

GRAFTECH INTERNATIONAL LTD

Form 10-Q

August 02, 2017

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

FORM 10-Q

(Mark One)

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

for the quarterly period ended June 30, 2017

OR

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

for the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-13888

GRAFTECH INTERNATIONAL LTD.  
(Exact name of registrant as specified in its charter)

Delaware 27-2496053  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

982 Keynote Circle 44131  
Brooklyn Heights, OH (Zip code)  
(Address of principal executive offices)  
Registrant's telephone number, including area code: (216) 676-2000

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.

Large Accelerated Filer  Accelerated Filer  Emerging Growth Company

Non-Accelerated Filer  Smaller Reporting Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 14, 2017, 100 shares of common stock, par value \$.01 per share, were outstanding.

(Explanatory Note: The registrant is a voluntary filer and not subject to the filing requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934. Although not subject to these filing requirements, the registrant has filed all reports that would have been required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months had the registrant been subject to such requirements.)

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

Unaudited

	As of December 31, 2016	As of June 30, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 11,610	\$ 11,930
Accounts and notes receivable, net of allowance for doubtful accounts of \$326 as of December 31, 2016 and \$367 as of June 30, 2017	80,568	81,997
Inventories	156,111	164,424
Prepaid expenses and other current assets	21,665	24,345
Current assets of discontinued operations	60,979	42,616
Total current assets	330,933	325,312
Property, plant and equipment	585,704	610,939
Less: accumulated depreciation	76,849	104,191
Net property, plant and equipment	508,855	506,748
Deferred income taxes	19,803	19,340
Goodwill	171,117	171,117
Other assets	141,568	126,756
Total assets	\$ 1,172,276	\$ 1,149,273
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 47,663	\$ 47,253
Short-term debt	8,852	8,007
Accrued income and other taxes	5,256	7,539
Other accrued liabilities	30,594	27,279
Current liabilities of discontinued operations	20,042	16,168
Total current liabilities	112,407	106,246
Long-term debt	356,580	367,956
Other long-term obligations	82,148	81,140
Deferred income taxes	42,906	45,707
Long-term liabilities of discontinued operations	850	971
Contingencies – Note 9	—	—
Stockholders' equity:		
Preferred stock, par value \$.01, 10,000,000 shares authorized, none issued	—	—
Common stock, par value \$.01, 225,000,000 shares authorized, 100 shares issued as of December 31, 2016 and June 30, 2017	—	—
Additional paid-in capital	854,337	854,337
Accumulated other comprehensive (loss) income	(7,558	) 6,037
Accumulated deficit	(269,394	) (313,121 )
Total stockholders' equity	577,385	547,253
Total liabilities and stockholders' equity	\$ 1,172,276	\$ 1,149,273

See accompanying Notes to Condensed Consolidated Financial Statements

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GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS  
(Dollars in thousands)  
(Unaudited)

	For the Three Months Ended June 30, 2016		For the Six Months Ended June 30, 2017	
<b>CONSOLIDATED STATEMENTS OF OPERATIONS</b>				
Net sales	\$115,365	\$116,314	\$210,941	\$221,053
Cost of sales	120,266	106,423	217,696	208,780
Additions to lower of cost or market inventory reserve	3,504	212	14,625	1,509
Gross (loss) profit	(8,405 )	9,679	(21,380 )	10,764
Research and development	786	943	1,438	1,772
Selling and administrative expenses	13,423	12,195	27,215	23,878
Operating loss	(22,614 )	(3,459 )	(50,033 )	(14,886 )
Other expense (income), net	(1,198 )	1,186	(960 )	4,253
Interest expense	6,436	7,902	12,896	15,448
Interest income	—	(139 )	(12 )	(262 )
Loss from continuing operations before provision for income taxes	(27,852 )	(12,408 )	(61,957 )	(34,325 )
(Benefit from) Provision for income taxes	(5,591 )	925	(5,886 )	1,286
Net loss from continuing operations	(22,261 )	(13,333 )	(56,071 )	(35,611 )
Loss from discontinued operations, net of tax	(106,138 )	(4,050 )	(108,702 )	(8,116 )
Net loss	\$(128,399)	\$(17,383)	\$(164,773)	\$(43,727)
<b>STATEMENTS OF COMPREHENSIVE LOSS</b>				
Net loss	\$(128,399)	\$(17,383)	\$(164,773)	\$(43,727)
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(830 )	8,755	11,674	13,595
Commodities and foreign currency derivatives and other	(106 )	—	27	—
Other comprehensive (loss) income, net of tax:	(936 )	8,755	11,701	13,595
Comprehensive loss	\$(129,335)	\$(8,628)	\$(153,072)	\$(30,132)

