CAESARS ENTERTAINMENT Corp
Form SC 13G/A
February 16, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934
(Amendment No. 3)*

Caesars Entertainment Corporation
(Name of Issuer)

Common Stock, par value $0.01 per share
(Title of Class of Securities)

127686103
(CUSIP Number)

December 31, 2015
(Date of Event which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

[X] Rule 13d-1(b)
[ ] Rule 13d-1(c)
[ ] Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

Continued on following pages
Page 1 of 6 Pages

1. Names of Reporting Persons

Paulson & Co. Inc.

2. Check the Appropriate Box If a Member of a Group (See Instructions)
a. [ ]
b. [X]

3. SEC Use Only

4. Citizenship or Place of Organization

State of Delaware

Number of Shares Beneficially Owned By Each Reporting Person With	5.	Sole Voting Power 14,458,300 (see Note 1 to Item 4 below)
	6.	Shared Voting Power 0
	7.	Sole Dispositive Power 14,458,300 (see Note 1 to Item 4 below)
	8.	Shared Dispositive Power 0

9. Aggregate Amount Beneficially Owned by Each Reporting Person

14,458,300 (see Note 1 to Item 4 below)

10. Check Box If the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions)

[ ]

11. Percent of Class Represented By Amount in Row (9)

9.98%

12. Type of Reporting Person (See Instructions)

IA

Item 1(a). Name of Issuer:

Caesars Entertainment Corporation

Item 1(b). Address of the Issuer's Principal Executive Offices:

One Caesars Palace Drive
Las Vegas, Nevada 89109

Item 2(a). Name of Person Filing

Paulson & Co. Inc.

Item 2(b). Address of Principal Business Office or, if None, Residence:

1251 Avenue of the Americas, New York, NY 10020

Item 2(c). Citizenship:

Delaware corporation

Item 2(d). Title of Class of Securities:

Common Stock, par value $0.01 per share

Item 2(e). CUSIP Number:

127686103

Item 3. If this statement is filed pursuant to Rule 13d-1(b), or 13d-2(b) or (c), check whether the person filing is a:

(e) Paulson & Co. Inc. is an investment adviser registered under Section 203 of the Investment Advisers Act of 1940.

Item 4. Ownership:

Item 4(a). Amount Beneficially Owned: 14,458,300 (see Note 1)

Item 4(b). Percent of Class: 9.98%

Item 4(c). Number of shares as to which such person has:

(i) Sole power to vote or direct the vote: 14,458,300 (see Note 1)
(ii) Shared power to vote or to direct the vote: 0
(iii) Sole power to dispose or to direct the disposition of: 14,458,300 (see Note 1)
(iv) Shared power to dispose or to direct the disposition of: 0

Note 1: Paulson & Co. Inc. (“Paulson”), an investment advisor that is registered under the Investment Advisors Act of 1940, and its affiliates furnish investment advice to and manage onshore and offshore investment funds and separate managed accounts (such investment funds and accounts, the “Funds”). In its role as investment advisor, or manager, Paulson possesses voting and/or investment power over the securities of the Issuer described in this schedule that are owned by the Funds. All securities reported in this schedule are owned by the Funds. Paulson disclaims beneficial ownership of such securities.

Item 5. Ownership of Five Percent or Less of a Class:

Not applicable.

Item 6. Ownership of More than Five Percent on Behalf of Another Person:

All securities reported in this schedule are owned by Paulson's advisory clients, none of which to Paulson's knowledge owns more than 5% of the class. Paulson itself disclaims beneficial ownership of all such securities.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company:

Not applicable.

Item 8. Identification and Classification of Members of the Group:

Not applicable.

Item 9. Notice of Dissolution of Group:

Not applicable.

Item 10. Certification:

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, the undersigned certifies that the information set forth in this statement is true, complete and correct.

Date: February 16, 2016

PAULSON & CO. INC.

By: /s/ Stuart L. Merzer
Stuart L. Merzer
General Counsel & Chief Compliance Officer

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Postretirement benefit plans:

Amortization of transition obligations
$
23

$
22

$
46

$
45

See note 9 for further details
Amortization of prior service (credit) cost
(47
)

(119
)
121

(237
)

See note 9 for further details
Recognition of actuarial losses
1,788

2,177

3,568

4,377

See note 9 for further details
Total before tax
1,764

2,080

3,735

4,185

Tax impact
(195
)

(284
)
(387
)

(555

)

Provision for income taxes
Net of tax
$
1,569

$
1,796

$
3,348

$
3,630

The amount of income tax allocated to each component of other comprehensive income (loss) for the three months ended December 31, 2017 and 2016:

(in thousands)	2017 Pre-tax	2017 Tax impact	2017 Net of tax	2016 Pre-tax	2016 Tax impact	2016 Net of tax
Unrealized (loss) gain on derivatives designated and qualified as cash flow hedges	$(379)	$93	$(286)	$1,606	$—	$1,606
Reclassification of unrealized loss on expired derivatives designated and qualified as cash flow hedges	1,334	(327)	1,007	382	—	382
Unrecognized net pension and other postretirement benefit (loss) gain	(834)	209	(625)	4,639	(1,168)	3,471
Reclassification of net pension and other postretirement benefit loss	1,764	(195)	1,569	2,080	(284)	1,796
Foreign currency translation adjustments	13,996	(72)	13,924	(41,428)	—	(41,428)
Other comprehensive income (loss)	$15,881	$(292)	$15,589	$(32,721)	$(1,452)	$(34,173)

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

The amount of income tax allocated to each component of other comprehensive income (loss) for the six months ended December 31, 2017 and 2016:

	2017			2016		
(in thousands)	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	$(1,199)	$294	$(905)	$1,480	$—	$1,480
Reclassification of unrealized loss on expired derivatives designated and qualified as cash flow hedges	1,858	(455)	1,403	769	—	769
Unrecognized net pension and other postretirement benefit (loss) gain	(3,434)	844	(2,590)	5,401	(1,300)	4,101
Reclassification of net pension and other postretirement benefit loss	3,735	(387)	3,348	4,185	(555)	3,630
Foreign currency translation adjustments	34,058	(265)	33,793	(40,264)	—	(40,264)
Other comprehensive income (loss)	$35,018	$31	$35,049	$(28,429)	$(1,855)	$(30,284)

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.

