of \$26.7 million and current deferred tax liabilities of \$0.6 million are reported in the June 30, 2016 balance sheet.

In April 2015, the FASB issued guidance on the presentation of debt issuance costs. The guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction from the carrying amount of that debt liability, consistent with debt discounts. This guidance was effective for Kennametal beginning July 1, 2016 and was retrospectively applied to all periods presented. Debt issuance costs of \$5.7 million and \$6.0 million are reported as direct reductions of the carrying amounts of debt liabilities in the balance sheet as of September 30, and June 30, 2016, respectively.

In April 2015, the FASB issued guidance on accounting for fees paid in a cloud computing arrangement. The amendments in this update provide guidance to customers about treatment of costs as either capitalized and amortized as an intangible asset or expensed as incurred as a service contract. The amendments provide clarification that costs in arrangements that include software license should be capitalized and amortized, and costs in arrangements that do not include a software license should be expensed as incurred. This standard was effective for Kennametal beginning July 1, 2016 and was applied prospectively. The adoption of this guidance did not have a material impact on our condensed consolidated financial position, results of operations and cash flows.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)***Issued*

In August 2016, the FASB issued guidance on classification of certain cash receipts and cash payments in the statement of cash flow. The guidance addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. This guidance is effective for Kennametal beginning July 1, 2018. We are in the process of assessing the impact the adoption of this guidance will have on our condensed consolidated financial statements.

4. SUPPLEMENTAL CASH FLOW DISCLOSURES

(in thousands)	Three Months Ended September 30,	
	2016	2015
Cash paid during the period for:		
Interest	\$ 6,935	\$ 6,832
Income taxes	4,943	19,838
Supplemental disclosure of non-cash information:		
Changes in accounts payable related to purchases of property, plant and equipment	15,404	16,400

5. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy consists of three levels to prioritize the inputs used in valuations, as defined below:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs that are unobservable.

As of September 30, 2016, the fair values of the Company's financial assets and financial liabilities measured at fair value on a recurring basis are categorized as follows:

(in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Derivatives ⁽¹⁾	\$ —	\$ 394	\$ —	\$ 394
Total assets at fair value	\$ —	\$ 394	\$ —	\$ 394
Liabilities:				
Derivatives ⁽¹⁾	\$ —	\$ 518	\$ —	\$ 518
Total liabilities at fair value	\$ —	\$ 518	\$ —	\$ 518

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KENNAMETAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As of June 30, 2016, the fair value of the Company's financial assets and financial liabilities measured at fair value on a recurring basis are categorized as follows:

(in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Derivatives ⁽¹⁾	\$ —	\$ 334	\$ —	\$ 334
Total assets at fair value	\$ —	\$ 334	\$ —	\$ 334
Liabilities:				
Derivatives ⁽¹⁾	\$ —	\$ 763	\$ —	\$ 763
Contingent consideration	—	—	6,600	6,600
Total liabilities at fair value	\$ —	\$ 763	\$ 6,600	\$ 7,363

⁽¹⁾ Currency derivatives are valued based on observable market spot and forward rates and are classified within Level 2 of the fair value hierarchy.

There have been no changes in classification and transfers between levels in the fair value hierarchy in the current period. The fair value of contingent consideration payable that was classified as Level 3 at June 30, 2016 related to our probability assessments of expected future milestone targets, primarily associated with product delivery, related to a previous acquisition. During the the three months ended September 30, 2016, the Company paid the remaining \$6.6 million in conjunction with achieved milestone targets. The contingent consideration was recorded in other current liabilities in our condensed consolidated balance sheet at June 30, 2016. No other changes in the expected outcome have occurred during the three months ended September 30, 2016.

6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

As part of our financial risk management program, we use certain derivative financial instruments. We do not enter into derivative transactions for speculative purposes and, therefore, hold no derivative instruments for trading purposes. We account for derivative instruments as a hedge of the related asset, liability, firm commitment or anticipated transaction, when the derivative is specifically designated and qualifies as a hedge of such items. Our objective in managing foreign exchange exposures with derivative instruments is to reduce volatility in cash flow. We measure hedge effectiveness by assessing the changes in the fair value or expected future cash flows of the hedged item. The ineffective portions are recorded in other expense, net.

The fair value of derivatives designated and not designated as hedging instruments in the condensed consolidated balance sheet are as follows:

(in thousands)	September 30, 2016	June 30, 2016
Derivatives designated as hedging instruments		
Other current assets - range forward contracts	\$ 239	\$ 323
Other current liabilities - range forward contracts	(5)	—
Other assets - range forward contracts	35	—
Total derivatives designated as hedging instruments	269	323
Derivatives not designated as hedging instruments		
Other current assets - currency forward contracts	120	11
Other current liabilities - currency forward contracts	(513)	(763)
Total derivatives not designated as hedging instruments	(393)	(752)
Total derivatives	\$ (124)	\$ (429)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Certain currency forward contracts that hedge significant cross-border intercompany loans are considered as other derivatives and therefore do not qualify for hedge accounting. These contracts are recorded at fair value in the condensed consolidated balance sheet, with the offset to other expense, net. Gains related to derivatives not designated as hedging instruments have been recognized as follows:

(in thousands)	Three Months Ended September 30,	
	2016	2015
Other expense, net - currency forward contracts	\$ (318)	\$ (17)

CASH FLOW HEDGES

Range forward contracts (a transaction where both a put option is purchased and a call option is sold) are designated as cash flow hedges and hedge anticipated cash flows from cross-border intercompany sales of products and services. Gains and losses realized on these contracts at maturity are recorded in accumulated other comprehensive loss and are recognized as a component of other expense, net when the underlying sale of products or services is recognized into earnings. The notional amount of the contracts translated into U.S. dollars at September 30, 2016 and June 30, 2016, was \$71.5 million and \$53.3 million, respectively. The time value component of the fair value of range forward contracts is excluded from the assessment of hedge effectiveness. Assuming the market rates remain constant with the rates at September 30, 2016, we expect to recognize into earnings in the next 12 months an immaterial amount of income on outstanding derivatives.

The following represents gains and losses related to cash flow hedges:

(in thousands)	Three Months Ended September 30,	
	2016	2015
(Losses) gains recognized in other comprehensive loss, net	\$ (125)	\$ 516
Losses (gains) reclassified from accumulated other comprehensive loss into other expense, net	\$ 386	\$ (1,458)

No portion of the gains or losses recognized in earnings was due to ineffectiveness and no amounts were excluded from our effectiveness testing for the three months ended September 30, 2016 and 2015.

7. RESTRUCTURING AND RELATED CHARGES

We are implementing restructuring actions to streamline the Company's cost structure. These initiatives are expected to improve the alignment of our cost structure with the current operating environment through headcount reductions; rationalization and consolidation of certain manufacturing facilities; enhancement of operational efficiencies through an enterprise-wide cost reduction program; and other employment and cost reduction programs. These restructuring actions are expected to be completed by December of fiscal 2019 and are anticipated to be mostly cash expenditures.

The total pre-tax charges for these programs are expected to be in the range of \$155 million to \$175 million, which is expected to be approximately 60 percent Industrial, 5 percent WIDIA, 30 percent Infrastructure and 5 percent Corporate. Total restructuring and related charges since inception of \$102.8 million have been recorded for these programs through September 30, 2016: \$54.3 million in Industrial, \$33.0 million in Infrastructure, \$8.6 million in WIDIA and \$6.9 million in Corporate.

We have recorded restructuring and related charges of \$31.7 million and \$15.1 million for the three months ended September 30, 2016 and 2015, respectively. Of these amounts, restructuring charges totaled \$28.6 million and \$9.1 million, respectively. During the three months ended September 30, 2016, an immaterial amount of restructuring charges was related to inventory disposals and were recorded in cost of goods sold. Restructuring-related charges of \$2.0 million and \$1.6 million were recorded in cost of goods sold and \$1.1 million and \$4.4 million in operating expense for the three months ended September 30, 2016 and 2015, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

The restructuring accrual is recorded in other current liabilities in our condensed consolidated balance sheet and the amount attributable to each segment is as follows:

(in thousands)	June 30, 2016	Expense	Asset Write-Down	Translation	Cash Expenditures	September 30, 2016
Industrial						
Severance	\$ 8,180	\$ 16,994	\$ —	\$ 36	\$ (10,904)	\$ 14,306
Facilities	—	105	(105)	—	—	—
Other	809	(78)	—	(3)	(355)	373
Total Industrial	\$ 8,989	\$ 17,021	\$ (105)	\$ 33	\$ (11,259)	\$ 14,679
WIDIA						
Severance	\$ 909	\$ 2,880	\$ —	\$ 6	\$ (1,848)	\$ 1,947
Facilities	—	9	(9)	—	—	—
Other	90	(13)	—	—	(60)	17
Total WIDIA	999	2,876	(9)	6	(1,908)	1,964
Infrastructure						
Severance	\$ 5,301	\$ 8,929	\$ —	\$ 19	\$ (5,729)	\$ 8,520
Facilities	33	(191)	191	—	—	33
Other	381	(41)	—	(1)	(187)	152
Total Infrastructure	\$ 5,715	\$ 8,697	\$ 191	\$ 18	\$ (5,916)	\$ 8,705
Total	\$ 15,703	\$ 28,594	\$ 77	\$ 57	\$ (19,083)	\$ 25,348

8. STOCK-BASED COMPENSATION*Stock Options*

There were no grants made during the three months ended September 30, 2016.

The assumptions used in our Black-Scholes valuation related to grants made during the three months ended September 30, 2015 were as follows:

Risk-free interest rate	1.4%
Expected life (years) ⁽²⁾	4.5
Expected volatility ⁽³⁾	31.0%
Expected dividend yield	2.0%

(2) Expected life is derived from historical experience.

(3) Expected volatility is based on the implied historical volatility of our stock.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Changes in our stock options for the three months ended September 30, 2016 were as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic value (in thousands)
Options outstanding, June 30, 2016	2,547,809	\$ 33.72		
Granted	—	—		
Exercised	(8,359)	22.83		
Lapsed or forfeited	(90,230)	28.36		
Options outstanding, September 30, 2016	2,449,220	\$ 33.95	4.6	\$ 3,431
Options vested and expected to vest, September 30, 2016	2,413,580	\$ 34.02	4.6	\$ 3,348
Options exercisable, September 30, 2016	1,826,158	\$ 35.84	3.2	\$ 1,245

During the three months ended September 30, 2016 and 2015, compensation expense related to stock options was \$0.5 million and \$1.3 million, respectively. As of September 30, 2016, the total unrecognized compensation cost related to options outstanding was \$2.0 million and is expected to be recognized over a weighted average period of 1.8 years.

Weighted average fair value of options granted during the three months ended September 30, 2015 was \$7.17 per option. Fair value of options vested during the three months ended September 30, 2016 and 2015 was \$2.6 million and \$1.9 million, respectively.

Tax benefits relating to excess stock-based compensation deductions are presented in the condensed consolidated statements of cash flow as financing cash inflows. There were no tax benefits resulting from stock-based compensation deductions for the three months ended September 30, 2016. Tax benefits resulting from stock-based compensation deductions were less than amounts reported for financial reporting purposes by \$1.4 million for the three months ended September 30, 2015.

The amount of cash received from the exercise of capital stock options was immaterial during the three months ended September 30, 2016 and 2015. There was no related tax benefit for the three months ended September 30, 2016, and the related tax benefit was immaterial for the three months ended September 30, 2015. The total intrinsic value of options exercised was immaterial during the three months ended September 30, 2016 and 2015.

Under the provisions of the Kennametal Inc. Stock and Incentive Plan of 2010 as amended and restated on October 22, 2013 and as further amended January 27, 2015, plan participants may deliver stock, owned by the holder for at least six months, in payment of the option price and receive credit for the fair market value of the shares on the date of delivery. The fair market value of shares delivered during both the three months ended September 30, 2016 and 2015 was immaterial.

Restricted Stock Units – Time Vesting and Performance Vesting

Performance vesting restricted stock units are earned pro rata each year if certain performance goals are met over a three-year period and are also subject to a service condition that requires the individual to be employed by the Company at the vesting date after the three-year performance period, with the exception of retirement eligible grantees, who upon retirement are entitled to vest in any units that have been earned, including a prorated portion in the partially completed fiscal year in which the retirement occurs. Time vesting stock units are valued at the market value of the stock on the grant date. Performance vesting stock units with a market condition are valued using a Monte Carlo model.

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KENNAMETAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Changes in our time vesting and performance vesting restricted stock units for the three months ended September 30, 2016 were as follows:

	Performance Vesting Stock Units	Performance Vesting Weighted Average Fair Value	Time Vesting Stock Units	Time Vesting Weighted Average Fair Value
Unvested performance vesting and time vesting restricted stock units, June 30, 2016	115,467	\$ 36.96	1,014,744	\$ 31.97
Granted	235,241	26.35	582,219	24.98
Vested	(16,084)	45.24	(276,114)	36.76
Performance metric not achieved	(35,980)	26.35	—	—
Forfeited	—	—	(27,830)	28.46
Unvested performance vesting and time vesting restricted stock units, September 30, 2016	298,644	\$ 28.13	1,293,019	\$ 27.87

During the three months ended September 30, 2016 and 2015, compensation expense related to time vesting and performance vesting restricted stock units was \$8.3 million and \$5.7 million, respectively. As of September 30, 2016, the total unrecognized compensation cost related to unvested time vesting and performance vesting restricted stock units was \$24.2 million and is expected to be recognized over a weighted average period of 2.3 years.

9. BENEFIT PLANS

We sponsor several defined benefit pension plans. Additionally, we provide varying levels of postretirement health care and life insurance benefits to some U.S. employees.

The table below summarizes the components of net periodic pension income:

(in thousands)	Three Months Ended September 30,	
	2016	2015
Service cost	\$ 733	\$ 1,163
Interest cost	7,809	9,485
Expected return on plan assets	(14,757)	(14,709)
Amortization of transition obligation	23	21
Amortization of prior service credit	(113)	(104)
Recognition of actuarial losses	2,112	1,833
Special termination benefit charge	—	54
Net periodic pension income	\$ (4,193)	\$ (2,257)

The special termination benefit charge of \$0.1 million during the three months ended September 30, 2015 is the result of lump sum payments to several terminated Executive Retirement Plan participants.