See accompanying Notes to Condensed Consolidated Financial Statements

Table of ContentsGRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands, unaudited)

	For the Six Months Ended June 30, 2016	For the Six Months Ended June 30, 2017
Cash flow from operating activities:		
Net loss	\$(164,773)	\$(43,727)
Adjustments to reconcile net loss to cash provided by operations:		
Depreciation and amortization	43,228	33,294
Impairments	105,600	5,300
Change in inventory lower-of-cost-or-market reserve net of depreciation	12,758	(1,762 )
Deferred income tax provision	(9,091 )	(993 )
Post-retirement and pension plan changes	2,102	1,478
Interest expense	3,203	3,382
Other charges, net	(2,646 )	5,130
Net change in working capital*	24,506	157
Change in long-term assets and liabilities	(3,702 )	1,214
Net cash provided by operating activities	11,185	3,473
Cash flow from investing activities:		
Capital expenditures	(15,140 )	(13,445 )
Proceeds from the sale of assets	557	3,156
Other	(721 )	—
Net cash used in investing activities	(15,304 )	(10,289 )
Cash flow from financing activities:		
Short-term debt, net	11,004	(4,856 )
Revolving Facility borrowings	32,000	30,000
Revolving Facility reductions	(32,000 )	(18,000 )
Revolving Facility refinancing fees	(922 )	—
Principal payments on long-term debt	(69 )	(71 )
Net cash provided by financing activities	10,013	7,073
Net change in cash and cash equivalents	5,894	257
Effect of exchange rate changes on cash and cash equivalents	588	63
Cash and cash equivalents at beginning of period	6,927	11,610
Cash and cash equivalents at end of period	\$13,409	\$11,930
* Net change in working capital due to the following components:		
Accounts and notes receivable, net	\$5,211	\$1,136
Inventories	17,122	5,999
Prepaid expenses and other current assets	(2,580 )	(1,509 )
Change in accounts payable and accruals	4,703	(5,499 )
Increase in interest payable	50	30
Net change in working capital	\$24,506	\$157

See accompanying Notes to Condensed Consolidated Financial Statements





PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Organization and Summary of Significant Accounting Policies

A. Organization

GrafTech International Ltd. (the "Company") is one of the world's largest manufacturers and providers of high quality graphite electrodes and needle coke. References herein to "GTI," "we," "our," or "us" refer collectively to GrafTech International Ltd. and its subsidiaries. On August 15, 2015, GrafTech became an indirect wholly owned subsidiary of Brookfield Asset Management Inc. through a tender offer to our former shareholders and subsequent merger transaction.

The Company's only reportable segment, Industrial Materials, is comprised of our two major product categories: graphite electrodes and needle coke products. Needle coke is the key raw material to producing graphite electrodes. The Industrial Materials business segment focuses on providing the highest quality graphite electrodes and providing the best customer service all while striving to be the lowest cost producer.

We previously operated an Engineered Solutions business segment which is currently held for sale. See Note 2 "Discontinued Operations and Assets Held for Sale" for further information. All results from the Engineered Solutions business have been excluded from continuing operations, unless otherwise indicated.

B. Basis of Presentation

The interim Consolidated Financial Statements are unaudited; however, in the opinion of management, they have been prepared in accordance with Rule 10-01 of Regulation S-X and in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The December 31, 2016 financial position data included herein was derived from the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2016 (the "Annual Report") but does not include all disclosures required by GAAP in audited financial statements. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including the accompanying notes, contained in the Annual Report.

The unaudited consolidated financial statements reflect all adjustments (all of which are of a normal, recurring nature) which management considers necessary for a fair statement of financial position, results of operations, comprehensive income and cash flows for the interim periods presented. The results for the interim periods are not necessarily indicative of results which may be expected for any other interim period or for the full year.