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	$410,694	$41,515	$ 633,211	$1,085,420
Accumulated impairment losses	(137,204)	(13,638)	(633,211)	(784,053)
Balance as of June 30, 2017	$273,490	$27,877	$ —	$301,367
Activity for the six months ended December 31, 2017:				
Change in gross goodwill due to translation	4,382	398	—	4,780
Gross goodwill	415,076	41,913	633,211	1,090,200
Accumulated impairment losses	(137,204)	(13,638)	(633,211)	(784,053)
Balance as of December 31, 2017	$277,872	$28,275	$ —	$306,147

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

The components of our other intangible assets were as follows:

(in thousands)	Estimated Useful Life (in years)	December 31, 2017 Gross Carrying Amount	Accumulated Amortization	June 30, 2017 Gross Carrying Amount	Accumulated Amortization
Contract-based	3 to 15	$7,070	$ (7,033)	$ 7,064	$ (7,014)
Technology-based and other	4 to 20	47,032	(30,497)	46,461	(29,061)
Customer-related	10 to 21	207,102	(80,872)	205,502	(74,669)
Unpatented technology	10 to 30	31,924	(11,888)	31,754	(10,589)
Trademarks	5 to 20	12,530	(8,912)	12,401	(8,648)
Trademarks	Indefinite	18,067	—	17,326	—
Total		$323,725	$ (139,202)	$ 320,508	$ (129,981)

During the six months ended December 31, 2017 and 2016, we recorded amortization expense of $7.3 million and $8.4 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.

Our reportable operating segments have been determined in accordance with our 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, our 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, aerospace and defense market sectors, as well as the machine tool industry, delivering high performance metalworking tools for specified purposes. Our customers in these end markets use our products and services in the manufacture of engines, airframes, automobiles, trucks, ships and other various types of industrial equipment. The technology and customization requirements we provide vary by customer, application and industry. Industrial goes to market under the Kennametal® brand through its direct sales force, a network of independent and national chain distributors, integrated supplier channels and via the Internet. Application engineers and technicians are critical to the sales process and directly assist our customers with specified product design, selection, application and support.

The Widia segment offers a focused assortment of standard custom metal cutting solutions to general engineering, aerospace, energy and transportation customers. We serve our customers primarily through a network of value added resellers, integrated supplier channels and via the Internet. Widia markets its products under the WIDIA®, WIDIA Hanita® and WIDIA GTD® brands.

The Infrastructure segment generally serves customers that operate in the energy and earthworks market sectors that support primary industries such as oil and gas, power generation and chemicals; underground, surface and hard-rock mining; highway construction and road maintenance; and process industries such as food and feed. Our success is determined by our ability to gain an in-depth understanding of our customers' engineering and development needs, to provide complete system solutions and high-performance capabilities to optimize and add value to their operations. Infrastructure markets its products primarily under the Kennametal® brand and sells through a direct sales force as well as distributors.

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

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

(in thousands)	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016
Sales:				
Industrial	$312,448	$267,492	$609,912	$536,536
Widia	47,744	42,874	92,987	83,888
Infrastructure	211,153	177,207	410,900	344,289
Total sales	$571,345	$487,573	$1,113,799	$964,713
Operating income (loss):				
Industrial	$43,292	$18,067	$78,104	$23,603
Widia	856	(2,666)	918	(8,403)
Infrastructure	25,511	10,274	47,580	2,687
Corporate	(1,485)	(1,662)	(1,952)	(3,085)
Total operating income	68,174	24,013	124,650	14,802
Interest expense	7,231	7,151	14,379	14,144
Other expense, net	1,313	726	1,401	844
Income (loss) from continuing operations before income taxes	$59,630	$16,136	$108,870	$(186)

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Item 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)

OVERVIEW

Kennametal Inc. was incorporated in Pennsylvania in 1943 as a manufacturer of tungsten carbide metal cutting tooling. From this beginning, the Company has grown into a global leader in the development and application of tungsten carbides, ceramics, super-hard materials and solutions used in metal cutting and mission-critical wear applications to combat extreme conditions associated with wear fatigue, corrosion and high temperatures. The Company's reputation for material technology, metal cutting application knowledge, as well as expertise and innovation in the development of custom solutions and services, contributes to its leading position in its primary markets.

Our product offering includes a wide selection of standard and customized technologies for metalworking applications, such as turning, milling, hole making, tooling systems and services. End users of the Company's metalworking products include manufacturers engaged in a diverse array of industries including: the manufacturers of transportation vehicles and components, machine tools and light and heavy machinery; airframe and aerospace components; and energy-related components for the oil and gas industry, as well as power generation.

We also produce specialized wear components and metallurgical powders that are used for custom-engineered and challenging applications. End users of the Company's products include producers and suppliers in equipment-intensive operations such as coal mining, road construction, quarrying, oil and gas exploration, refining, production and supply.

For the second quarter of fiscal year 2018 Kennametal has reported another strong operating quarter. The markets are continuing to show strength, and our growth initiatives are taking hold. On a consolidated basis, sales increased 17.2 percent, reflecting sales growth in all segments, regions and end markets. By working on our simplification initiatives, we have put the foundation in place for our modernization program to generate further margin improvement. Operating margin improved significantly to 11.9 percent from 4.9 percent in the prior year quarter reflecting improvement in both gross margin and operating expense as a percentage of sales.

Our sales of $571.3 million for the quarter ended December 31, 2017 increased 17.2 percent compared to sales for the quarter ended December 31, 2016, driven by organic sales growth of 15 percent and favorable currency exchange impact of 3 percent, partially offset by fewer business days impact of 1 percent compared to the prior year quarter. Every segment and every region reported increased sales and improved profitability. The Industrial, Infrastructure and Widia segments posted operating margins of 13.9 percent, 12.1 percent and 1.8 percent, respectively.