The table below summarizes the components of net periodic other postretirement benefit cost:

(in thousands)	Three Months Ended September 30,	
	2016	2015
Interest cost	\$ 168	\$ 210
Amortization of prior service credit	(6)	(6)
Recognition of actuarial loss	89	81
Net periodic other postretirement benefit cost	\$ 251	\$ 285

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KENNAMETAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. INVENTORIES

We used the last-in, first-out (LIFO) method of valuing inventories for 45 percent and 44 percent of total inventories at September 30, 2016 and June 30, 2016, respectively. Since inventory valuations under the LIFO method are based on an annual determination of quantities and costs as of June 30 of each year, the interim LIFO valuations are based on our projections of expected year-end inventory levels and costs. Therefore, the interim financial results are subject to any final year-end LIFO inventory adjustments.

Inventories consisted of the following:

(in thousands)	September 30, 2016	June 30, 2016
Finished goods	\$ 290,530	\$ 284,054
Work in process and powder blends	153,944	166,274
Raw materials	72,623	68,472
Inventories at current cost	517,097	518,800
Less: LIFO valuation	(57,801)	(59,970)
Total inventories	\$ 459,296	\$ 458,830

11. LONG-TERM DEBT

The five-year, multi-currency, revolving credit facility, as amended and restated in April 2016 (Credit Agreement) permits revolving credit loans of up to \$600 million for working capital, capital expenditures and general corporate purposes. The Credit Agreement requires us to comply with various restrictive and affirmative covenants, including two financial covenants: a maximum leverage ratio and a minimum consolidated interest coverage ratio (as those terms are defined in the agreement). We were in compliance with all covenants as of September 30, 2016. We had no borrowings outstanding under the Credit Agreement as of September 30, 2016 and June 30, 2016. Borrowings under the Credit Agreement are guaranteed by our significant domestic subsidiaries. The Credit Agreement matures in April 2021.

Fixed rate debt had a fair market value of \$709.0 million and \$704.0 million at September 30, 2016 and June 30, 2016, respectively. The Level 2 fair value is determined based on the quoted market price of this debt as of September 30, 2016 and June 30, 2016, respectively.

12. ENVIRONMENTAL MATTERS

The operation of our business has exposed us to certain liabilities and compliance costs related to environmental matters. We are involved in various environmental cleanup and remediation activities at certain of our locations.

Superfund Sites Among other environmental laws, we are subject to the Comprehensive Environmental Response Compensation and Liability Act of 1980 (Superfund), under which we have been designated by the United States Environmental Protection Agency (USEPA) as a potentially responsible party (PRP) with respect to environmental remedial costs at certain Superfund sites. We have evaluated our claims and liabilities associated with these Superfund sites based upon best currently available information. We believe our environmental accruals are adequate to cover our portion of the environmental remedial costs at the Superfund sites where we have been designated a PRP, to the extent these expenses are probable and reasonably estimable.

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**KENNAMETAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Other Environmental Matters We establish and maintain reserves for other potential environmental issues. At September 30, 2016 and June 30, 2016, the balances of these reserves were \$12.5 million. These reserves represent anticipated costs associated with the remediation of these issues.

The reserves we have established for environmental liabilities represent our best current estimate of the costs of addressing all identified environmental situations, based on our review of currently available evidence, and taking into consideration our prior experience in remediation and that of other companies, as well as public information released by the USEPA, other governmental agencies and by the PRP groups in which we are participating. Although the reserves currently appear to be sufficient to cover these environmental liabilities, there are uncertainties associated with environmental liabilities, and we can give no assurance that our estimate of any environmental liability will not increase or decrease in the future. The reserved and unreserved liabilities for all environmental concerns could change substantially due to factors such as the nature and extent of contamination, changes in remedial requirements, technological changes, discovery of new information, the financial strength of other PRPs, the identification of new PRPs and the involvement of and direction taken by the government on these matters.

We maintain a Corporate Environmental Health and Safety (EHS) Department to monitor compliance with environmental regulations and to oversee remediation activities. In addition, we have designated EHS coordinators who are responsible for each of our global manufacturing facilities. Our financial management team periodically meets with members of the Corporate EHS Department and the Corporate Legal Department to review and evaluate the status of environmental projects and contingencies. On a quarterly basis, we review financial provisions and reserves for environmental contingencies and adjust these reserves when appropriate.

13. INCOME TAXES

The effective income tax rates for the three months ended September 30, 2016 and 2015 were 29.9 percent (provision on a loss) and 292.8 percent (provision on a loss), respectively. The change was primarily driven by a discrete tax charge in the prior year quarter for the sale of non-core businesses and a loss in the U.S. in the current quarter for which we could not record a tax benefit due to a full valuation allowance on our U.S. deferred tax assets as of the fourth quarter of fiscal 2016.

14. EARNINGS PER SHARE

Basic earnings per share is computed using the weighted average number of shares outstanding during the period, while diluted earnings per share is calculated to reflect the potential dilution that would occur related to the issuance of capital stock under stock option grants and restricted stock units. The difference between basic and diluted earnings per share relates solely to the effect of capital stock options and restricted stock units.

For the three months ended September 30, 2016 and 2015, the effects of unexercised capital stock options and unvested restricted stock units were anti-dilutive as a result of net losses in the periods and therefore have been excluded from diluted shares outstanding as well as from the diluted earnings per share calculation.

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KENNAMETAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. EQUITY

A summary of the changes in the carrying amounts of total equity, Kennametal Shareholders' equity and equity attributable to noncontrolling interests as of September 30, 2016 and 2015 is as follows:

(in thousands)	Kennametal Shareholders' Equity					Non-controlling interests	Total equity
	Capital stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss			
Balance as of June 30, 2016	\$ 99,618	\$ 436,617	\$ 780,597	\$ (352,509)	\$ 31,478	\$ 995,801	
Net (loss) income	—	—	(21,656)	—	455	(21,201)	
Other comprehensive income	—	—	—	3,474	415	3,889	
Dividend reinvestment	3	60	—	—	—	63	
Capital stock issued under employee benefit and stock plans	290	6,609	—	—	—	6,899	
Purchase of capital stock	(3)	(60)	—	—	—	(63)	
Cash dividends paid	—	—	(15,980)	—	—	(15,980)	
Balance as of September 30, 2016	\$ 99,908	\$ 443,226	\$ 742,961	\$ (349,035)	\$ 32,348	\$ 969,408	

(in thousands)	Kennametal Shareholders' Equity					Non-controlling interests	Total equity
	Capital stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss			
Balance as of June 30, 2015	\$ 99,219	\$ 419,829	\$ 1,070,282	\$ (243,523)	\$ 29,628	\$ 1,375,435	
Net (loss) income	—	—	(6,226)	—	522	(5,704)	
Other comprehensive loss	—	—	—	(17,333)	(539)	(17,872)	
Dividend reinvestment	4	76	—	—	—	80	
Capital stock issued under employee benefit and stock plans	289	2,856	—	—	—	3,145	
Purchase of capital stock	(4)	(76)	—	—	—	(80)	
Cash dividends paid	—	—	(15,915)	—	—	(15,915)	
Balance as of September 30, 2015	\$ 99,508	\$ 422,685	\$ 1,048,141	\$ (260,856)	\$ 29,611	\$ 1,339,089	

The amounts of comprehensive loss attributable to Kennametal Shareholders and noncontrolling interests are disclosed in the condensed consolidated statements of comprehensive income.

16. ACCUMULATED OTHER COMPREHENSIVE LOSS

Total accumulated other comprehensive loss (AOCL) consists of net income (loss) and other changes in equity from transactions and other events from sources other than shareholders. It includes postretirement benefit plan adjustments, currency translation adjustments and unrealized gains and losses from derivative instruments designated as cash flow hedges.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The components of, and changes in, AOCL were as follows, net of tax, for the three months ended September 30, 2016 (in thousands):

Attributable to Kennametal:	Postretirement benefit plans	Currency translation adjustment	Derivatives	Total
Balance, June 30, 2016	\$ (212,163)	\$ (131,212)	\$ (9,134)	(352,509)
Other comprehensive income (loss) before reclassifications	630	749	(126)	1,253
Amounts reclassified from AOCL	1,834	—	387	2,221
Net current period other comprehensive income	2,464	749	261	3,474
AOCL, September 30, 2016	\$ (209,699)	\$ (130,463)	\$ (8,873)	(349,035)
Attributable to noncontrolling interests:				
Balance, June 30, 2016	\$ —	\$ (3,446)	\$ —	(3,446)
Other comprehensive income before reclassifications	—	415	—	415
Net current period other comprehensive income	—	415	—	415
AOCL, September 30, 2016	\$ —	\$ (3,031)	\$ —	(3,031)

The components of, and changes in, AOCL were as follows, net of tax, for the three months ended September 30, 2015 (in thousands):

Attributable to Kennametal:	Postretirement benefit plans	Currency translation adjustment	Derivatives	Total
Balance, June 30, 2015	\$ (138,793)	\$ (97,309)	\$ (7,421)	(243,523)
Other comprehensive income (loss) before reclassifications	999	(18,310)	525	(16,786)
Amounts reclassified from AOCL	1,219	—	(1,766)	(547)
Net current period other comprehensive income (loss)	2,218	(18,310)	(1,241)	(17,333)
AOCL, September 30, 2015	\$ (136,575)	\$ (115,619)	\$ (8,662)	(260,856)
Attributable to noncontrolling interests:				
Balance, June, 2015	\$ —	\$ (2,258)	\$ —	(2,258)
Other comprehensive loss before reclassifications	—	(539)	—	(539)
Net current period other comprehensive loss	—	(539)	—	(539)
AOCL, September 30, 2015	\$ —	\$ (2,797)	\$ —	(2,797)

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KENNAMETAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Reclassifications out of AOCL for the three months ended September 30, 2016 and 2015 consisted of the following (in thousands):

Details about AOCL components	Three Months Ended September 30,		Affected line item in the Income Statement
	2016	2015	
Gains and losses on cash flow hedges:			
Forward starting interest rate swaps	\$ 545	\$ 525	Interest expense
Currency exchange contracts	(158)	(3,373)	Other expense, net
Total before tax	387	(2,848)	
Tax expense	—	1,082	Provision for income taxes
Net of tax	\$ 387	\$ (1,766)	
Postretirement benefit plans:			
Amortization of transition obligations	\$ 23	\$ 21	See note 9 for further details
Amortization of prior service credit	(119)	(110)	See note 9 for further details
Recognition of actuarial losses	2,201	1,914	See note 9 for further details
Total before tax	2,105	1,825	
Tax benefit	(271)	(606)	Provision for income taxes
Net of tax	\$ 1,834	\$ 1,219	

The amount of income tax allocated to each component of other comprehensive income (loss) for the three months ended September 30, 2016 and 2015:

(in thousands)	2016			2015		
	Pre-tax	Tax impact	Net of tax	Pre-tax	Tax impact	Net of tax
Unrealized (loss) gain on derivatives designated and qualified as cash flow hedges	\$ (126)	\$ —	\$ (126)	\$ 847	\$ (322)	\$ 525
Reclassification of unrealized loss (gain) on expired derivatives designated and qualified as cash flow hedges	387	—	387	(2,848)	1,082	(1,766)
Unrecognized net pension and other postretirement benefit gain	716	(86)	630	1,267	(268)	999
Reclassification of net pension and other postretirement benefit loss	2,105	(271)	1,834	1,825	(606)	1,219
Foreign currency translation adjustments	1,164	—	1,164	(18,905)	56	(18,849)
Other comprehensive income (loss)	\$ 4,246	\$ (357)	\$ 3,889	\$ (17,814)	\$ (58)	\$ (17,872)

[Table of Contents](#)**KENNAMETAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****17. GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill represents the excess of cost over the fair value of the net assets of acquired companies. Goodwill and other intangible assets with indefinite lives are tested at least annually for impairment. We perform our annual impairment tests during the June quarter in connection with our annual planning process, unless there are impairment indicators based on the results of an ongoing cumulative qualitative assessment that warrant a test prior to that. We evaluate the recoverability of goodwill for each of our reporting units by comparing the fair value of each reporting unit with its carrying value. The fair values of our reporting units are determined using a combination of a discounted cash flow analysis and market multiples based upon historical and projected financial information. We apply our best judgment when assessing the reasonableness of the financial projections used to determine the fair value of each reporting unit. We evaluate the recoverability of indefinite-lived intangible assets using a discounted cash flow analysis based on projected financial information. This evaluation is sensitive to changes in market interest rates and other external factors.

Identifiable assets with finite lives are reviewed for impairment when events or circumstances indicate that the carrying value may not be recoverable.

During the three months ended September 30, 2016, we reorganized our operating structure in a manner that changed the composition of our reporting units. The Industrial and WIDIA reporting units in fiscal 2017 were formed from the fiscal 2016 Industrial reporting unit. In connection with this reporting unit realignment, during the three months ended September 30, 2016 we updated our goodwill impairment assessment based on a quantitative analysis. We evaluated the goodwill of our reporting units immediately prior to and after the realignment and concluded in both cases that there was no impairment. We allocated our goodwill from the former Industrial segment to the current Industrial and WIDIA segments using a relative fair value approach. The restated Industrial reporting unit passed the goodwill impairment test with fair value substantially exceeded the carrying value. The new WIDIA reporting unit's fair value approximates its carrying value.

See Note 18 for further discussion regarding the Company's segments.

We are currently exploring strategic alternatives for one of our non-core Infrastructure businesses. The estimated net book value of the business is approximately \$30 million as of September 30, 2016. As the strategic direction has not yet been determined for this business, the Company cannot determine if additional impairment charges will be incurred.