C. New Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU supersedes the revenue recognition requirements in Accounting Standards Codification 605—Revenue Recognition and most industry-specific guidance throughout the Codification. This ASU requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU was expected to be effective for fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years. On July 9, 2015, the FASB deferred the effective date to fiscal years beginning after December 15, 2017. During the fourth quarter of 2016, we completed the initial evaluation of the new standard and the related assessment and review of a representative sample of existing revenue contracts with our customers. We determined, on a preliminary basis, that although the timing and pattern of revenue recognition may change, the amount of revenue recognized during the year should remain substantially the same.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). Under this new guidance, a company will now recognize most leases on its balance sheet as lease liabilities with corresponding right-of-use assets. This ASU is effective for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact of the adoption of this standard on its financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU No. 2017-04 Intangibles-Goodwill and Other (Topic 350). This guidance was issued to simplify the accounting for goodwill impairment. The guidance removes the second step of the goodwill

impairment test, which requires that a hypothetical purchase price allocation be performed to determine the amount of impairment, if any. Under this new guidance, a goodwill impairment charge will be based on the amount by which

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PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance will become effective on a prospective basis for the Company on January 1, 2020 with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact of the adoption of this standard on its results of operations.

In March 2017, the FASB issued ASU No. 2017-07, Compensation-Retirement Benefits (Topic 715). This standard requires an entity to report the service cost component in the same line item as other compensation costs. The other components of net (benefit) cost will be required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. This standard is effective for interim and annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact of the adoption of this standard on its results of operations. The components of the net (benefit) cost are shown in Note 4, "Benefit Plans."

(2) Discontinued Operations and Related Assets Held for Sale

On February 26, 2016, the Company announced that it had initiated a strategic review of its Engineered Solutions business segment to better direct its resources and simplify its operations. Any potential sale of assets was prohibited by the Revolving Facility without approval of the requisite lenders thereunder. On April 27, 2016, GrafTech and certain of its subsidiaries entered into an amendment to the Revolving Facility (see Note 6 "Debt and Liquidity") which, among other things, permits the sale of assets with the restriction that the proceeds be utilized to pay down revolver borrowings. As of June 30, 2016, the Engineered Solutions segment qualified for reporting as discontinued operations as its divestiture represents a strategic shift for the Company.

During the second quarter of 2016, we evaluated the fair value of the Engineered Solutions business segment utilizing the market approach (Level 3 measure). As a result, we incurred an impairment charge to our Engineered Solutions business segment of \$105.6 million to align the carrying value with estimated fair value. The analysis was updated as of December 31, 2016, resulting in an additional impairment charge of \$14.3 million. We continue to update this estimate and during the six months ended June 30, 2017, we further reduced the estimated fair value by \$5.3 million based upon current information. The current estimate reflects management's view of the manner in which the Engineered Solutions business will be divested, including assumptions as to if and how it will be split, given the lines of business and asset groups that constitute the Engineered Solutions segment. Amongst other things, the split into groups influences the computation of the impairment charge. These assumptions and estimates are subject to change until divestiture is completed and may be adjusted in the quarter that the information becomes available.

On November 30, 2016, we completed the sale of our Fiber Materials Inc. business, which was a business line within our former Engineered Solutions business. The sale resulted in cash proceeds of \$15.9 million and a loss of \$0.2 million. We have the ability to realize up to \$8.5 million of additional proceeds based on the earnings of the Fiber Materials business over the 24 months following the transaction. We have elected to record this contingent consideration as it is realized and as such it is not recognized thus far on the transaction.

On July 3, 2017, we completed the sale of our Advanced Energy Technologies business. This sale resulted in an additional impairment of \$2.8 million to the carrying value of our Engineered Solutions business as of June 30, 2017. See Note 13 "Subsequent Events" for more information.

## PART I (CONT'D)

## GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following tables summarize the results of the Engineered Solutions business segment, reclassified as discontinued operations for the three and six months ended June 30, 2016 and 2017.