Operating income was $68.2 million, compared to a $24.0 million in the prior year quarter. Year-over-year comparative operating results reflect organic sales growth, incremental restructuring benefits of approximately $17 million, $10.3 million less restructuring and related charges in the current period, higher productivity and fixed cost absorption and favorable mix, partially offset by higher compensation expense and more overtime costs.

While end market demand has trended higher than previously anticipated, our effective tax rate for the full fiscal year is likely to be higher than previously anticipated. This increase in taxes is due primarily to the ongoing effects of no longer having a valuation allowance on U.S. deferred tax assets. The release of the valuation allowance was triggered by the application of the toll tax provision in the Tax Cuts and Jobs Act of 2017 (TCJA). Along with expected full-year income in the U.S. in fiscal 2018, we anticipate our domestic deferred taxes to be in a net liability position by June 30, 2018. In addition to the discrete items discussed below, current period earnings per share included additional tax expense of approximately $0.08 per share resulting from U.S. income now being subject to taxes as a result of the release of the valuation allowance. As a result of TCJA, we anticipate the long-term, beyond fiscal 2018, tax rate will decrease from mid-20s to low-20s.

We reported current quarter earnings per diluted share of $0.50, which include a charge of $0.07 per share from the impact of recording an out of period charge to provision for income taxes and a one-time benefit of $0.05 per share from releasing the U.S. deferred tax valuation allowance. The earnings per diluted share of $0.09 in the prior year quarter included $0.13 per share of restructuring and related charges and $0.02 per share associated with recording a valuation allowance related to deferred tax assets in Australia.

We substantially completed our existing restructuring programs in the previous quarter. Pre-tax benefits from these restructuring actions were approximately $41 million in the current quarter, of which approximately $17 million were incremental to the prior year quarter. Please see the Results of Continuing Operations section of Item 2 for further discussion and analysis of our restructuring programs.

The cost savings we achieved through our existing restructuring programs do not include the anticipated benefits from our modernization initiative. The results of those programs are anticipated to accrue to the Company over the next few years.

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

We had a net cash inflow from operating activities of $66.8 million during the six months ended December 31, 2017 compared to $48.7 million during the prior year quarter. The increase is due primarily to higher cash from operations before changes in certain other assets and liabilities and lower restructuring payments, partially offset by higher working capital. Capital expenditures were $85.2 million and $70.6 million during the six months ended December 31, 2017 and 2016, respectively.

We invested further in technology and innovation to continue delivering high quality products to our customers. Research and development expenses included in operating expense totaled $9.5 million for the three months ended December 31, 2017.

Throughout the MD&A, we refer to measures used by management to evaluate performance. We also refer to a number of financial measures that are not defined under accounting principles generally accepted in the United States of America (U.S. GAAP), including organic sales growth, constant currency regional sales growth and constant currency end market sales growth. The explanation at the end of the MD&A provides the definition of these non-GAAP financial measures as well as details on the use and the derivation of these financial measures.

RESULTS OF CONTINUING OPERATIONS

SALES

Sales for the three months ended December 31, 2017 were $571.3 million, an increase of $83.8 million or 17.2 percent, from $487.6 million in the prior year quarter. The increase in sales was driven by a 15 percent organic sales growth and a 3 percent favorable currency exchange impact, partially offset by a 1 percent decrease due to fewer business days. Constant currency end market sales growth was approximately 23 percent in energy, 14 percent in transportation, 12 percent in general engineering, 11 percent in earthworks and 9 percent in aerospace and defense. Constant currency regional sales growth was approximately 19 percent in Asia Pacific, 15 percent in the Americas and 9 percent in Europe, the Middle East and Africa (EMEA).

Sales for the six months ended December 31, 2017 were $1,113.8 million, an increase of $149.1 million or 15.5 percent, from $964.7 million in the prior year period. The increase in sales was driven by a 14 percent organic sales growth and a 2 percent favorable currency exchange impact, partially offset by a 1 percent decrease due to fewer business days. Constant currency end market sales growth was approximately 24 percent in energy, 12 percent in earthworks, 10 percent in general engineering, 11 percent in transportation and 8 percent in aerospace and defense. Constant currency regional sales growth was approximately 17 percent in Asia Pacific, 14 percent in the Americas and 9 percent in EMEA.

GROSS PROFIT

Gross profit for the three months ended December 31, 2017 was $192.5 million, an increase of $44.9 million from $147.6 million in the prior year quarter. The increase was primarily due to organic sales growth, incremental restructuring benefits of approximately $13 million, favorable foreign currency exchange impact of $5.3 million, higher productivity and fixed cost absorption, favorable mix and $1.2 million less restructuring-related charges, partially offset by higher compensation expense and more overtime costs. The gross profit margin for the three months ended December 31, 2017 was 33.7 percent, as compared to 30.3 percent in the prior year quarter.

Gross profit for the six months ended December 31, 2017 was $377.5 million, an increase of $86.4 million from $291.2 million in the prior year period. The increase was primarily due to organic sales growth, incremental restructuring benefits of approximately $28 million, favorable mix, favorable foreign currency exchange impact of $8.3 million and $1.9 million less restructuring-related charges, partially offset by higher compensation expense, overtime costs and raw material costs. The gross profit margin for the six months ended December 31, 2017 was 33.9 percent, as compared to 30.2 percent in the prior year period.

OPERATING EXPENSE

Operating expense for the three months ended December 31, 2017 increased to $120.6 million compared to $111.0 million for the three months ended December 31, 2016. The increase was primarily due to higher compensation expense and an unfavorable foreign currency exchange impact of $2.9 million, partially offset by incremental restructuring benefits of approximately $5 million and $0.7 million less in restructuring-related charges.

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

Operating expense for the six months ended December 31, 2017 increased to $240.0 million compared to $230.9 million for the six months ended December 31, 2016. The increase was primarily due to higher compensation expense and an unfavorable foreign currency exchange impact of $4.5 million, partially offset by incremental restructuring benefits of approximately $12 million and $1.6 million less in restructuring-related charges.