A summary of the carrying amount of goodwill attributable to each segment, as well as the changes in such, is as follows:

(in thousands)	Industrial	WIDIA	Infrastructure	Total
Gross goodwill	\$ 408,705	\$ 40,624	\$ 633,211	\$ 1,082,540
Accumulated impairment losses	(137,204)	(13,638)	(633,211)	(784,053)
Balance as of June 30, 2016	\$ 271,501	\$ 26,986	\$ —	\$ 298,487
Activity for the three months ended September 30, 2016:				
Change in gross goodwill due to translation	210	21	—	231
Gross goodwill	408,915	40,645	633,211	1,082,771
Accumulated impairment losses	(137,204)	(13,638)	(633,211)	(784,053)
Balance as of September 30, 2016	\$ 271,711	\$ 27,007	\$ —	\$ 298,718

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The components of our other intangible assets were as follows:

(in thousands)	Estimated Useful Life (in years)	September 30, 2016		June 30, 2016	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Contract-based	3 to 15	\$ 7,063	\$ (6,948)	\$ 7,152	\$ (6,886)
Technology-based and other	4 to 20	46,506	(27,253)	47,323	(27,011)
Customer-related	10 to 21	205,377	(70,120)	205,471	(66,938)
Unpatented technology	10 to 30	31,820	(4,867)	31,837	(4,614)
Trademarks	5 to 20	12,357	(7,998)	12,668	(8,644)
Trademarks	Indefinite	16,934	—	16,850	—
Total		\$ 320,057	\$ (117,186)	\$ 321,301	\$ (114,093)

During the three months ended September 30, 2016 and 2015, we recorded amortization expense of \$4.3 million and \$6.2 million, respectively, related to our other intangible assets.

18. SEGMENT DATA

Kennametal delivers productivity to customers seeking peak performance in demanding environments by providing innovative custom and standard wear-resistant solutions. To provide these solutions, we harness our knowledge of advanced materials and application development with a commitment to environmental sustainability. Our product offering includes a wide selection of standard and customized technologies for metalworking, such as sophisticated metal cutting tools, tooling systems and services, as well as advanced, high-performance materials, such as cemented tungsten carbide products, super alloys, coatings and investment castings to address customer demands. We offer these products through a variety of channels to meet customer-specified needs.

The Company's reportable operating segments have been determined in accordance with the Company's internal management structure, which is organized based on operating activities, the manner in which we organize segments for making operating decisions and assessing performance and the availability of separate financial results. We do not allocate certain corporate expenses related to executive retirement plans, the Company's Board of Directors and strategic initiatives, as well as certain other costs and report them in Corporate. None of our three reportable operating segments represent the aggregation of two or more operating segments.

The Industrial segment generally serves customers that operate in industrial end markets such as transportation, general engineering and aerospace and defense, delivering high performance metalworking tools for specified purposes. The customers in these end markets manufacture engines, airframes, automobiles, trucks, ships and various types of industrial equipment. The technology and customization requirements for customers we serve vary by customer, application and industry. The value we deliver to our Industrial segment customers centers on our application expertise and our diverse offering of products and services, with products delivered through a diverse base including direct and indirect channels.

The WIDIA segment generally serves customers that operate in industrial end markets, primarily in general engineering, delivering high performance metalworking tools for general purposes. Whereas the Industrial segment's core is in application expertise and specific customer needs, WIDIA offers a competitive alternative for general metal cutting solutions across a broader platform for application, with products delivered primarily through indirect channels.

The Infrastructure segment generally serves customers that operate in the earthworks and energy sectors who support primary industries such as oil and gas, power generation, underground, surface and hard-rock mining, highway construction and road maintenance. Generally, we rely on customer intimacy to serve this segment. By gaining an in-depth understanding of our customers' engineering and development needs, we are able to offer complete system solutions and high-performance capabilities to optimize and add value to their operations.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Our sales and operating income (loss) by segment are as follows:

(in thousands)	Three Months Ended September 30,	
	2016	2015
Sales:		
Industrial ⁽⁴⁾	\$ 269,043	\$ 270,191
WIDIA ⁽⁴⁾	41,015	43,142
Infrastructure	167,082	242,021
Total sales	\$ 477,140	\$ 555,354
Operating (loss) income:		
Industrial ⁽⁴⁾	\$ 5,556	\$ 21,459
WIDIA ⁽⁴⁾	(5,756)	(1,709)
Infrastructure	(7,587)	(8,428)
Corporate	(1,424)	(4,708)
Total operating (loss) income	(9,211)	6,614
Interest expense	6,993	6,979
Other expense, net	118	1,087
Loss from continuing operations before income taxes	\$ (16,322)	\$ (1,452)

Total assets by segment are as follows:

(in thousands)	September 30,	
	2016	June 30, 2016
Industrial ⁽⁴⁾	\$ 1,086,170	\$ 1,019,887
WIDIA ⁽⁴⁾	193,576	195,339
Infrastructure	764,546	849,447
Corporate	263,141	298,110
Total assets	\$ 2,307,433	\$ 2,362,783

(4) Amounts for the three months ended September 30, 2015 and as of June 30, 2016 have been restated to reflect the change in reportable operating segments.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Kennametal Inc. is a leading global manufacturer and supplier of tooling, engineered components and advanced materials consumed in production processes. We deliver productivity solutions to customers seeking peak performance in demanding environments. The Company provides innovative wear-resistant products, application engineering and services backed by advanced material science serving customers across diverse sectors of industrial production, transportation, earthworks, energy, construction, process industries and aerospace. Kennametal solutions are built around industry-essential technology platforms, including precision-engineered metalworking tools and components, surface technologies and earth cutting tools that are mission-critical to customer operations battling extreme conditions associated with wear fatigue, corrosion and high temperatures. The Company's reputation for material and industrial technology excellence, as well as expertise and innovation in development of custom solutions and services, contributes to its leading position in its primary industrial and infrastructure markets. End users of the Company's products include manufacturers, metalworking suppliers, machinery operators and processors engaged in a diverse array of industries, including the manufacture of transportation vehicles and components; machine tool, light machinery and heavy machinery industries; airframe and aerospace components, defense; as well as producers and suppliers in equipment-intensive operations such as coal mining, road construction, quarrying, oil and gas exploration, refining, production and supply. We believe we are one of the largest global providers of consumable metal cutting tools and tooling supplies.

Our sales of \$477.1 million for the quarter ended September 30, 2016 decreased 14 percent compared to sales for the quarter ended September 30, 2015. Sales were in line with expectations. The Industrial segment grew organically for the first time since December of fiscal 2015. Infrastructure comparables, while still difficult, are expected to get easier going forward. Although the WIDIA segment requires improvement, we are focused on re-establishing and growing the WIDIA brand across the globe.

Operating loss was \$9.2 million, compared to operating income of \$6.6 million in the prior year quarter. Year-over-year comparative operating results reflect incremental restructuring and related charges, the negative impacts of unfavorable mix in all segments, organic sales decline and higher employment-related costs, offset by the positive effects of lower raw material costs, incremental restructuring benefits and slightly better productivity. Our cost reduction initiatives are mitigating challenging end market conditions. We have identified 75 percent of the targeted employment reduction of 1,000, corresponding to approximately 65 percent of the estimated annualized savings associated with this initiative.

The permanent savings that we are realizing from restructuring are the result of programs that we have undertaken over the past 21 months. Pre-tax benefits from these restructuring actions were approximately \$18 million in the current quarter, of which approximately \$9 million were incremental to the same quarter one year ago. Refer to the Results of Continuing Operations section of Item 2 for further discussion and analysis of our restructuring programs.

We reported current quarter loss per diluted share of \$0.27, which includes \$0.38 per share of restructuring and related charges. Loss per diluted share of \$0.08 in the prior year quarter included \$0.14 per share of restructuring and related charges and \$0.08 per share of divestiture-related charges. Overall results were mostly in-line with our expectations, with the exception of the tax rate variation driven primarily by jurisdictional mix and statutory profitability by geography.

We generated cash flow from operating activities of \$21.9 million and \$38.7 million during the three months ended September 30, 2016 and 2015, respectively. The decrease is due primarily to lower cash earnings and comparatively lower reductions in primary working capital, partially offset by lower payments for taxes and pensions. Capital expenditures were \$42.3 million and \$37.2 million during the three months ended September 30, 2016 and 2015, respectively.

We invested further in technology and innovation to continue meeting our customers' needs. Research and development expenses included in operating expense totaled \$10.3 million and \$10.0 million for the three months ended September 30, 2016, and 2015 respectively.

The following narrative provides further discussion and analysis of our results of operations, liquidity and capital resources, as well as other pertinent matters.

NEW OPERATING STRUCTURE IMPLEMENTED IN FISCAL 2017

In order to take advantage of the growth opportunities of our WIDIA brand, we implemented a new operating structure in 2017.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

A key attribute of the new structure is the establishment of the WIDIA operating segment. In order to better leverage the opportunities that lie in this business, in addition to being more agile and competitive in the marketplace, we are placing higher levels of focus, determination and leadership in the business. Industrial and WIDIA in 2017 were formed from the 2016 Industrial segment. We now have three reportable operating segments going forward: Industrial, WIDIA and Infrastructure.

In connection with this change, we updated our goodwill impairment assessment based on a quantitative analysis during the three months ended September 30, 2016. We evaluated the goodwill of our reporting units immediately prior to and after the realignment and concluded in both cases that there was no impairment. We allocated our goodwill from the former Industrial segment to the current Industrial and WIDIA segments using a relative fair value approach. The restated Industrial reporting unit passed the goodwill impairment test with fair value substantially exceeded the carrying value. The new WIDIA reporting unit's fair value approximates its carrying value. The amount of goodwill allocated to the WIDIA reporting unit is \$27.0 million.

We completed Step 1 of the WIDIA goodwill impairment test using both an income approach and a market approach. The discounted cash flow method was used to measure the fair value of our equity under the income approach. A terminal value utilizing a constant growth rate of cash flows was used to calculate a terminal value after the explicit projection period. The estimates and assumptions used in our calculations include revenue growth rates, expense growth rates, expected capital expenditures to determine projected cash flows, expected tax rates and an estimated discount rate to determine present value of expected cash flows. These estimates are based on historical experiences, our projections of future operating activity and our weighted average cost of capital ("WACC"). The discount rate used was 14.5 percent. In order to determine the discount rate, the Company uses a market perspective WACC approach. The WACC is calculated incorporating weighted average returns on debt and equity from market participants. Therefore, changes in the market, which are beyond the control of the Company, may have an impact on future calculations of estimated fair value. Management forecasts were used for the years ending June 30, 2017-2021, with a residual period growth rate of 3.0 percent. The tax rate used was 25.0 percent. Under the market approach, we estimate the fair value based on market multiples of revenue and earnings of comparable publicly traded companies and comparable transactions of similar companies.

Fair value determinations require considerable judgment and are sensitive to changes in underlying assumptions and factors. As a result, there can be no assurance that the estimates and assumptions made for purposes of the goodwill and indefinite-lived intangible impairment test will prove to be an accurate prediction of the future. Examples of events or circumstances that could reasonably be expected to negatively affect the underlying key assumptions and ultimately impact the estimated fair value of our reporting units may include such items as: (i) a decrease in expected future cash flows, specifically, a decrease in sales volume driven by a prolonged weakness in consumer demand or other competitive pressures adversely affecting our long term volume trends, unfavorable working capital changes and an inability to successfully achieve our cost savings targets; (ii) inability to achieve all of the anticipated benefits from restructuring actions assumed; (iii) an economic recovery that significantly differs from our assumptions in timing and/or degree; (iv) volatility in the equity and debt markets or other country specific factors which could result in a higher discount rate; and (v) sensitivity to market transaction multiples.

RESULTS OF CONTINUING OPERATIONS

SALES

Sales for the three months ended September 30, 2016 were \$477.1 million, a decrease of \$78.2 million or 14 percent, from \$555.4 million in the prior year quarter. The decrease in sales was driven by 9 percent decline from divestiture, organic decline of 3 percent and unfavorable currency exchange of 2 percent. Excluding the impact of currency exchange and divestiture, sales decreased by approximately 21 percent in earthworks and 8 percent in energy, offset by a 4 percent increase in aerospace and defense and 1 percent increases in both general engineering and transportation. On a regional basis excluding the impact of currency exchange and divestiture, sales decreased 7 percent in the Americas and 2 percent in Europe, offset by a 2 percent increase in Asia.

GROSS PROFIT

Gross profit for the three months ended September 30, 2016 was \$143.5 million, a decrease of \$7.7 million from \$151.2 million in the prior year quarter. The decrease was primarily due to unfavorable business mix, organic sales decline, divestiture impact of \$7.7 million and unfavorable currency exchange of \$2.6 million, partially offset by lower raw material costs, incremental restructuring benefits of \$4.0 million, and slightly better productivity. The gross profit margin for the three months ended September 30, 2016 was 30.1 percent, as compared to 27.2 percent generated in the prior year quarter.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

OPERATING EXPENSE

Operating expense for the three months ended September 30, 2016 decreased \$9.4 million or 7.3 percent to \$119.9 million as compared to \$129.2 million in the prior year quarter. The decrease was primarily due to divestiture impact of \$6.3 million, incremental restructuring benefits of \$5.7 million, \$3.3 million less in restructuring-related charges and favorable foreign currency exchange impacts of \$1.6 million, offset partially by \$5.9 million higher employment-related costs.

RESTRUCTURING AND RELATED CHARGES

We have recorded restructuring and related charges of \$31.7 million and \$15.1 million for the three months ended September 30, 2016 and 2015, respectively. Of these amounts, restructuring charges totaled \$28.6 million and \$9.1 million, respectively. During the three months ended September 30, 2016, an immaterial amount of restructuring charges was related to inventory disposals and were recorded in cost of goods sold. Restructuring-related charges of \$2.0 million and \$1.6 million were recorded in cost of goods sold and \$1.1 million and \$4.4 million in operating expense for the three months ended September 30, 2016 and 2015, respectively.

Total restructuring and related charges since the inception of our restructuring plans through September 30, 2016 were \$102.8 million. See Note 7 in our condensed consolidated financial statements set forth in Part I Item 1 of this Quarterly Report on Form 10-Q (Note 7).

We are implementing restructuring actions to streamline the Company's cost structure. These initiatives are expected to improve the alignment of our cost structure with the current operating environment through headcount reductions; rationalization and consolidation of certain manufacturing facilities; enhancement of operational efficiencies through an enterprise-wide cost reduction program; and other employment and cost reduction programs. These restructuring actions are currently anticipated to deliver annual ongoing pre-tax savings of \$140 million to \$155 million once completed by December of fiscal 2019 and are anticipated to be mostly cash expenditures. The total pre-tax charges for these programs are expected to be in the range of \$155 million to \$175 million.

INTEREST EXPENSE

Interest expense for the three months ended September 30, 2016 and 2015 was \$7.0 million.

OTHER EXPENSE, NET

Other expense, net for the three months ended September 30, 2016, was \$0.1 million compared to \$1.1 million in the prior year quarter. The year-over-year decrease was primarily due to a loss on the sale of assets in the prior year and transition services related to the divestiture of non-core businesses, partially offset by losses on derivatives and lower interest income.

INCOME TAXES

The effective income tax rates for the three months ended September 30, 2016 and 2015 were 29.9 percent (provision on a loss) and 292.8 percent (provision on loss), respectively. The change was primarily driven by a discrete tax charge in the prior year quarter for the sale of non-core businesses and a loss in the U.S. in the current quarter for which we could not record a tax benefit due to a full valuation allowance on our U.S. deferred tax assets as of the fourth quarter of fiscal 2016.

BUSINESS SEGMENT REVIEW

We operate three reportable segments consisting of Industrial, WIDIA, and Infrastructure. Expenses that are not allocated are reported in Corporate. Segment determination is based upon the manner in which we organize segments for making operating decisions and assessing performance and the availability of separate financial results.

Amounts for the three months ended September 30, 2015 for Industrial and WIDIA have been restated to reflect the change in reportable operating segments.

[Table of Contents](#)**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)**

INDUSTRIAL

(in thousands)	Three Months Ended September 30,	
	2016	2015
Sales	\$ 269,043	\$ 270,191
Operating income	5,556	21,459

For the three months ended September 30, 2016, Industrial sales remained flat, reflecting organic growth of 3 percent, offset by unfavorable currency exchange of 2 percent and divestiture impact of 1 percent. Excluding the impact of currency exchange and divestiture, sales increased approximately 6 percent in aerospace and defense, 5 percent in general engineering, and 1 percent in transportation, offset partially by a decrease of approximately 11 percent in energy. Activity in the aerospace sector remains elevated with sales growing globally. General engineering sales in Americas and Asia have benefited from stability in the indirect channel stock levels, offsetting the general industrial weakness caused by the continued decline in the energy sector. The transportation market was mixed with more projects contributing to higher sales in Asia, partially offset by less favorable conditions in Europe and Americas. On a segment regional basis excluding the impact of divestiture and currency exchange, sales increased 7 percent in Asia and 4 percent in the Americas, offset partially by a decrease of 1 percent in Europe. The sales increase in Asia was primarily driven by the transportation and general engineering end markets and to a lesser extent the aerospace and defense end market, partially offset by a decrease in the energy end market. The sales increase in the Americas was primarily driven by the performance in the general engineering end market and to a lesser extent in the aerospace and defense end market, partially offset by decreases in the energy and transportation end markets. The sales decrease in Europe was primarily driven by the performance in the transportation and energy end markets, offset partially by an increase in the aerospace and defense end market, while general engineering remained flat.

For the three months ended September 30, 2016, Industrial operating income decreased by \$15.9 million, driven primarily by \$13.3 million more restructuring and related charges, \$5.1 million higher employment-related costs and unfavorable mix, partially offset by incremental restructuring benefits of \$6.1 million and organic sales growth. Industrial operating margin was 2.1 percent compared with 7.9 percent in the prior year.

WIDIA

(in thousands)	Three Months Ended September 30,	
	2016	2015
Sales	\$ 41,015	\$ 43,142
Operating loss	(5,756)	(1,709)

For the three months ended September 30, 2016, the WIDIA segment, selling primarily in the general engineering end market, recorded a sales decrease of 5 percent, due to organic decline of 3 percent, unfavorable currency exchange of 1 percent and an unfavorable business days impact of 1 percent. On a segment regional basis excluding the impact of currency exchange, sales decreased 10 percent in Europe and 5 percent in the Americas, offset partially by an increase of 5 percent in Asia.

For the three months ended September 30, 2016, WIDIA operating loss was \$5.8 million compared to operating loss of \$1.7 million for the prior year period. Operating loss increased by \$4.0 million, driven primarily by organic sales decline, \$2.3 million higher restructuring and related charges and unfavorable mix. WIDIA operating loss margin was 14.0 percent compared with 4.0 percent in the prior year.

INFRASTRUCTURE

(in thousands)	Three Months Ended September 30,	
	2016	2015
Sales	\$ 167,082	\$ 242,021
Operating loss	(7,587)	(8,428)

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

For the three months ended September 30, 2016, Infrastructure sales decreased by 31 percent, reflecting a 20 percent decline due to divestiture, a 10 percent organic sales decline and a 1 percent unfavorable currency exchange impact. Excluding the impact of currency exchange and divestiture, sales decreased by approximately 22 percent in earthworks, 6 percent in energy and 4 percent in general engineering. Key energy markets, particularly in North America, continued to see contraction in the first quarter, with U.S. rig counts declining over 40 percent year-over-year. In addition, conditions in underground mining in North America declined further, with sales down 36 percent year-over-year. As previously disclosed, this weakness is expected to continue for the foreseeable future. On a segment regional basis excluding the impact of divestiture and currency exchange, sales decreased 16 percent in the Americas, 8 percent in Asia and 3 percent in Europe. The sales decrease in the Americas was driven by decreases in earthworks, energy and general engineering end markets. The sales decrease in Asia was driven primarily by the performance in the earthworks end market, offset partially by an increase in the general engineering end market. The sales decrease in Europe was primarily driven by decreases in energy and general engineering end markets, and to a lesser extent the earthworks end market.

For the three months ended September 30, 2016, Infrastructure operating loss was \$7.6 million compared to operating loss of \$8.4 million for the prior year period. Operating loss for the current period decreased by \$0.8 million, due primarily to lower raw material costs and incremental restructuring program benefits of \$4 million, offset partially by lower organic sales, unfavorable mix and \$4.3 million more restructuring and related charges. Infrastructure operating loss margin was 4.5 percent compared with 3.5 percent in the prior year.

CORPORATE

(in thousands)	Three Months Ended September 30,	
	2016	2015
Corporate unallocated expense	\$ (1,424)	\$ (4,708)

For the three months ended September 30, 2016, Corporate unallocated expense decreased \$3.3 million, or 69.8 percent, due to \$3.3 million lower restructuring-related charges in the current period.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations is the primary source of funding for capital expenditures and internal growth. Year to date September 30, 2016 cash flow provided by operating activities was \$21.9 million, primarily driven by working capital improvements and cash earnings.

Our five-year, multi-currency, revolving credit facility, as amended and restated in April 2016 (Credit Agreement) is used to augment cash from operations and as an additional source of funds. The Credit Agreement permits revolving credit loans of up to \$600.0 million for working capital, capital expenditures and general corporate purposes. The Credit Agreement allows for borrowings in U.S. dollars, euro, Canadian dollars, pound sterling and Japanese yen. Interest payable under the Credit Agreement is based upon the type of borrowing under the facility and may be (1) LIBOR plus an applicable margin, (2) the greater of the prime rate or the Federal Funds effective rate plus an applicable margin, or (3) fixed as negotiated by us. The Credit Agreement matures in April 2021. We had no borrowings outstanding on our Credit Agreement as of September 30, 2016.

The Credit Agreement requires us to comply with various restrictive and affirmative covenants, including two financial covenants: a maximum leverage ratio and a minimum consolidated interest coverage ratio (as those terms are defined in the agreement). We were in compliance with all covenants as of September 30, 2016. For the three months ended September 30, 2016, average daily borrowings outstanding under the Credit Agreement were approximately \$3.3 million. Borrowings under the Credit Agreement are guaranteed by our significant domestic subsidiaries.

We consider the unremitted earnings of our non-U.S. subsidiaries that have not previously been taxed in the U.S. to be permanently reinvested. As of September 30, 2016, cash and cash equivalents of \$41.2 million and short-term intercompany advances made by our foreign subsidiaries to our U.S. parent of \$20.8 million would not be available for use in the U.S. on a long term basis without incurring U.S. federal and state income tax consequences. We have not, nor do we anticipate the need to, repatriate funds to the U.S. to satisfy domestic liquidity needs arising in the ordinary course of business or associated with our domestic debt service requirements.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

At September 30, 2016, cash and cash equivalents were \$119.4 million, total debt was \$695.4 million and total Kennametal Shareholders' equity was \$937.1 million. Our current senior credit ratings are at investment grade levels. We believe that our current financial position, liquidity and credit ratings provide access to the capital markets. We believe that we have sufficient resources available to meet cash requirements for the next 12 months as of September 30, 2016. We continue to closely monitor our liquidity position and the condition of the capital markets, as well as the counterparty risk of our credit providers.

There have been no other material changes in our contractual obligations and commitments since June 30, 2016.

Cash Flow Provided by Operating Activities

During the three months ended September 30, 2016, cash flow provided by operating activities was \$21.9 million, compared to \$38.7 million for the prior year period. Cash flow provided by operating activities for the current year period consisted of net loss and non-cash items amounting to an inflow of \$14.4 million and changes in certain assets and liabilities netting to an inflow of \$7.5 million. Contributing to the changes in certain assets and liabilities were a decrease in accounts receivable of \$23.1 million due to lower sales volume. Offsetting these cash inflows were a decrease in accrued pension and postretirement benefits of \$5.6 million and a net decrease of accounts payable and accrued liabilities of \$3.8 million primarily driven by lower accrued compensation, partially offset by an increase in accounts payable.

During the three months ended September 30, 2015, cash flow provided by operating activities for the period consisted of net loss and non-cash items amounting to an inflow of \$57.4 million, and by changes in certain assets and liabilities netting to an inflow of \$18.7 million. Contributing to the changes in certain assets and liabilities were a decrease in accounts receivable of \$35.5 million due to lower sales volume and a decrease in inventory of \$20.3 million due to our continued focus on working capital management. Offsetting these cash flows were a decrease in accrued income taxes of \$28.6 million primarily driven by payment of a capital gains tax related to a prior period tax reorganization; a decrease of accounts payable and accrued liabilities of \$27.8 million primarily driven by lower accrued compensation, payroll timing and lower restructuring liabilities; and a decrease in accrued pension and postretirement benefits of \$11.4 million.

Cash Flow Used for Investing Activities

Cash flow used for investing activities was \$41.0 million for the three months ended September 30, 2016, compared to \$35.4 million the prior year period. During the current year period, cash flow used for investing activities included capital expenditures, net of \$41.1 million, which consisted primarily of equipment upgrades.

For the three months ended September 30, 2015, cash flow used for investing activities included capital expenditures, net of \$35.3 million, which consisted primarily of equipment upgrades.

Cash Flow Used for Financing Activities

Cash flow used for financing activities was \$23.4 million for the three months ended September 30, 2016 compared to \$12.3 million in the prior year period. During the current year period, cash flow used for financing activities included \$16.0 million of cash dividends paid to Shareholders, a \$6.6 million payment on the remaining contingent consideration related to a prior acquisition, \$0.4 million of dividend reinvestment and the effect of employee benefit and stock plans and \$0.4 million net decrease in borrowings.

For the three months ended September 30, 2015, cash flow used for financing activities included \$15.9 million of cash dividends paid to Shareholders and \$0.7 million net decrease in borrowings. These cash flows were partially offset by \$4.1 million of other financing activities and \$0.4 million of dividend reinvestment and the effect of employee benefit and stock plans.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

FINANCIAL CONDITION

Working capital was \$589.3 million at September 30, 2016, a decrease of \$58.8 million from \$648.1 million at June 30, 2016. The decrease in working capital was primarily driven by a decrease in cash and cash equivalents of \$42.2 million, a decrease in deferred income taxes of \$26.7 million due to the impact of prospective adoption of a new accounting standard requiring all deferred tax assets and liabilities to be classified as long-term and a decrease in accounts receivable of \$22.4 million due to lower sales volume. Partially offsetting these items were a decrease in accrued expenses of \$13.2 million driven by payroll timing and lower accrued vacation pay, a decrease in accounts payable of \$6.0 million as a result of both lower volumes and our focus on working capital management, and a decrease in other current liabilities of \$5.8 million due primarily to the payment to relieve the remaining contingent consideration related to a prior year acquisition and lower accrued compensation, offset partially by higher restructuring liabilities. Currency exchange rate effects increased working capital by \$1.5 million.

Property, plant and equipment, net increased \$4.8 million from \$730.6 million at June 30, 2016 to \$735.4 million at September 30, 2016, primarily due to capital expenditures of \$42.3 million, which includes \$15.4 million change in accounts payable related to purchases of property, plant and equipment, and currency exchange impact of \$0.8 million during the current period. These increases were partially offset by depreciation expense of \$23.2 million and disposals of \$1.1 million.

At September 30, 2016, other assets were \$580.1 million, an increase of \$23.3 million from \$556.8 million at June 30, 2016. The primary drivers for the increase were an increase in deferred income taxes of \$21.4 million and an increase in other assets of \$6.0 million, primarily attributable to an increase in pension plan assets. These increases were partially offset by \$4.3 million decrease in other intangible assets, which was due to amortization expense of \$4.3 million.

Long-term debt and capital leases increased by \$0.5 million to \$694.0 million at September 30, 2016 from \$693.5 million at June 30, 2016.

Kennametal Shareholders' equity was \$937.1 million at September 30, 2016, a decrease of \$27.3 million from \$964.3 million at June 30, 2016. The decrease was primarily due to net loss attributable to Kennametal of \$21.7 million and cash dividends paid to Shareholders of \$16.0 million, partially offset by capital stock issued under employee benefit and stock plans of \$6.9 million, reclassification of net pension and other postretirement benefit loss of \$1.8 million and favorable currency exchange of \$1.2 million.

ENVIRONMENTAL MATTERS

The operation of our business has exposed us to certain liabilities and compliance costs related to environmental matters. We are involved in various environmental cleanup and remediation activities at certain of our locations.

Superfund Sites Among other environmental laws, we are subject to the Comprehensive Environmental Response Compensation and Liability Act of 1980 (Superfund), under which we have been designated by the United States Environmental Protection Agency (USEPA) as a potentially responsible party (PRP) with respect to environmental remedial costs at certain Superfund sites. We have evaluated our claims and liabilities associated with these Superfund sites based upon best currently available information. We believe our environmental accruals are adequate to cover our portion of the environmental remedial costs at the Superfund sites where we have been designated a PRP, to the extent these expenses are probable and reasonably estimable.