RESTRUCTURING AND RELATED CHARGES AND ASSET IMPAIRMENT CHARGES

In prior years, we implemented restructuring actions to streamline the Company's cost structure. The purpose of these initiatives was to improve the alignment of our cost structure with the current operating environment through employment reductions, as well as rationalization and consolidation of certain manufacturing facilities. These restructuring actions were substantially completed in the first quarter of fiscal 2018, were mostly cash expenditures and achieved annual run rate ongoing pre-tax savings of approximately $165 million.

We recorded restructuring and related charges of $1.5 million and $11.8 million for the three months ended December 31, 2017 and 2016, respectively. Of these amounts, restructuring charges were less than $0.1 million for the three months ended December 31, 2017 and totaled $8.8 million for the three months ended December 31, 2016, of which expense of $0.3 million was related to inventory and was recorded in cost of good sold. Restructuring-related charges of $1.3 million and $2.1 million were recorded in cost of goods sold and $0.2 million and $0.9 million in operating expense for the three months ended December 31, 2017 and 2016, respectively.

We recorded restructuring and related charges of $8.4 million and $43.4 million for the six months ended December 31, 2017 and 2016, respectively. Of these amounts, restructuring charges totaled $5.6 million and $37.3 million, respectively, of which expense of $0.3 million for the six months ended December 31, 2016 was related to inventory and was recorded in cost of goods sold. Restructuring-related charges of $2.5 million and $4.1 million were recorded in cost of goods sold and $0.3 million and $2.0 million in operating expense for the six months ended December 31, 2017 and 2016, respectively.

Total restructuring and related charges since the inception of our restructuring plans through December 31, 2017 were $156.0 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).

INTEREST EXPENSE

Interest expense for the three months ended December 31, 2017 and 2016 was $7.2 million. Interest expense for the six months ended December 31, 2017 and 2016 was $14.4 million and $14.1 million, respectively.

OTHER EXPENSE, NET

Other expense for the three months ended December 31, 2017 increased to $1.3 million compared to $0.7 million for the three months ended December 31, 2016 primarily due to prior year income from transition services provided related to a prior divestiture.

Other expense for the six months ended December 31, 2017 increased to $1.4 million compared to $0.8 million for the six months ended December 31, 2016 primarily due to prior year income from transition services provided related to a prior divestiture, partially offset by foreign currency transaction gains in the current period.

INCOME TAXES

The effective income tax rates for the three months ended December 31, 2017 and 2016 were 29.3 percent and 50.9 percent, respectively. The effective income tax rate for the six months ended December 31, 2017 was 24.9 percent, and the effective income tax rate for the six months ended December 31, 2016 was not meaningful as the prior year loss before income taxes was negligible. The change in both periods was primarily driven by prior year U.S. losses not being tax-effected and current year U.S. income being subject to tax. This is the result of the valuation allowance, originally recorded in the fourth quarter of fiscal 2016, being released in the current quarter.

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

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

	Three Months Ended December 31,		Six Months Ended December 31,	
(in thousands)	2017	2016	2017	2016
Sales:				
Industrial	$312,448	$267,492	$609,912	$536,536
Widia	47,744	42,874	92,987	83,888
Infrastructure	211,153	177,207	410,900	344,289
Total sales	$571,345	$487,573	$1,113,799	$964,713
Operating income (loss):				
Industrial	$43,292	$18,067	$78,104	$23,603
Widia	856	(2,666)	918	(8,403)
Infrastructure	25,511	10,274	47,580	2,687
Corporate	(1,485)	(1,662)	(1,952)	(3,085)
Total operating income	68,174	24,013	124,650	14,802
Interest expense	7,231	7,151	14,379	14,144
Other expense, net	1,313	726	1,401	844
Income (loss) from continuing operations before income taxes	$59,630	$16,136	$108,870	$(186)

INDUSTRIAL

For the three months ended December 31, 2017, Industrial sales increased 17 percent from the prior year quarter. General engineering sales experienced growth from global sales in the indirect channel and in the light and general engineering sector. Growth in transportation sales in Asia Pacific and EMEA to tier suppliers and OEMs were dampened by lower sales to OEMs in the Americas. Oil and gas drilling sales in the Americas continues to provide overall growth in energy, coupled with increases in power generation sales primarily in Asia Pacific. Conditions continue to be favorable in the aerospace sector, with global sales related to engine growth being supplemented by increasing demand related to frames in the Americas. The sales increases in Asia Pacific and EMEA were primarily driven by the transportation and general engineering end markets. The sales increase in the Americas was primarily driven by the performance in the general engineering, energy and aerospace and defense end markets.
For the three months ended December 31, 2017, Industrial operating income increased by $25.2 million, driven primarily by organic sales growth, incremental restructuring benefits of approximately $10 million, $5.9 million less restructuring and related charges in the current quarter and higher productivity and fixed cost absorption, partially offset by higher compensation expense. Industrial operating margin was 13.9 percent compared with 6.8 percent in the prior year.
For the six months ended December 31, 2017, Industrial sales increased 14 percent from the prior year period. General engineering sales experienced growth from sales in the indirect channel across all regions and positive performance in the light and general engineering sector in EMEA and the Americas. Transportation sales to tier suppliers globally increased in the period as well as to OEMs in EMEA and Asia Pacific. This was offset slightly by lower sales to OEMs in the Americas. Oil and gas drilling sales in the Americas continue to provide overall growth in energy,

coupled with increases in renewable power generation sales globally. Conditions continue to be favorable in the aerospace sector, with increasing global sales related to engine growth being supplemented by increasing demand related to frames in the Americas and EMEA. The sales increases in Asia Pacific and EMEA were primarily driven by the transportation and general engineering end markets. The sales increase in the Americas was primarily driven by the performance in the energy, general engineering and aerospace and defense end markets.

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

For the six months ended December 31, 2017, Industrial operating income increased by $54.5 million, driven primarily by organic sales growth, incremental restructuring benefits of approximately $24 million and $20.6 million less restructuring and related charges in the current quarter, partially offset by higher compensation expense and unfavorable mix. Industrial operating margin was 12.8 percent compared with 4.4 percent in the prior year period.