Other Environmental Matters We establish and maintain reserves for other potential environmental issues. At September 30, 2016 and June 30, 2016, the balances of these reserves were \$12.5 million. These reserves represent anticipated costs associated with the remediation of these issues.

The reserves we have established for environmental liabilities represent our best current estimate of the costs of addressing all identified environmental situations, based on our review of currently available evidence, and taking into consideration our prior experience in remediation and that of other companies, as well as public information released by the USEPA, other governmental agencies, and by the PRP groups in which we are participating. Although the reserves currently appear to be sufficient to cover these environmental liabilities, there are uncertainties associated with environmental liabilities, and we can give no assurance that our estimate of any environmental liability will not increase or decrease in the future. The reserved and unreserved liabilities for all environmental concerns could change substantially due to factors such as the nature and extent of contamination, changes in remedial requirements, technological changes, discovery of new information, the financial strength of other PRPs, the identification of new PRPs and the involvement of and direction taken by the government on these matters.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

We maintain a Corporate Environmental Health and Safety (EHS) Department, to monitor compliance with environmental regulations and to oversee remediation activities. In addition, we have designated EHS coordinators who are responsible for each of our global manufacturing facilities. Our financial management team periodically meets with members of the Corporate EHS Department and the Corporate Legal Department to review and evaluate the status of environmental projects and contingencies. On a quarterly basis, we review financial provisions and reserves for environmental contingencies and adjust these reserves when appropriate.

DISCUSSION OF CRITICAL ACCOUNTING POLICIES

There have been no changes to our critical accounting policies since June 30, 2016.

NEW ACCOUNTING STANDARDS

See Note 3 to our condensed consolidated financial statements set forth in Part I Item 1 of this Quarterly Report on Form 10-Q for a description of new accounting standards.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to our market risk exposures since June 30, 2016.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this quarterly report on Form 10-Q, the Company's management evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). The Company's disclosure controls were designed to provide a reasonable assurance that information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934, as amended (Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. However, the controls have been designed to provide reasonable assurance of achieving the controls' stated goals. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance at September 30, 2016 to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is (i) accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure and (ii) recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

There were no changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

The information set forth in Part I, Item 1, under the caption "Regulation" of the annual report on Form 10-K for the year ended June 30, 2016 is incorporated into this Item 1. From time to time, we are party to legal claims and proceedings that arise in the ordinary course of business, which may relate to our operations or assets, including real, tangible or intellectual property. Although certain of these actions are currently pending, we do not believe that any individual proceeding is material or that our pending legal proceedings in the aggregate are material to Kennametal.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**ISSUER PURCHASES OF EQUITY SECURITIES**

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
July 1 through July 31, 2016	1,188	\$ 22.26	—	10,100,100
August 1 through August 31, 2016	63,056	25.09	—	10,100,100
September 1 through September 30, 2016	4,821	27.78	—	10,100,100
Total	69,065	\$ 25.23	—	

(1) During the current period, 2,213 shares were purchased on the open market on behalf of Kennametal to fund the Company's dividend reinvestment program. Also, during the current period employees delivered 66,852 shares of restricted stock to Kennametal, upon vesting, to satisfy tax withholding requirements.

(2) On July 25, 2013, the Company publicly announced an amended repurchase program for up to 17 million shares of its outstanding capital stock outside of the Company's dividend reinvestment program.

UNREGISTERED SALES OF EQUITY SECURITIES

None.

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ITEM 6. EXHIBITS

(10)	Material Contracts	
(10.1)	Form of Kennametal Inc. Performance Unit Award (granted under Amendment No. 1 to the Kennametal Inc. Stock and Incentive Plan of 2010 (As Amended and Restated October 22, 2013))	Filed herewith.
(10.2)	Form of Kennametal Inc. Performance Unit Award - President and CEO (granted under Amendment No. 1 to the Kennametal Inc. Stock and Incentive Plan of 2010 (As Amended and Restated October 22, 2013))	Filed herewith.
(10.3)	Kennametal Inc. 2016 Stock and Incentive Plan	Appendix C of the 2016 Proxy Statement filed September 13, 2016 (File No. 001-05318) is incorporated herein by reference.
(10.4)	Form of Kennametal Inc. Restricted Unit Award (granted under the Kennametal Inc. 2016 Stock and Incentive Plan)	Filed herewith.
(10.5)	Form of Kennametal Inc. Cash Settled Share-Based Award for China-based Employees (granted under the Kennametal Inc. 2016 Stock and Incentive Plan)	Filed herewith.
(31)	Rule 13a-14(a)/15d-14(a) Certifications	
(31.1)	Certification executed by Ronald M. De Feo, President and Chief Executive Officer of Kennametal Inc.	Filed herewith.
(31.2)	Certification executed by Jan Kees van Gaalen, Vice President and Chief Financial Officer of Kennametal Inc.	Filed herewith.
(32)	Section 1350 Certifications	
(32.1)	Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Ronald M. De Feo, President and Chief Executive Officer of Kennametal Inc., and Jan Kees van Gaalen, Vice President and Chief Financial Officer of Kennametal Inc.	Filed herewith.
(101)	XBRL	
(101.INS)	XBRL Instance Document	Filed herewith.
(101.SCH)	XBRL Taxonomy Extension Schema Document	Filed herewith.
(101.CAL)	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith.
(101.DEF)	XBRL Taxonomy Definition Linkbase	Filed herewith.
(101.LAB)	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith.
(101.PRE)	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KENNAMETAL INC.

Date: November 7, 2016

By: /s/ Martha Fusco

Martha Fusco

Vice President Finance and Corporate Controller

KENNAMETAL INC.**PERFORMANCE UNIT AWARD****Grant Date:** August 1, 2016

Kennametal Inc. (the "Company") hereby grants to [NAME] (the "Awardee"), as of the Grant Date listed above, this Performance Unit Award (the "Award") for [TARGET NUMBER OF STOCK UNITS] Stock Units, subject to the terms and conditions of the Kennametal Inc. Stock and Incentive Plan of 2010, as Amended and Restated on October 22, 2013, as further amended January 27, 2015 (the "Plan") and the additional terms listed below. Capitalized terms used herein, but not otherwise defined, shall have the same meaning ascribed to them in the Plan.

1. Each Stock Unit represents the right to receive one Share of the Company's Capital Stock, par value \$1.25 per share, subject to the satisfaction of the Service Condition described herein and the Performance Conditions attached hereto as **Exhibit A**. Stock Units as initially awarded have no independent economic value, but rather are mere units of measurement used for purposes of calculating the number of Shares, if any, to be delivered under this Award. The maximum amount of Stock Units that may be earned under this Award is equal to two times the target number of Stock Units listed in the preamble above.

2. Except as otherwise provided in this Award, Awardee must be actively employed by the Company on the Payment Date (defined below) to be eligible to receive Shares in payment of any Stock Units earned under this Award (the "Service Condition").

3. In addition to satisfaction of the Service Condition, payment under this Award is subject to, and contingent upon, achievement of the annual Performance Conditions during the Performance Period. The amount of this Award payable to Awardee will be determined by the level of achievement of the annual Performance Conditions as set forth in **Exhibit A**. Achievement of the Performance Conditions, including the level of achievement, if any, for each fiscal year in the Performance Period shall be determined by the Compensation Committee of the Board of Directors (the "Compensation Committee"), in its sole discretion, and Awardee agrees to be bound by such determination; provided, however, the Compensation Committee shall not use its discretionary authority reserved to it under Section 6(g) of the Plan to reduce the number of Stock Units earned, if any, based on the achievement of the Performance Conditions pursuant to the terms and conditions of this Award. For each fiscal year of the Performance Period, any Stock Units that are not earned will be cancelled and forfeited at the end of such fiscal year.

4. Issuance and Distribution.

a. At the end of each fiscal year of the Performance Period to which this Award relates, the Compensation Committee will certify in writing the extent to which the applicable annual Performance Conditions have been achieved. For purposes of this provision, and for so long as the Code permits, the approved minutes of the Committee meeting in which the certification is made may be treated as written certification.

b. Subject to the terms and conditions of this Award and unless otherwise specifically provided herein, Stock Units earned by an Awardee will be settled and paid in Shares of the Company's Capital Stock as soon as practicable following the end of the three-year Performance Period on a date determined in the Company's discretion, but in no event later than the last day of the "applicable 2½ month period" specified in Treas. Reg. §1.409A-1(b)(4) (the "Payment Date").

5. Change in Awardee's Status; Change in Control.

a. Death or Disability. In the event an Awardee Separates from Service before the Payment Date on account of death or Disability, the Service Condition will be waived. For completed fiscal years, Awardee shall be entitled to receive payment for any Stock Units that have been earned based on the achievement of the Performance Conditions applicable to such fiscal year. For fiscal years not completed, the Performance Conditions will be deemed to have been achieved at the target level and the Awardee will be deemed to have earned for each such fiscal year a number of Stock Units that were able to be earned for such fiscal year.

Subject to the terms and conditions of this Award and unless otherwise specifically provided herein, in the event an Awardee Separates from Service on account of death or Disability, the Stock Units, to the extent earned by the Awardee, shall be paid as soon as practicable following the date of such Separation from Service, but in no event later than the last day of the "applicable 2½ month period" specified in Treas. Reg. §1.409A-1(b)(4).

b. Change of Control. In the event there is a Change in Control during the Performance Period, and unless otherwise specifically provided herein, payment under this Award will remain subject to the satisfaction of the Service Condition. For completed fiscal years prior to the Change in Control, Awardee shall remain eligible to receive payment for any Stock Units that have been earned based on the achievement of the Performance Conditions applicable to such fiscal year. For fiscal years not completed prior to the Change in Control, the Performance Conditions will be deemed to have been achieved at the target level and the Awardee will remain eligible to earn for each such fiscal year a number of Stock Units that were able to be earned for such fiscal year.

c. Change in Control Separation. In the event an Awardee Separates from Service prior to the Payment Date on account of an involuntary termination by the Company without cause or Awardee voluntarily terminates employment for Good Reason (as defined herein) (a) within the six-month period immediately preceding a Change in Control in contemplation of such Change in Control (and the Change in Control actually occurs) or (b) during the two-year period following a Change in Control (a "Change in Control Separation"), the Service Condition will be waived. For completed fiscal years prior to the Change in Control, Awardee shall be entitled to receive payment for any Stock Units that have been earned based on the achievement of the Performance Conditions applicable to such fiscal year. For fiscal years not completed prior to the Change in Control, the Performance Conditions will be deemed to have been achieved at the target level and the Awardee will be deemed to have earned for each such fiscal year a number of Stock Units that were able to be earned for such fiscal year.

Subject to the terms and conditions of this Award and unless otherwise specifically provided herein, in the event of an Change in Control Separation, the Stock Units, to the extent earned by the Awardee, shall be paid as soon as practicable following the date of such Change in Control Separation, but in no event later than the last day of the "applicable 2½ month period" specified in Treas. Reg. §1.409A-1(b)(4); provided that, in the Committee's discretion, the Stock Units may be settled in cash and/or securities or other property.

The term "Good Reason" for purposes of this Award shall mean the occurrence of any of the following in connection with a Change in Control:

- (i) without the Awardee's express written consent, the material diminution of responsibilities or the assignment to the Awardee of any duties materially and substantially inconsistent with his positions, duties, responsibilities and status with Company immediately prior to a Change in Control, or a material change in his or her reporting responsibilities, titles or offices as in effect immediately prior to a Change in Control, or any removal of the Awardee from or any failure to re-elect the Awardee to any of such positions, except in connection with the termination of the Awardee's employment due to Cause (as hereinafter defined) or as a result of the Awardee's death;
- (ii) a material reduction by Company in the Awardee's base salary as in effect immediately prior to any Change in Control;
- (iii) a failure by Company to continue to provide incentive compensation, under the rules by which incentives are provided, on a basis not materially less favorable to that provided by Company immediately prior to any Change in Control;
- (iv) a material reduction in the overall level of employee benefits, including any benefit or compensation plan, stock option plan, retirement plan, life insurance plan, health and accident plan or disability plan in which Awardee is actively participating immediately prior to a Change in Control (provided, however, that there shall not be deemed to be any such failure if Company substitutes for the discontinued plan, a plan providing Awardee with substantially similar benefits) or the taking of any action by Company which would adversely affect Awardee's participation in or materially reduce Awardee's overall level of benefits under such plans or deprive Awardee of any material fringe benefits enjoyed by Awardee immediately prior to a Change-in-Control;
- (v) the breach of this Agreement caused by the failure of Company to obtain the assumption of this Agreement by any successor; and
- (vi) the relocation of the Awardee to a facility or a location more than 50 miles from the Awardee's then present location, without the Awardee's prior written consent.

Notwithstanding the forgoing, in order for the Awardee to terminate for Good Reason: (a) the Awardee must give written notice to Company or its successor of the Awardee's intention to terminate employment for Good Reason within sixty (60) days after the event or omission which constitutes Good Reason, and any failure to give such written notice within such period will result in a waiver by the Awardee of his right to terminate for Good Reason as a result of such act or omission, (b) the event must remain uncorrected by the Company for thirty (30) days following such notice (the "Notice Period"), and (c) such termination must occur within sixty (60) days after the expiration of the Notice Period.

d. Retirement. In the event a Retirement Eligible Awardee (as defined below) Separates from Service on account of Retirement during the Performance Period, the Service Condition will be waived and the amount of this Award to be paid, if any, will be determined as follows: For completed fiscal years, Awardee shall be entitled to receive payment for any Stock Units that have been earned based on the achievement of the Performance Conditions applicable to such Performance Period. For the fiscal year in which the Separation from Service occurs, the Awardee will be entitled to receive payment for a number of Stock Units determined by multiplying (x) the number of Stock Units that are earned based on the achievement of the Performance Conditions applicable to such fiscal year, times (y) the fraction equal to the number of completed months starting with July 1st of the fiscal year in which the Separation from Service occurs and ending with the month of the Awardee's Retirement, divided by the number of months within the period. All other Stock Units granted under this Award, including Stock Units that could have been earned for fiscal years after the fiscal year in which the Separation from Service occurred, shall be cancelled and forfeited without payment by the Company or any Affiliate.

Notwithstanding any other provision of this Award to the contrary, with respect to an Awardee who is or becomes eligible to Separate from Service on account of Retirement during the Performance Period (a "Retirement Eligible Awardee"), any payment made to such Retirement Eligible Awardee under this Award by reason of (i) a Separation from Service on account of death shall be paid in the month following the month containing the date of such Separation from Service; (ii) a Separation from Service on account of Disability shall be paid in the month following the month containing the 6-month anniversary of the date of such Separation from Service (or, if earlier, the date specified in (iv) below); (iii) a Change in Control Separation shall be paid in the month following the month containing the 6-month anniversary of the date of such Change in Control Separation (or, if earlier, the date specified in (iv) below); or (iv) achievement of the annual Performance Conditions during the Performance Period as specified herein (and regardless of whether Retirement Eligible Awardee Separates from Service on account of Retirement) shall be paid in [August 20XX].

e. All Other Separations from Service. In the event an Awardee Separates from Service for any other reason (other than death, Disability, Retirement or Change in Control Separation), including, but not limited to, voluntarily by the Awardee, or involuntarily by the Company with or without cause, prior to the Payment Date, all Stock Units granted to the Awardee shall be cancelled and forfeited, whether payable or not, without payment by the Company or any Affiliate.

6. The Stock Units will be entitled to receive Dividend Equivalents, which will be subject to all conditions and restrictions applicable to the underlying Stock Units to which they relate. Dividend Equivalents will accrue during the Performance Period. At the end of each fiscal year, Dividend Equivalents will be earned only for Stock Units that are earned or deemed earned under this Award for that fiscal year. With respect to Stock Units that are not earned for a fiscal year (because the applicable Performance Conditions are not satisfied or otherwise), Dividend Equivalents that were accrued for those Stock Units will be cancelled and forfeited along with the Stock Units and underlying Shares, without payment by the Company or any Affiliate. Dividend Equivalents will be paid in cash at such time as the underlying Stock Units to which they relate are paid.

7. The Stock Units may not be sold, assigned, pledged, exchanged, hypothecated, gifted or otherwise transferred, encumbered or disposed of prior to the Payment Date, except as described herein or in the Plan.

8. The Shares underlying the Stock Units shall not be sold or otherwise disposed of in any manner that would constitute a violation of any applicable federal or state securities laws. The Company may refuse to register a transfer of the Shares on the stock transfer records of the Company if the transfer constitutes a violation of any applicable securities law and the Company may give related instructions to its transfer agent, if any, to stop registration of the transfer of the Shares.

9. This Performance Unit Award is intended to comply with Section 409A of the Internal Revenue Code (which deals with nonqualified deferred compensation) or an exception thereto and the regulations promulgated thereunder and will be construed accordingly. To the extent a payment is subject to Section 409A and not excepted therefrom, such payment shall be treated as made on the specified date of payment if such payment is made at such date or a later date in the same calendar year or, if later, by the 15th day of the third calendar month following the specified date of payment, as provided and in accordance with Treas. Reg. § 1.409A-3(d). An Awardee shall have no right to designate the date of any payment under this Award. The Company reserves the right to administer, amend or modify the Award or to take any other action necessary or desirable to enable the Award to be interpreted and construed accordingly. Notwithstanding the foregoing, the Awardee acknowledges and agrees that Section 409A may impose upon the Awardee certain taxes or interest charges for which the Awardee is and shall remain solely responsible.

10. Notwithstanding anything to the contrary in this Award or the Plan, in the event that this Award is not accepted by the Awardee on or before the date that is 180 days from the grant date noted herein (the "Forfeiture Date"), then this Award shall become null and void and all Stock Units subject to this Award shall be forfeited by the Awardee as of the Forfeiture Date. For acceptance to be valid, the Awardee must accept this Award in the manner specified by the Company. Any Shares underlying the Stock Units covered by this Award that are forfeited by the Awardee shall be returned to the Plan and resume the status of shares available for grant.

11. All other terms and conditions applicable to this Award are contained in the Plan. A copy of the Plan and related Prospectus is available on your accounts page at netbenefits.fidelity.com under Plan Information and Documents, as well as on The Hub under Human Resources.

KENNAMETAL INC.

By: Michelle R. Keating

Title: Vice President, Secretary and Interim General Counsel

Exhibit A

Performance Conditions for FY17 LTIP Performance Unit Awards

I. RETURN ON INVESTED CAPITAL (ROIC) COMPONENT: WEIGHTED AT 100%:

	ROIC			Payout Multiple Range
	FY17	FY18	FY19	
Maximum	10.6%	13.4%	16.2%	150%
Target	7.6%	9.6%	11.6%	100%
Threshold	5.3%	6.7%	8.1%	50%

The table above sets forth the three year period beginning July 1, 2016 and ending June 30, 2019 ("Performance Period") referenced in the Performance Unit Award Agreement to which this Exhibit A is attached.

Interpolation between values shown in the above table will be made on a straight line basis. There will be no payment for performance below Threshold, and no additional payment for performance above Maximum.

Subject to the terms and conditions of this Award, up to 150% of the number of Stock Units granted pursuant to this agreement may be earned with regard to the ROIC component for the Performance Period (ROIC Earned Stock Units).

II. RELATIVE TOTAL SHAREHOLDER RETURN (RELATIVE TSR) VESTING MULTIPLE COMPONENT:

(a) The total ROIC Earned Stock Units above may have a Relative TSR Vesting Multiple applied to them based on (i) the Corporation's Total Shareholder Return, as described below, relative to the Peer Group's (as set forth in Attachment) Total Shareholder Return for the cumulative three year performance period of time ending on June 30, 2019 ("Performance Period") and (ii) satisfaction of the condition of employment, as set forth below.

(i) "Total Shareholder Return" (or "TSR") over the Performance Period shall be calculated in accordance with the following formula: $((\text{Final Price} + \text{all cash dividends paid during the specified period, included as of the applicable ex-dividend date}) / \text{Initial Price}) - 1$, expressed as a percentage.

(ii) "Final Price" shall mean the average of the closing prices of the Common Stock of each peer company and the Company for the final thirty trading days of the specified period plus all cash dividends paid during the final thirty (30) trading days. For purposes of this Agreement, this shall mean the final thirty (30) trading days in fiscal 2019.

(iii) "Initial Price" shall mean the average of the closing prices of the Common Stock of each peer company and the Company for the last thirty (30) trading days preceding the beginning of the specified period plus all cash dividends paid during the last thirty (30) trading days. For purposes of this Agreement, the Initial Price shall be calculated based on the average of the closing stock prices over the thirty days ending on June 30, 2016.

(iv) The Company's Total Shareholder Return for the Performance Period shall be measured as a percentile ranking in comparison with the index of the Peer Group Total Shareholder Return (the "Index").

(b) The Relative TSR Vesting Multiple to be applied to the total number of ROIC Earned Stock Units to determine the total number of shares of Common Stock to be received pursuant to this agreement shall be the "Award Shares" and shall be calculated as follows:

If the Company's TSR rank against the Peer Group is:	Relative TSR Vesting Multiple (% of ROIC Earned Stock Units)
at the 25th percentile (Threshold)	80%
at the 50th percentile (Target)	100%
at the 75th percentile or more (Maximum)	120%

The percentile rank calculation shall be calculated without including the Company.

The Relative TSR Vesting Multiple is based on the Company's Total Shareholder Return for the Performance Period relative to the Index.

The Relative TSR Vesting Multiple shall be interpolated on a straight-line basis between the percentile levels in the above table, but no amounts will be payable if the Company's TSR rank against the Peer Group is below the Threshold level and no multiples over 120% will be applied if the Company's TSR rank against the Peer Group is above the Maximum level.

The Index group companies shall consist of those companies that comprise the S&P 400 Capital Goods Index on the date of grant. A detailed list of the companies that comprise the Index as of July 11, 2016 is attached. Peer Group companies will be adjusted as follows for activity during the Performance Period:

- If the Company or a member of the Peer Group splits its stock, such company's TSR will be adjusted for the stock split
 - If a member of the Peer Group is acquired by another company, the acquired Peer Group company will be removed from the Peer Group for the entire Performance Period
 - If a member of the Peer Group sells, spins-off, or disposes of a portion of its business representing more than 50% of such Company's total assets during the Performance Period, such Company will be removed from the Peer Group
 - If a member of the Peer Group acquires another company, the acquiring Peer Group company will remain in the Peer Group for the Performance Period
 - If a member of the Peer Group is delisted on all major stock exchanges, such delisted company will be removed from the Peer Group for the entire Performance Period
-

- Members of the Peer Group that file for bankruptcy, liquidation or similar reorganization during the Performance Period will remain in the Peer Group, positioned below the lowest performing nonbankrupt member of the Peer Group

Any adjustments resulting in the removal of a peer company will not impact completed measurement periods during an outstanding performance period.

The Compensation Committee shall have the authority to make adjustments in response to a change in circumstances that results in a member of the peer group no longer satisfying the criteria for which such member was originally selected.

INDEX PEER GROUP COMPANIES
(as of July 11, 2016)

S&P 400 Capital Goods Index

Company Name

AECOM Technology Corporation
AGCO Corporation
AO Smith Corp.
B/E Aerospace Inc.
Carlisle Companies Incorporated
CLARCOR Inc.
Crane Co.
Curtiss-Wright Corporation
Donaldson Company, Inc.
EMCOR Group Inc.
Esterline Technologies Corp.
GATX Corp.
Graco Inc.
Granite Construction Incorporated
Hubbell Inc.
Huntington Ingalls Industries, Inc.
IDEX Corporation
ITT Corporation
Joy Global, Inc.
KBR, Inc.
KLX Inc.
Lennox International, Inc.
Lincoln Electric Holdings Inc.
MSC Industrial Direct Co. Inc.
Nordson Corporation
NOW Inc.
Orbital ATK, Inc.
Oshkosh Corporation
Regal Beloit Corporation
Teledyne Technologies Inc.
Terex Corp.
The Timken Company
The Toro Company
Trinity Industries Inc.
Triumph Group, Inc.
Valmont Industries, Inc.
Watsco Inc.
Westinghouse Air Brake Technologies Corporation
Woodward, Inc.

Exchange:Ticker

NYSE: ACM
NYSE: AGCO
NYSE: AOS
NasdaqGS: BEAV
NYSE: CSL
NYSE: CLC
NYSE: CR
NYSE: CW
NYSE: DCI
NYSE: EME
NYSE: ESL
NYSE: GMT
NYSE: GGG
NYSE: GVA
NYSE: HUB.B
NYSE: HII
NYSE: IEX
NYSE: ITT
NYSE: JOY
NYSE: KBR
NasdaqGS: KLXI
NYSE: LII
NasdaqGS: LECO
NYSE: MSM
NasdaqGS: NDSN
NYSE: DNOW
NYSE: OA
NYSE: OSK
NYSE: RBC
NYSE: TDY
NYSE: TEX
NYSE: TKR
NYSE: TTC
NYSE: TRN
NYSE: TGI
NYSE: VMI
NYSE: WSO
NYSE: WAB
NasdaqGS: WWD

KENNAMETAL INC.**PERFORMANCE UNIT AWARD****(FOR PRESIDENT AND CEO)****Grant Date:** August 1, 2016

Kennametal Inc. (the "Company") hereby grants to [NAME] (the "Awardee"), as of the Grant Date listed above, this Performance Unit Award (the "Award") for [TARGET NUMBER OF STOCK UNITS] Stock Units, subject to the terms and conditions of the Kennametal Inc. Stock and Incentive Plan of 2010, as Amended and Restated on October 22, 2013, as further amended January 27, 2015 (the "Plan") and the additional terms listed below. Capitalized terms used herein, but not otherwise defined, shall have the same meaning ascribed to them in the Plan.

1. Each Stock Unit represents the right to receive one Share of the Company's Capital Stock, par value \$1.25 per share, subject to the satisfaction of the Service Condition described herein and the Performance Conditions attached hereto as **Exhibit A**. Stock Units as initially awarded have no independent economic value, but rather are mere units of measurement used for purposes of calculating the number of Shares, if any, to be delivered under this Award. The maximum amount of Stock Units that may be earned under this Award is equal to two times the target number of Stock Units listed in the preamble above.

2. Except as otherwise provided in this Award, Awardee must be actively employed by the Company on the Payment Date (defined below) to be eligible to receive Shares in payment of any Stock Units earned under this Award (the "Service Condition"). However, if the Awardee separates from service other than (i) termination for "cause" (as defined in the Plan); or (ii) breach of a restrictive covenant to which he may be bound by the Company from the Grant Date through the lapse date, the Forfeiture Restrictions will lapse in accordance with the schedule set forth below:

- Between the grant date and September 30, 2016: forfeit all shares.
 - Between October 1, 2016 and December 31, 2016: forfeiture of two-thirds of shares with the remaining one-third of shares to follow the normal vesting schedule as set forth in Exhibit A.
 - Between January 1, 2017 and March 17, 2017: forfeiture of one-third of shares with the remaining two-thirds of shares to follow the normal vesting schedule as set forth in Exhibit A.
 - Upon turning age 65 on March 18, 2017 and thereafter: shares to follow the normal vesting schedule as set forth in Exhibit A.
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3. In addition to satisfaction of the Service Condition, payment under this Award is subject to, and contingent upon, achievement of the annual Performance Conditions during the Performance Period. The amount of this Award payable to Awardee will be determined by the level of achievement of the annual Performance Conditions as set forth in **Exhibit A**. Achievement of the Performance Conditions, including the level of achievement, if any, for each fiscal year in the Performance Period shall be determined by the Compensation Committee of the Board of Directors (the "Compensation Committee"), in its sole discretion, and Awardee agrees to be bound by such determination; provided, however, the Compensation Committee shall not use its discretionary authority reserved to it under Section 6(g) of the Plan to reduce the number of Stock Units earned, if any, based on the achievement of the Performance Conditions pursuant to the terms and conditions of this Award. For each fiscal year of the Performance Period, any Stock Units that are not earned will be cancelled and forfeited at the end of such fiscal year.