	Three Months Ended December 31,		Six Months Ended December 31,	
(in thousands, except operating margin)	2017	2016	2017	2016
Sales	$312,448	$267,492	$609,912	$536,536
Operating income	43,292	18,067	78,104	23,603
Operating margin	13.9 %	6.8 %	12.8 %	4.4 %

In percentages	Three Months Ended December 31, 2017	Six Months Ended December 31, 2017
Organic sales growth	14 %	12 %
Foreign currency exchange impact(1)	4	3
Business days impact(2)	(1)	(1)
Divestiture impact(3)	—	—
Acquisition impact(4)	—	—
Sales growth	17 %	14 %

	Constant Currency Regional Sales Growth	
	Three Months Ended December 31, 2017	Six Months Ended December 31, 2017
Asia Pacific	20 %	17 %
EMEA	11	9
Americas	11	10

	Constant Currency End Market Sales Growth	
	Three Months Ended December 31,	Six Months Ended December 31, 2017

	2017		
Energy	19%	20	%
Transportation	14	11	
General engineering	11	9	
Aerospace and defense	9	8	

WIDIA

For the three months ended December 31, 2017, Widia sales increased 11 percent from the prior year quarter. Widia organic sales growth continues to be positively impacted by the reorganization of distribution in Europe, growth in India related to higher demand trends, in addition to increasing demand in the U.S. energy markets and higher growth rates in emerging markets.

For the three months ended December 31, 2017, Widia operating income was $0.9 million compared to an operating loss of $2.7 million for the prior year quarter. The year-over-year change of $3.5 million was driven primarily by $1.8 million less restructuring and related charges and organic sales growth. Widia operating income margin was 1.8 percent compared with operating loss margin of 6.2 percent in the prior year quarter.

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

For the six months ended December 31, 2017, Widia sales increased 11 percent from the prior year period. Widia organic sales growth continues to be positively impacted by the reorganization of distribution in Europe, growth in India related to higher demand trends, in addition to increasing demand in the U.S. energy markets and higher growth rates in emerging markets.

For the six months ended December 31, 2017, Widia operating income was $0.9 million compared to an operating loss of $8.4 million for the prior year period. The year-over-year change of $9.3 million was driven primarily by $4.0 million less restructuring and related charges, organic sales growth, higher productivity and fixed cost absorption and incremental restructuring benefits of approximately $1 million. Widia operating income margin was 1.0 percent compared with operating loss margin of 10.0 percent in the prior year.

	Three Months Ended December 31,		Six Months Ended December 31,	
(in thousands)	2017	2016	2017	2016
Sales	$47,744	$42,874	$92,987	$83,888
Operating income (loss)	856	(2,666)	918	(8,403)
Operating margin	1.8 %	(6.2)%	1.0 %	(10.0)%

In percentages	Three Months Ended December 31, 2017	Six Months Ended December 31, 2017
Organic sales growth	9 %	9 %
Foreign currency exchange impact(1)	2	2
Business days impact(2)	—	—
Divestiture impact(3)	—	—
Acquisition impact(4)	—	—
Sales growth	11 %	11 %

	Constant Currency Regional Sales Growth	
	Three Months Ended December 31, 2017	Six Months Ended December 31, 2017
EMEA	16%	18 %
Americas	8	7
Asia Pacific	4	6

INFRASTRUCTURE

For the three months ended December 31, 2017, Infrastructure sales increased by 19 percent from the prior year quarter. The U.S. oil and gas market continues to stabilize, manifesting in high year-over-year growth in energy with average U.S. land rig counts up over 60 percent compared to the prior year quarter. In the earthworks market, underground mining continues to show signs of improvement, while construction sales improved in part due to stronger demand in road rehabilitation. The sales increase in Asia Pacific was driven primarily by the performance in the earthworks and general engineering end markets. Growth in the Americas was primarily driven by the oil and gas, general engineering and earthworks end markets.

For the three months ended December 31, 2017, Infrastructure operating income increased by $15.2 million driven primarily by organic sales growth, incremental restructuring program benefits of approximately $6 million, $2.6 million less restructuring and related charges in the current period and favorable mix, partially offset by higher compensation expense, raw material costs and overtime costs. Infrastructure operating margin was 12.1 percent compared with 5.8 percent in the prior year quarter.

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

For the six months ended December 31, 2017, Infrastructure sales increased by 19 percent from the prior year period. The U.S. oil and gas market continues to stabilize, manifesting in high year-over-year growth in energy with average U.S. land rig counts up over 75 percent compared to the prior year period. On a year-to-date basis, we are seeing improvements in all end markets, including underground mining and construction. The sales increase in Asia Pacific was driven primarily by the performance in the earthworks and general engineering end markets. Growth in the Americas was primarily driven by the oil and gas, earthworks and general engineering end markets. The sales increase in EMEA was primarily driven by performance in the earthworks end market.

For the six months ended December 31, 2017, Infrastructure operating income increased by $44.9 million driven primarily by organic sales growth, incremental restructuring program benefits of approximately $14 million, $10.4 million less restructuring and related charges in the current period, favorable mix and higher fixed cost absorption and productivity, partially offset by higher raw material and overtime costs and higher compensation expense. Infrastructure operating margin was 11.6 percent compared with 0.8 percent in the prior year period.

	Three Months Ended December 31,		Six Months Ended December 31,	
(in thousands)	2017	2016	2017	2016
Sales	$211,153	$177,207	$410,900	$344,289
Operating income	25,511	10,274	47,580	2,687
Operating margin	12.1 %	5.8 %	11.6 %	0.8 %

In percentages	Three Months Ended December 31, 2017	Six Months Ended December 31, 2017
Organic sales growth	18 %	19 %
Foreign currency exchange impact(1)	2	1
Business days impact(2)	(1)	(1)
Divestiture impact(3)	—	—
Acquisition impact(4)	—	—
Sales growth	19 %	19 %

	Constant Currency Regional Sales Growth	
	Three Months Ended December 31, 2017	Six Months Ended December 31, 2017
Asia Pacific	24%	22 %
Americas	20	20
EMEA	1	5

	Constant Currency End Market Sales Growth	
	Three Months Ended December 31, 2017	Six Months Ended December 31, 2017
Energy	25 %	26 %
General engineering	20	15
Earthworks	11	12

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

CORPORATE

For the three months ended December 31, 2017, Corporate unallocated expense decreased $0.2 million, or 10.6 percent, from the prior year quarter. For the six months ended December 31, 2017, Corporate unallocated expense decreased $1.1 million, or 36.7 percent, from the prior year period.

	Three Months Ended December 31,		Six Months Ended December 31,	
(in thousands)	2017	2016	2017	2016
Corporate unallocated expense	$(1,485)	$(1,662)	$(1,952)	$(3,085)

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations is the primary source of funding for capital expenditures. Year to date December 31, 2017 cash flow provided by operating activities was $66.8 million, primarily due to the net inflow from net income with adjustments for non-cash items, partially offset by a net outflow from changes in other assets and liabilities.

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 is an additional source of funds. The Credit Agreement provides for 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 December 31, 2017.

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 Credit Agreement). We were in compliance with all such covenants as of December 31, 2017. For the six months ended December 31, 2017, average daily borrowings outstanding under the Credit Agreement were approximately $1.9 million. Borrowings under the Credit Agreement are guaranteed by our significant domestic subsidiaries.

We consider substantially all of the unremitted earnings of our non-U.S. subsidiaries that have not previously been taxed in the U.S. to be permanently reinvested. As a result of TCJA, which among other provisions allows for a 100% dividends received deduction from controlled foreign subsidiaries, we will re-evaluate our assertion with respect to permanent reinvestment. As part of this evaluation, we will consider our global working capital and capital investment requirements, among other considerations including the potential tax liabilities that would be incurred if the non-U.S. subsidiaries distribute cash to the U.S. parent. If we determine that an entity should no longer remain subject to the permanent reinvestment assertion, we will accrue additional tax charges, including but not limited to state income taxes, withholding taxes and other relevant foreign taxes in the period the conclusion is determined. In accordance with SEC guidance in Staff Accounting Bulletin 118, we expect to complete our evaluation by December 22, 2018. 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.

During the three months ended December 31, 2017, we recorded a $77 million provisional tax charge as a result of a new U.S. tax law in the Tax Cuts and Jobs Act of 2017's provision requiring a one-time transition tax on previously untaxed accumulated earnings and profits of certain non-U.S. companies. The toll tax charge consumed our entire

U.S. federal net operating loss carryforward and other credit carryforwards, which represent a significant portion of our previously available deferred tax assets, and was offset by the release of the valuation allowance associated with these assets. As a result, we do not expect to make a cash payment associated with the toll charge.

At December 31, 2017, cash and cash equivalents were $159.9 million, Total Kennametal Shareholders' equity was $1,126.4 million and total debt was $697.1 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. 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 material changes in our contractual obligations and commitments since June 30, 2017.

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

Cash Flow Provided by Operating Activities

During the six months ended December 31, 2017, cash flow provided by operating activities was $66.8 million, compared to $48.7 million for the prior year period. Cash flow provided by operating activities for the current year period consisted of net income and non-cash items amounting to an inflow of $161.1 million and changes in certain assets and liabilities netting to an outflow of $94.3 million. Contributing to the changes in certain assets and liabilities were a decrease of accounts payable and accrued liabilities of $66.6 million, a decrease in accrued pension and postretirement benefits of $13.8 million and an increase in inventories of $9.1 million due in part to increasing volumes.

During the six months ended December 31, 2016, cash flow provided by operating activities consisted of net loss and non-cash items amounting to an inflow of $53.7 million, and changes in certain assets and liabilities netting to an outflow of $5.0 million. Contributing to the changes in certain assets and liabilities were a decrease in accrued pension and postretirement benefits of $11.3 million and a net decrease of accounts payable and accrued liabilities of $5.5 million primarily driven by lower accrued compensation. Partially offsetting these cash outflows was a decrease in accounts receivable of $20.4 million due to lower sales volume.

Cash Flow Used for Investing Activities

Cash flow used for investing activities was $84.1 million for the six months ended December 31, 2017, compared to $67.0 million for the prior year period. During the current year period, cash flow used for investing activities included capital expenditures, net of $84.4 million, which consisted primarily of equipment upgrades.

For the six months ended December 31, 2016, cash flow used for investing activities included capital expenditures, net of $67.1 million, which consisted primarily of equipment upgrades.

Cash Flow Used for Financing Activities

Cash flow used for financing activities was $17.3 million for the six months ended December 31, 2017 compared to $36.8 million in the prior year period. During the current year period, cash flow used for financing activities included $32.5 million of cash dividends paid to Shareholders, partially offset by $15.0 million of dividend reinvestment and the effect of employee benefit and stock plans.

For the six months ended December 31, 2016, cash flow used for financing activities included $32.0 million of cash dividends paid to Shareholders and a $6.6 million payment on the remaining contingent consideration related to a prior acquisition. These cash outflows were partially offset by $1.3 million of dividend reinvestment and the effect of employee benefit and stock plans and $0.6 million net increase in borrowings.

FINANCIAL CONDITION

Working capital was $720.8 million at December 31, 2017, an increase of $68.3 million from $652.4 million at June 30, 2017. The increase in working capital was primarily driven by a decrease in accounts payable of $25.1 million, a decrease in accrued expenses of $21.1 million driven by payroll timing and lower accrued vacation pay, an increase in inventories of $19.8 million due in part to increasing volumes, a decrease in other current liabilities of $19.3 million due primarily to restructuring payments and bonus payments, and increase in other current assets of $12.9 million due in part to reclassification of tax assets from deferred income taxes to other current assets related to out of period adjustment and an increase in accounts receivable of $12.5 million due in part to increasing volumes. Partially offsetting these items was a decrease in cash and cash equivalents of $30.7 million and an increase in accrued income taxes of $11.2 million due primarily to increased taxable income in taxpaying jurisdictions. Currency exchange rate effects increased working capital by a total of $16.3 million, the impact of which is included in the aforementioned changes.