4. Issuance and Distribution.

a. At the end of each fiscal year of the Performance Period to which this Award relates, the Compensation Committee will certify in writing the extent to which the applicable annual Performance Conditions have been achieved. For purposes of this provision, and for so long as the Code permits, the approved minutes of the Committee meeting in which the certification is made may be treated as written certification.

b. Subject to the terms and conditions of this Award and unless otherwise specifically provided herein, Stock Units earned by an Awardee will be settled and paid in Shares of the Company's Capital Stock as soon as practicable following the end of the three-year Performance Period on a date determined in the Company's discretion, but in no event later than the last day of the "applicable 2½ month period" specified in Treas. Reg. §1.409A-1(b)(4) (the "Payment Date").

5. Change in Awardee's Status; Change in Control.

a. Death or Disability. In the event an Awardee Separates from Service before the Payment Date on account of death or Disability, the Service Condition will be waived. For completed fiscal years, Awardee shall be entitled to receive payment for any Stock Units that have been earned based on the achievement of the Performance Conditions applicable to such fiscal year. For fiscal years not completed, the Performance Conditions will be deemed to have been achieved at the target level and the Awardee will be deemed to have earned for each such fiscal year a number of Stock Units that were able to be earned for such fiscal year.

Subject to the terms and conditions of this Award and unless otherwise specifically provided herein, in the event an Awardee Separates from Service on account of death or Disability, the Stock Units, to the extent earned by the Awardee, shall be paid as soon as practicable following the date of such Separation from Service, but in no event later than the last day of the "applicable 2½ month period" specified in Treas. Reg. §1.409A-1(b)(4).

b. Change of Control. In the event there is a Change in Control during the Performance Period, and unless otherwise specifically provided herein, payment under this Award will remain subject to the satisfaction of the Service Condition. For completed fiscal years prior to the Change in Control, Awardee shall remain eligible to receive payment for any Stock Units that have been earned based on the achievement of the Performance Conditions applicable to such fiscal year. For fiscal years not completed prior to the Change in Control, the Performance Conditions will be deemed to have been achieved at the target level and the Awardee will remain eligible to earn for each such fiscal year a number of Stock Units that were able to be earned for such fiscal year.

c. Change in Control Separation. In the event an Awardee Separates from Service prior to the Payment Date on account of an involuntary termination by the Company without cause or Awardee voluntarily terminates employment for Good Reason (as defined herein) (a) within the six-month period immediately preceding a Change in Control in contemplation of such Change in Control (and the Change in Control actually occurs) or (b) during the two-year period following a Change in Control (a "Change in Control Separation"), the Service Condition will be waived. For completed fiscal years prior to the Change in Control, Awardee shall be entitled to receive payment for any Stock Units that have been earned based on the achievement of the Performance Conditions applicable to such fiscal year. For fiscal years not completed prior to the Change in Control, the Performance Conditions will be deemed to have been achieved at the target level and the Awardee will be deemed to have earned for each such fiscal year a number of Stock Units that were able to be earned for such fiscal year.

Subject to the terms and conditions of this Award and unless otherwise specifically provided herein, in the event of an Change in Control Separation, the Stock Units, to the extent earned by the Awardee, shall be paid as soon as practicable following the date of such Change in Control Separation, but in no event later than the last day of the "applicable 2½ month period" specified in Treas. Reg. §1.409A-1(b)(4); provided that, in the Committee's discretion, the Stock Units may be settled in cash and/or securities or other property.

The term "Good Reason" for purposes of this Award shall mean the occurrence of any of the following in connection with a Change in Control:

- (i) without the Awardee's express written consent, the material diminution of responsibilities or the assignment to the Awardee of any duties materially and substantially inconsistent with his positions, duties, responsibilities and status with Company immediately prior to a Change in Control, or a material change in his or her reporting responsibilities, titles or offices as in effect immediately prior to a Change in Control, or any removal of the Awardee from or any failure to re-elect the Awardee to any of such positions, except in connection with the termination of the Awardee's employment due to Cause (as hereinafter defined) or as a result of the Awardee's death;
 - (ii) a material reduction by Company in the Awardee's base salary as in effect immediately prior to any Change in Control;
 - (iii) a failure by Company to continue to provide incentive compensation, under the rules by which incentives are provided, on a basis not materially less favorable to that provided by Company immediately prior to any Change in Control;
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(iv) a material reduction in the overall level of employee benefits, including any benefit or compensation plan, stock option plan, retirement plan, life insurance plan, health and accident plan or disability plan in which Awardee is actively participating immediately prior to a Change in Control (provided, however, that there shall not be deemed to be any such failure if Company substitutes for the discontinued plan, a plan providing Awardee with substantially similar benefits) or the taking of any action by Company which would adversely affect Awardee's participation in or materially reduce Awardee's overall level of benefits under such plans or deprive Awardee of any material fringe benefits enjoyed by Awardee immediately prior to a Change-in-Control;

(v) the breach of this Agreement caused by the failure of Company to obtain the assumption of this Agreement by any successor; and

(vi) the relocation of the Awardee to a facility or a location more than 50 miles from the Awardee's then present location, without the Awardee's prior written consent.

Notwithstanding the forgoing, in order for the Awardee to terminate for Good Reason: (a) the Awardee must give written notice to Company or its successor of the Awardee's intention to terminate employment for Good Reason within sixty (60) days after the event or omission which constitutes Good Reason, and any failure to give such written notice within such period will result in a waiver by the Awardee of his right to terminate for Good Reason as a result of such act or omission, (b) the event must remain uncorrected by the Company for thirty (30) days following such notice (the "Notice Period"), and (c) such termination must occur within sixty (60) days after the expiration of the Notice Period.

d. Retirement. In the event a Retirement Eligible Awardee (as defined below) Separates from Service on account of Retirement during the Performance Period, the shares will follow the normal vesting schedule as set forth in Exhibit A.

Notwithstanding any other provision of this Award to the contrary, with respect to an Awardee who is or becomes eligible to Separate from Service on account of Retirement during the Performance Period (a "Retirement Eligible Awardee"), any payment made to such Retirement Eligible Awardee under this Award by reason of (i) a Separation from Service on account of death shall be paid in the month following the month containing the date of such Separation from Service; (ii) a Separation from Service on account of Disability shall be paid in the month following the month containing the 6-month anniversary of the date of such Separation from Service (or, if earlier, the date specified in (iv) below); (iii) a Change in Control Separation shall be paid in the month following the month containing the 6-month anniversary of the date of such Change in Control Separation (or, if earlier, the date specified in (iv) below); or (iv) achievement of the annual Performance Conditions during the Performance Period as specified herein (and regardless of whether Retirement Eligible Awardee Separates from Service on account of Retirement) shall be paid in [August 20XX].

e. All Other Separations from Service. In the event an Awardee Separates from Service for any other reason (other than death, Disability, Retirement or Change in Control Separation), including, but not limited to, involuntarily by the Company with cause, prior to the Payment Date, all Stock Units granted to the Awardee shall be cancelled and forfeited, whether payable or not, without payment by the Company or any Affiliate.

6. The Stock Units will be entitled to receive Dividend Equivalents, which will be subject to all conditions and restrictions applicable to the underlying Stock Units to which they relate. Dividend Equivalents will accrue during the Performance Period. At the end of each fiscal year, Dividend Equivalents will be earned only for Stock Units that are earned or deemed earned under this Award for that fiscal year. With respect to Stock Units that are not earned for a fiscal year (because the applicable Performance Conditions are not satisfied or otherwise), Dividend Equivalents that were accrued for those Stock Units will be cancelled and forfeited along with the Stock Units and underlying Shares, without payment by the Company or any Affiliate. Dividend Equivalents will be paid in cash at such time as the underlying Stock Units to which they relate are paid.

7. The Stock Units may not be sold, assigned, pledged, exchanged, hypothecated, gifted or otherwise transferred, encumbered or disposed of prior to the Payment Date, except as described herein or in the Plan.

8. The Shares underlying the Stock Units shall not be sold or otherwise disposed of in any manner that would constitute a violation of any applicable federal or state securities laws. The Company may refuse to register a transfer of the Shares on the stock transfer records of the Company if the transfer constitutes a violation of any applicable securities law and the Company may give related instructions to its transfer agent, if any, to stop registration of the transfer of the Shares.

9. This Performance Unit Award is intended to comply with Section 409A of the Internal Revenue Code (which deals with nonqualified deferred compensation) or an exception thereto and the regulations promulgated thereunder and will be construed accordingly. To the extent a payment is subject to Section 409A and not excepted therefrom, such payment shall be treated as made on the specified date of payment if such payment is made at such date or a later date in the same calendar year or, if later, by the 15th day of the third calendar month following the specified date of payment, as provided and in accordance with Treas. Reg. § 1.409A-3(d). An Awardee shall have no right to designate the date of any payment under this Award. The Company reserves the right to administer, amend or modify the Award or to take any other action necessary or desirable to enable the Award to be interpreted and construed accordingly. Notwithstanding the foregoing, the Awardee acknowledges and agrees that Section 409A may impose upon the Awardee certain taxes or interest charges for which the Awardee is and shall remain solely responsible.

10. Notwithstanding anything to the contrary in this Award or the Plan, in the event that this Award is not accepted by the Awardee on or before the date that is 180 days from the grant date noted herein (the "Forfeiture Date"), then this Award shall become null and void and all Stock Units subject to this Award shall be forfeited by the Awardee as of the Forfeiture Date. For acceptance to be valid, the Awardee must accept this Award in the manner specified by the Company. Any Shares underlying the Stock Units covered by this Award that are forfeited by the Awardee shall be returned to the Plan and resume the status of shares available for grant.

11. All other terms and conditions applicable to this Award are contained in the Plan. A copy of the Plan and related Prospectus is available on your accounts page at netbenefits.fidelity.com under Plan Information and Documents, as well as on The Hub under Human Resources.

KENNAMETAL INC.

By: Michelle R. Keating

Title: Vice President, Secretary and Interim General Counsel

Exhibit A

Performance Conditions for FY17 LTIP Performance Unit Awards

I. RETURN ON INVESTED CAPITAL (ROIC) COMPONENT: WEIGHTED AT 100%:

	ROIC			Payout Multiple Range
	FY17	FY18	FY19	
Maximum	10.6%	13.4%	16.2%	150%
Target	7.6%	9.6%	11.6%	100%
Threshold	5.3%	6.7%	8.1%	50%

The table above sets forth the three year period beginning July 1, 2016 and ending June 30, 2019 ("Performance Period") referenced in the Performance Unit Award Agreement to which this Exhibit A is attached.

Interpolation between values shown in the above table will be made on a straight line basis. There will be no payment for performance below Threshold, and no additional payment for performance above Maximum.

Subject to the terms and conditions of this Award, up to 150% of the number of Stock Units granted pursuant to this agreement may be earned with regard to the ROIC component for the Performance Period (ROIC Earned Stock Units).

II. RELATIVE TOTAL SHAREHOLDER RETURN (RELATIVE TSR) VESTING MULTIPLE COMPONENT:

(a) The total ROIC Earned Stock Units above may have a Relative TSR Vesting Multiple applied to them based on (i) the Corporation's Total Shareholder Return, as described below, relative to the Peer Group's (as set forth in Attachment) Total Shareholder Return for the cumulative three year performance period of time ending on June 30, 2019 ("Performance Period") and (ii) satisfaction of the condition of employment, as set forth below.

(i) "Total Shareholder Return" (or "TSR") over the Performance Period shall be calculated in accordance with the following formula: $((\text{Final Price} + \text{all cash dividends paid during the specified period, included as of the applicable ex-dividend date}) / \text{Initial Price}) - 1$, expressed as a percentage.

(ii) "Final Price" shall mean the average of the closing prices of the Common Stock of each peer company and the Company for the final thirty trading days of the specified period plus all cash dividends paid during the final thirty (30) trading days. For purposes of this Agreement, this shall mean the final thirty (30) trading days in fiscal 2019.

(iii) "Initial Price" shall mean the average of the closing prices of the Common Stock of each peer company and the Company for the last thirty (30) trading days preceding the beginning of the specified period plus all cash dividends paid during the last thirty (30) trading days. For purposes of this Agreement, the Initial Price shall be calculated based on the average of the closing stock prices over the thirty days ending on June 30, 2016.

(iv) The Company's Total Shareholder Return for the Performance Period shall be measured as a percentile ranking in comparison with the index of the Peer Group Total Shareholder Return (the "Index").

(b) The Relative TSR Vesting Multiple to be applied to the total number of ROIC Earned Stock Units to determine the total number of shares of Common Stock to be received pursuant to this agreement shall be the "Award Shares" and shall be calculated as follows:

If the Company's TSR rank against the Peer Group is:	Relative TSR Vesting Multiple (% of ROIC Earned Stock Units)
at the 25th percentile (Threshold)	80%
at the 50th percentile (Target)	100%
at the 75th percentile or more (Maximum)	120%

The percentile rank calculation shall be calculated without including the Company.

The Relative TSR Vesting Multiple is based on the Company's Total Shareholder Return for the Performance Period relative to the Index.

The Relative TSR Vesting Multiple shall be interpolated on a straight-line basis between the percentile levels in the above table, but no amounts will be payable if the Company's TSR rank against the Peer Group is below the Threshold level and no multiples over 120% will be applied if the Company's TSR rank against the Peer Group is above the Maximum level.

The Index group companies shall consist of those companies that comprise the S&P 400 Capital Goods Index on the date of grant. A detailed list of the companies that comprise the Index as of July 11, 2016 is attached. Peer Group companies will be adjusted as follows for activity during the Performance Period:

- If the Company or a member of the Peer Group splits its stock, such company's TSR will be adjusted for the stock split
 - If a member of the Peer Group is acquired by another company, the acquired Peer Group company will be removed from the Peer Group for the entire Performance Period
 - If a member of the Peer Group sells, spins-off, or disposes of a portion of its business representing more than 50% of such Company's total assets during the Performance Period, such Company will be removed from the Peer Group
 - If a member of the Peer Group acquires another company, the acquiring Peer Group company will remain in the Peer Group for the Performance Period
 - If a member of the Peer Group is delisted on all major stock exchanges, such delisted company will be removed from the Peer Group for the entire Performance Period
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- Members of the Peer Group that file for bankruptcy, liquidation or similar reorganization during the Performance Period will remain in the Peer Group, positioned below the lowest performing nonbankrupt member of the Peer Group

Any adjustments resulting in the removal of a peer company will not impact completed measurement periods during an outstanding performance period.