Property, plant and equipment, net increased $35.3 million from $744.4 million at June 30, 2017 to $779.7 million at December 31, 2017, primarily due to capital additions of $73.7 million and a positive currency exchange impact of $12.0 million during the current period. This increase was partially offset by depreciation expense of $46.1 million, impairment related to restructuring programs of $2.3 million and disposal of $0.8 million.

At December 31, 2017, other assets were $567.8 million, an increase of $10.6 million from $557.2 million at June 30, 2017. The primary drivers for the increase were an increase in other assets of $17.9 million primarily due to an increase in pension plan assets and an increase in goodwill of $4.8 million due to favorable currency exchange effects. This increase was partially offset by a $6.7 million decrease in deferred income taxes primarily due to out of period adjustment related to tax assets recorded on intra-entity inventory transfers, partially offset by release of the valuation allowance on U.S. deferred tax assets, in addition to a $6.0 million decrease in other intangible assets, which was due primarily to amortization expense.

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Long-term debt and capital leases increased by $0.7 million to $695.7 million at December 31, 2017 from $695.0 million at June 30, 2017.
Kennametal Shareholders' equity was $1,126.4 million at December 31, 2017, an increase of $109.1 million from $1,017.3 million at June 30, 2017. The increase was primarily due to net income attributable to Kennametal of $80.8 million, favorable currency exchange of $32.6 million, capital stock issued under employee benefit and stock plans of $26.9 million and reclassification of net pension and other postretirement benefit loss of $3.3 million, partially offset by cash dividends paid to Shareholders of $32.5 million and unrecognized net pension and other postretirement benefit loss of $2.6 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 (CERCLA), 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 December 31, 2017 and June 30, 2017, the balances of these reserves were $12.7 million and $12.4 million, respectively. 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 analysts 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
Effective July 1, 2017 with the adoption of new Financial Accounting Standards Board (FASB) guidance on subsequent measurement of inventory, non-LIFO inventories are now stated at the lower of cost or net realizable

value. LIFO inventories continue to be stated at the lower of cost or market.
There have been no other changes to our critical accounting policies since June 30, 2017.

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.

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

RECONCILIATION OF FINANCIAL MEASURES NOT DEFINED BY U.S. GAAP In accordance with the SEC's Regulation G, the following provides definitions of the non-GAAP financial measures we use in this report and the reconciliation to the most closely related GAAP financial measure. We believe that these measures provide useful perspective on underlying business trends and results and provide a supplemental measure of year-over-year results. The non-GAAP financial measures described below are used by management in making operating decisions, allocating financial resources and for business strategy purposes. These measures may be useful to investors as they provide supplemental information about business performance and provide investors a view of our business results through the eyes of management. These non-GAAP financial measures are not intended to be considered by the user in place of the related GAAP financial measure, but rather as supplemental information to our business results. These non-GAAP financial measures may not be the same as similar measures used by other companies due to possible differences in method and in the items or events being adjusted.

Organic sales growth Organic sales growth is a non-GAAP financial measure of sales growth (which is the most directly comparable GAAP measure) excluding the impacts of acquisitions, divestitures, business days and foreign currency exchange from year-over-year comparisons. We believe this measure provides investors with a supplemental understanding of underlying sales trends by providing sales growth on a consistent basis. Also, we report organic sales growth at the consolidated and segment levels.

Constant currency end market sales growth Constant currency end market sales growth is a non-GAAP financial measure of sales growth (which is the most directly comparable GAAP measure) by end market excluding the impacts of acquisitions, divestitures and foreign currency exchange from year-over-year comparisons. We note that, unlike organic sales growth, constant currency end market sales growth does not exclude the impact of business days. We believe this measure provides investors with a supplemental understanding of underlying end market trends by providing end market sales growth on a consistent basis. Also, we report constant currency end market sales growth at the consolidated and segment levels. Widia sales are reported only in the general engineering end market. Therefore, we do not provide constant currency end market sales growth for the Widia segment and, thus, do not include a reconciliation for that metric.

Constant currency regional sales growth Constant currency regional sales growth is a non-GAAP financial measure of sales growth (which is the most directly comparable GAAP measure) by region excluding the impacts of acquisitions, divestitures and foreign currency exchange from year-over-year comparisons. We note that, unlike organic sales growth, constant currency regional sales growth does not exclude the impact of business days. We believe this measure provides investors with a supplemental understanding of underlying regional trends by providing regional sales growth on a consistent basis. Also, we report constant currency regional sales growth at the consolidated and segment levels.

Reconciliations of organic sales growth to sales growth are as follows:

Three Months Ended December 31, 2017	Industrial	Widia	Infrastructure	Total
Organic sales growth	14%	9%	18%	15%
Foreign currency exchange impact[1]	4	2	2	3
Business days impact[2]	(1)	—	(1)	(1)
Divestiture impact[3]	—	—	—	—
Acquisition impact[4]	—	—	—	—
Sales growth	17%	11%	19%	17%

Six Months Ended December 31, 2017	Industrial	Widia	Infrastructure	Total
Organic sales growth	12%	9%	19%	14%
Foreign currency exchange impact[1]	3	2	1	2

Business days impact[(2)]	(1)	—	(1)	(1)
Divestiture impact[(3)]	—	—	—	—
Acquisition impact[(4)]	—	—	—	—
Sales growth	14%	11%	19%	15%

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

Reconciliations of constant currency end market sales growth to end market sales growth[5], are as follows:

Industrial

Three Months Ended December 31, 2017	General engineering	Transportation	Aerospace and defense	Energy
Constant currency end market sales growth	11%	14%	9%	19%
Foreign currency exchange impact[1]	4	4	2	3
Divestiture impact[3]	—	—	—	—
Acquisition impact[4]	—	—	—	—
End market sales growth[5]	15%	18%	11%	22%

Infrastructure

Three Months Ended December 31, 2017	Energy	Earthworks	General engineering
Constant currency end market sales growth	25%	11%	20%
Foreign currency exchange impact[1]	1	2	2
Divestiture impact[3]	—	—	—
Acquisition impact[4]	—	—	—
End market sales growth[5]	26%	13%	22%