The Compensation Committee shall have the authority to make adjustments in response to a change in circumstances that results in a member of the peer group no longer satisfying the criteria for which such member was originally selected.

INDEX PEER GROUP COMPANIES
(as of July 11, 2016)

S&P 400 Capital Goods Index

Company Name	Exchange:Ticker
AECOM Technology Corporation	NYSE: ACM
AGCO Corporation	NYSE: AGCO
AO Smith Corp.	NYSE: AOS
B/E Aerospace Inc.	NasdaqGS: BEAV
Carlisle Companies Incorporated	NYSE: CSL
CLARCOR Inc.	NYSE: CLC
Crane Co.	NYSE: CR
Curtiss-Wright Corporation	NYSE: CW
Donaldson Company, Inc.	NYSE: DCI
EMCOR Group Inc.	NYSE: EME
Esterline Technologies Corp.	NYSE: ESL
GATX Corp.	NYSE: GMT
Graco Inc.	NYSE: GGG
Granite Construction Incorporated	NYSE: GVA
Hubbell Inc.	NYSE: HUB.B
Huntington Ingalls Industries, Inc.	NYSE: HII
IDEX Corporation	NYSE: IEX
ITT Corporation	NYSE: ITT
Joy Global, Inc.	NYSE: JOY
KBR, Inc.	NYSE: KBR
KLX Inc.	NasdaqGS: KLXI
Lennox International, Inc.	NYSE: LII
Lincoln Electric Holdings Inc.	NasdaqGS: LECO
MSC Industrial Direct Co. Inc.	NYSE: MSM
Nordson Corporation	NasdaqGS: NDSN
NOW Inc.	NYSE: DNOW
Orbital ATK, Inc.	NYSE: OA
Oshkosh Corporation	NYSE: OSK
Regal Beloit Corporation	NYSE: RBC
Teledyne Technologies Inc.	NYSE: TDY
Terex Corp.	NYSE: TEX
The Timken Company	NYSE: TKR
The Toro Company	NYSE: TTC
Trinity Industries Inc.	NYSE: TRN
Triumph Group, Inc.	NYSE: TGI
Valmont Industries, Inc.	NYSE: VMI
Watsco Inc.	NYSE: WSO
Westinghouse Air Brake Technologies Corporation	NYSE: WAB
Woodward, Inc.	NasdaqGS: WWD

KENNAMETAL INC.**RESTRICTED UNIT AWARD****Grant Date:** _____

Kennametal Inc. (the "Company") hereby grants to «name» (the "Awardee"), as of the Grant Date listed above, this Restricted Unit Award (the "Award") for «number of stock units» Stock Units, subject to the terms and conditions of the Kennametal Inc. 2016 Stock and Incentive Plan (the "Plan") and the additional terms listed below. Capitalized terms used herein, but not otherwise defined, shall have the same meaning ascribed to them in the Plan.

1. Each Stock Unit represents the right to receive one Share of the Company's Capital Stock, par value \$1.25 per share, subject to the Forfeiture Restrictions (defined below). Notwithstanding, Stock Units as initially awarded have no independent economic value, but rather are mere units of measurement used for the purpose of calculating the number of Shares, if any, to be delivered under the Award.
 2. The prohibition against transfer and the obligation to forfeit and surrender the Stock Units to the Company are herein referred to as "Forfeiture Restrictions." The Stock Units may not be sold, assigned, pledged, exchanged, hypothecated, gifted or otherwise transferred, encumbered or disposed of, except as described in the Plan, to the extent then subject to the Forfeiture Restrictions. The Forfeiture Restrictions will be binding upon, and enforceable against, any permitted transferee of the Stock Units.
 3. Provided that the Awardee does not Separate from Service and maintains Continuous Status as an Employee from the Grant Date through the lapse date, the Forfeiture Restrictions will lapse as follows: (a) on the first anniversary of the Grant Date, one-third (1/3) of the Stock Units will vest and the Forfeiture Restrictions will lapse as to those Stock Units; (b) on the second anniversary of the Grant Date, an additional one-third (1/3) of the Stock Units will vest and the Forfeiture Restrictions will lapse as to those Stock Units; and (c) on the third anniversary of the Grant Date, the remaining one-third (1/3) of the Stock Units will vest and the Forfeiture Restrictions will lapse as to those Stock Units.
 4. The Stock Units, to the extent then subject to the Forfeiture Restrictions, will be forfeited to the Company upon Separation from Service for any reason *other than* death, Disability, Retirement (including Early Retirement), or involuntary termination by the Company without cause or voluntary termination by the Awardee for Good Reason (a) within the six-month period immediately preceding a Change in Control in contemplation of such Change in Control (and the Change in Control actually occurs) or (b) during the two-year period following a Change in Control (a "Change in Control Separation"). In the event that the Awardee Separates from Service as a result of death, Disability, Retirement (including Early Retirement) or a Change in Control Separation, the vesting and/or forfeiture of the Stock Units shall be determined as provided in the Plan.
 5. Except as otherwise provided herein, the shares of Company Capital Stock (the "Shares") underlying Stock Units which are no longer subject to Forfeiture Restrictions shall be issued to the Awardee on the lapse date (or as soon as reasonably practicable thereafter but in no event later than the 15th day of the third month following such date), subject to the Awardee's satisfaction of all applicable income and employment withholding taxes. Notwithstanding the foregoing or any provisions of this Award or the Plan to the contrary, for a U.S. participant who is a "specified employee" under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") upon Separation from Service due to Retirement (including Early Retirement), Disability or a Change in Control Separation, the delivery of any Shares underlying this Award will be delayed and delivered on the first day following the six (6) month anniversary of the Awardee's Separation from Service (or upon earlier death) if and to the extent such payments would constitute or be considered as deferred compensation under Code Section 409A, subject to the Awardee's satisfaction of all applicable income and employment withholding taxes.
 6. The Shares underlying Stock Units shall not be sold or otherwise disposed of in any manner that would constitute a violation of any applicable federal or state securities laws. The Company may refuse to register a transfer of the Shares on the stock transfer records of the Company if the transfer constitutes a violation of any applicable securities law and the Company may give related instructions to its transfer agent, if any, to stop registration of the transfer of the Shares.
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7. This Restricted Unit Award is intended to comply with Section 409A of the Internal Revenue Code (which deals with nonqualified deferred compensation) or an exception thereto and the regulations promulgated thereunder and will be construed accordingly. The Company reserves the right to administer, amend or modify the Award or to take any other action necessary or desirable to enable the Award to be interpreted and construed accordingly. Notwithstanding the foregoing, the Awardee acknowledges and agrees that Section 409A may impose upon the Awardee certain taxes or interest charges for which the Awardee is and shall remain solely responsible.

8. Notwithstanding anything to the contrary in this Award or the Plan, in the event that this Award is not accepted by the Awardee on or before the date that is 180 days from the grant date noted herein (the "Forfeiture Date"), then this Award shall become null and void and all Stock Units subject to this Award shall be forfeited by the Awardee as of the Forfeiture Date. For acceptance to be valid, the Awardee must accept this Award in the manner specified by the Company. Any Shares underlying the Stock Units covered by this Award that are forfeited by the Awardee shall be returned to the Plan and resume the status of shares available for grant.

9. All other terms and conditions applicable to this Award are contained in the Plan. A copy of the Plan and related Prospectus is available on your accounts page at netbenefits.fidelity.com under Plan Information and Documents, as well as on The Hub under Human Resources.

KENNAMETAL INC.

By: Michelle R. Keating
Title: Vice President, Secretary and Interim General Counsel

KENNAMETAL INC.**CASH SETTLED SHARE-BASED AWARD FOR CHINA-BASED EMPLOYEES**

Grant Date: _____

Kennametal Inc. (the "Company") hereby grants to «name» (the "Awardee"), as of the Grant Date listed above, this Cash Settled Share-Based Award (the "Award") for «number of stock units» Stock Units, subject to the terms and conditions of the Kennametal Inc. 2016 Stock and Incentive Plan (the "Plan") and the additional terms listed below. Capitalized terms used herein, but not otherwise defined, shall have the same meaning ascribed to them in the Plan.

1. Notwithstanding any provisions of the Plan, each Stock Unit represents the right to receive a cash payment from the Company (or an Affiliate or Subsidiary thereof, as applicable) equal to the Fair Market Value of one Share of the Company's Capital Stock, par value \$1.25 per share, subject to the Forfeiture Restrictions (defined below). Notwithstanding, Stock Units as initially awarded have no independent economic value, but rather are mere units of measurement used for purpose of calculating the number of Shares to be used in determining the amount of the cash payment, if any, to be made under the Award.
 2. The prohibition against transfer and the obligation to forfeit and surrender the Stock Units to the Company are herein referred to as "Forfeiture Restrictions." The Stock Units may not be sold, assigned, pledged, exchanged, hypothecated, gifted or otherwise transferred, encumbered or disposed of, except as described in the Plan, to the extent then subject to the Forfeiture Restrictions. The Forfeiture Restrictions will be binding upon, and enforceable against, any permitted transferee of the Stock Units.
 3. Provided that the Awardee does not Separate from Service and maintains Continuous Status as an Employee from the Grant Date through the lapse date, the Forfeiture Restrictions will lapse as follows: (a) on the first anniversary of the Grant Date, one-third (1/3) of the Stock Units will vest and the Forfeiture Restrictions will lapse as to those Stock Units; (b) on the second anniversary of the Grant Date, an additional one-third (1/3) of the Stock Units will vest and the Forfeiture Restrictions will lapse as to those Stock Units; and (c) on the third anniversary of the Grant Date, the remaining one-third (1/3) of the Stock Units will vest and the Forfeiture Restrictions will lapse as to those Stock Units.
 4. The Awardee shall have only the Company's unfunded, unsecured promise to pay pursuant to the terms of this Award. The rights of the Awardee hereunder shall be that of an unsecured general creditor of the Company, and the Awardee shall not have any security interest in any assets of the Company (or an Affiliate or Subsidiary thereof). The Awardee shall not have any rights of ownership in the Shares subject to the Stock Units, including, but not limited to, the right to vote such Shares.
 5. The Stock Units, to the extent then subject to the Forfeiture Restrictions, will be forfeited to the Company upon Separation from Service for any reason *other than* death, Disability, Retirement (including Early Retirement), or involuntary termination by the Company without cause or voluntary termination by the Awardee for Good Reason (a) within the six-month period immediately preceding a Change in Control in contemplation of such Change in Control (and the Change in Control actually occurs) or (b) during the two-year period following a Change in Control (a "Change in Control Separation"). In the event that the Awardee Separates from Service as a result of death, Disability, Retirement (including Early Retirement) or a Change in Control Separation, the vesting and/or forfeiture of the Stock Units shall be determined as provided in the Plan.
 6. Except as otherwise provided herein, a cash payment equal to the Fair Market Value of the Shares underlying Stock Units which are no longer subject to Forfeiture Restrictions shall be made to the Awardee on the lapse date (or as soon as reasonably practicable thereafter but in no event later than the 15th day of the third month following such date), subject to the Awardee's satisfaction of all applicable income and employment withholding taxes. Notwithstanding the foregoing or any provisions of this Award or the Plan to the contrary, for a U.S. participant who is a "specified employee" under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") upon Separation from Service due to Retirement (including Early Retirement), Disability or a Change in Control Separation, the cash payment will be delayed and delivered on the first day following the six (6) month anniversary of the Awardee's Separation from Service (or upon earlier death) if and to the extent such payments would constitute or be considered as deferred compensation under Code Section 409A, subject to the Awardee's satisfaction of all applicable income and employment withholding taxes. For the avoidance of doubt, in the People's Republic of China, the Company, per se, will not make such cash payment to the Awardee, instead, the Chinese local subsidiary of the Company will, using its own RMB funds, make such cash payment in RMB equal to the Fair Market Value at the current foreign exchange rate to the Awardee.
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7. This Award is intended to comply with Section 409A of the Internal Revenue Code (which deals with nonqualified deferred compensation) or an exception thereto and the regulations promulgated thereunder and will be construed accordingly. The Company reserves the right to administer, amend or modify the Award or to take any other action necessary or desirable to enable the Award to be interpreted and construed accordingly. Notwithstanding the foregoing, the Awardee acknowledges and agrees that Section 409A may impose upon the Awardee certain taxes or interest charges for which the Awardee is and shall remain solely responsible.

8. Notwithstanding anything to the contrary in this Award or the Plan, in the event that this Award is not accepted by the Awardee on or before the date that is 180 days from the grant date noted herein (the "Forfeiture Date"), then this Award shall become null and void and all Stock Units subject to this Award shall be forfeited by the Awardee as of the Forfeiture Date. For acceptance to be valid, the Awardee must accept this Award in the manner specified by the Company.

9. All other terms and conditions applicable to this Award are contained in the Plan. A copy of the Plan and related Prospectus is available on your accounts page at netbenefits.fidelity.com under Plan Information and Documents, as well as on The Hub under Human Resources.

KENNAMETAL INC.

By: Michelle R. Keating
Title: Vice President, Secretary and Interim General Counsel

I, Ronald M. De Feo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kennametal Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions)
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2016

/s/ Ronald M. De Feo

Ronald M. De Feo
President and Chief Executive Officer

I, Jan Kees van Gaalen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kennametal Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions)
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2016

/s/ Jan Kees van Gaalen

Jan Kees van Gaalen
Vice President and Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Kennametal Inc. (the "Corporation") on Form 10-Q for the period ended September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Corporation certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Corporation.

/s/ Ronald M. De Feo

Ronald M. De Feo
President and Chief Executive Officer

November 7, 2016

/s/ Jan Kees van Gaalen

Jan Kees van Gaalen
Vice President and Chief Financial Officer

November 7, 2016

*This certification is made solely for purposes of 18 U.S.C. Section 1350, subject to the knowledge standard contained therein, and not for any other purpose.