Total

Three Months Ended December 31, 2017	General engineering	Transportation	Aerospace and defense	Energy	Earthworks
Constant currency end market sales growth	12%	14%	9%	23%	11%
Foreign currency exchange impact[1]	3	4	2	2	2
Divestiture impact[3]	—	—	—	—	—
Acquisition impact[4]	—	—	—	—	—
End market sales growth[5]	15%	18%	11%	25%	13%

Industrial

Six Months Ended December 31, 2017	General engineering	Transportation	Aerospace and defense	Energy
Constant currency end market sales growth	9%	11%	8%	20%
Foreign currency exchange impact[1]	3	2	2	3
Divestiture impact[3]	—	—	—	—
Acquisition impact[4]	—	—	—	—
End market sales growth[5]	12%	13%	10%	23%

Infrastructure

Six Months Ended December 31, 2017	Energy	Earthworks	General engineering
Constant currency end market sales growth	26%	12%	15%
Foreign currency exchange impact[1]	1	2	1
Divestiture impact[3]	—	—	—
Acquisition impact[4]	—	—	—
End market sales growth[5]	27%	14%	16%

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

Total

Six Months Ended December 31, 2017	General engineering	Transportation	Aerospace and defense	Energy	Earthworks
Constant currency end market sales growth	10%	11%	8%	24%	12%
Foreign currency exchange impact(1)	2	2	2	2	2
Divestiture impact(3)	—	—	—	—	—
Acquisition impact(4)	—	—	—	—	—
End market sales growth(5)	12%	13%	10%	26%	14%

Reconciliations of constant currency regional sales growth to reported regional sales growth(6), are as follows:

Industrial

Three Months Ended December 31, 2017	Americas	EMEA	Asia Pacific
Constant currency regional sales growth	11%	11%	20%
Foreign currency exchange impact(1)	1	8	3
Divestiture impact(3)	—	—	—
Acquisition impact(4)	—	—	—
Regional sales growth(6)	12%	19%	23%

Widia

Three Months Ended December 31, 2017	Americas	EMEA	Asia Pacific
Constant currency regional sales growth	8%	16%	4%
Foreign currency exchange impact(1)	1	6	3
Divestiture impact(3)	—	—	—
Acquisition impact(4)	—	—	—
Regional sales growth(6)	9%	22%	7%

Infrastructure

Three Months Ended December 31, 2017	Americas	EMEA	Asia Pacific
Constant currency regional sales growth	20%	1%	24%
Foreign currency exchange impact(1)	1	5	2
Divestiture impact(3)	—	—	—
Acquisition impact(4)	—	—	—
Regional sales growth(6)	21%	6%	26%

Total

Three Months Ended December 31, 2017	Americas	EMEA	Asia Pacific
Constant currency regional sales growth	15%	9%	19%
Foreign currency exchange impact(1)	1	7	3
Divestiture impact(3)	—	—	—
Acquisition impact(4)	—	—	—
Regional sales growth(6)	16%	16%	22%

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

Industrial

Six Months Ended December 31, 2017	Americas	EMEA	Asia Pacific
Constant currency regional sales growth	10%	9%	17%
Foreign currency exchange impact[1]	—	6	2
Divestiture impact[3]	—	—	—
Acquisition impact[4]	—	—	—
Regional sales growth[6]	10%	15%	19%

Widia

Six Months Ended December 31, 2017	Americas	EMEA	Asia Pacific
Constant currency regional sales growth	7%	18%	6%
Foreign currency exchange impact[1]	—	4	2
Divestiture impact[3]	—	—	—
Acquisition impact[4]	—	—	—
Regional sales growth[6]	7%	22%	8%

Infrastructure

Six Months Ended December 31, 2017	Americas	EMEA	Asia Pacific
Constant currency regional sales growth	20%	5%	22%
Foreign currency exchange impact[1]	1	6	2
Divestiture impact[3]	—	—	—
Acquisition impact[4]	—	—	—
Regional sales growth[6]	21%	11%	24%

Total

Six Months Ended December 31, 2017	Americas	EMEA	Asia Pacific
Constant currency regional sales growth	14%	9%	17%
Foreign currency exchange impact[1]	1	5	2
Divestiture impact[3]	—	—	—
Acquisition impact[4]	—	—	—
Regional sales growth[6]	15%	14%	19%

(1) Foreign currency exchange impact is calculated by dividing the difference between current period sales at prior period foreign exchange rates and prior period sales by prior period sales.

(2) Business days impact is calculated by dividing the year-over-year change in weighted average working days (based on mix of sales by country) by prior period weighted average working days.

(3) Divestiture impact is calculated by dividing prior period sales attributable to divested businesses by prior period sales.

(4) Acquisition impact is calculated by dividing current period sales attributable to acquired businesses by prior period sales.

(5) Aggregate sales for all end markets sum to the sales amount presented on Kennametal's financial statements.

(6) Aggregate sales for all regions sum to the sales amount presented on Kennametal's financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to our market risk exposures since June 30, 2017.

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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 December 31, 2017 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.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS
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 types of 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. See "Note 12. Environmental Matters" for a discussion of our exposure to certain environmental liabilities.

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)
October 1 through October 31, 2017	—	$ —	—	10,100,100
November 1 through November 30, 2017	1,321	45.48	—	10,100,100
December 1 through December 31, 2017	3,679	46.54	—	10,100,100
Total	5,000	$ 46.26	—	

(1) During the current period, 1,202 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 3,798 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)	Separation Agreement for Charles M. Byrnes	Exhibit 10.1 of the Form 8-K filed January 31, 2018 (File No. 001-05318) is incorporated herein by reference.
(31)	Rule 13a-14(a)/15d-14(a) Certifications	
(31.1)	Certification executed by Christopher Rossi, 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 Christopher Rossi, 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.

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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:	February 6, 2018	By:	/s/ Patrick S. Watson
			Patrick S. Watson
			Vice President Finance and Corporate Controller

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