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2016	2017	2016	2017
	(Dollars in thousands)			
Net sales	\$29,930	\$32,428	\$59,019	\$64,193
Cost of sales	24,569	28,610	50,554	57,022
Gross profit	5,361	3,818	8,465	7,171
Research and development	813	711	1,691	1,281
Selling and administrative expenses	5,059	4,106	9,514	7,800
Impairment	105,600	2,800	105,600	5,300
Operating loss	(106,111 )	(3,799 )	(108,340 )	(7,210 )
Other income	(81 )	(47 )	(72 )	(18 )
Interest expense	951	524	1,670	1,133
Loss from discontinued operations before income taxes	(106,981 )	(4,276 )	(109,938 )	(8,325 )
(Benefit from) income taxes on discontinued operations	(843 )	(226 )	(1,236 )	(209 )
Loss from discontinued operations	\$(106,138)	\$(4,050)	\$(108,702)	\$(8,116)

The significant components of our Statements of Cash Flows for the Engineered Solutions business segment held for sale are as follows:

	For the Six	
	Months	
	Ended June 30,	
	2016	2017
	(Dollars in thousands)	
Depreciation and amortization	\$3,052	\$2,311
Impairment	105,600	5,300
Deferred income taxes	(1,236 )	(209 )
Capital expenditures	2,513	432

PART I (CONT'D)  
 GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

The following table summarizes the carrying value of the assets and liabilities of discontinued operations as of December 31, 2016 and June 30, 2017.

	As of December 31, 2016	As of June 30, 2017
	(Dollars in thousands)	
Assets of discontinued operations:		
Accounts receivable	\$17,094	\$18,325
Inventories	71,816	58,050
Prepaid expenses and other current assets	320	952
Net property plant and equipment	79,048	78,827
Other assets	12,608	11,669
Total assets of discontinued operations prior to impairment	180,886	167,823
Impairment	(119,907)	(125,207)
Total assets of discontinued operations	\$60,979	\$42,616
Liabilities of discontinued operations:		
Accounts payable	\$7,253	\$6,389
Accrued income and other taxes	2,326	994
Other accrued liabilities	10,463	8,785
Total current liabilities of discontinued operations	20,042	16,168
Other long-term obligations	850	971
Total liabilities of discontinued operations	\$20,892	\$17,139

(3) Segment Reporting

We previously operated two reportable business segments, Industrial Materials and Engineered Solutions. During 2016 the Company decided to sell the businesses that comprised our Engineered Solutions segment to focus our Industrial Materials segment. During the second quarter of 2016 the Engineered Solutions segment qualified as held for sale status and as such the related results have been excluded from continuing operations. See Note 2 "Discontinued Operations and Assets Held for Sale" for significant components of the results of our Engineered Solutions segment.

Our Industrial Materials segment manufactures and delivers high quality graphite electrodes and needle coke products. Electrodes are key components of the conductive power systems used to produce steel and other non-ferrous metals. Needle coke, a crystalline form of carbon derived from decant oil, is the key ingredient in, and is used primarily in, the production of graphite electrodes.

## PART I (CONT'D)

## GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Information concerning our reportable segment is as follows:

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2016	2017	2016	2017
	(Dollars in thousands)			
Net sales to external customers:				
Industrial Materials	\$115,365	\$116,314	\$210,941	\$221,053
Operating (loss) income:				
Industrial Materials	(16,291 )	2,308	(36,538 )	(4,090 )
Corporate, R&D and Other expenses	(6,323 )	(5,767 )	(13,495 )	(10,796 )
Total operating loss	\$(22,614 )	\$(3,459 )	\$(50,033 )	\$(14,886 )

Reconciliation of segment operating loss to

loss before provision for income taxes				
Other expense (income), net	\$(1,198 )	\$1,186	\$(960 )	\$4,253
Interest expense	6,436	7,902	12,896	15,448
Interest income	—	(139 )	(12 )	(262 )
Loss from continuing operations before provision for income taxes	\$(27,852 )	\$(12,408 )	\$(61,957 )	\$(34,325 )

## (4) Benefit Plans

The components of our consolidated net pension costs are set forth in the following table:

	For the Three		For the Six	
	Months		Months	
	Ended June		Ended June 30,	
	30,		2016	2017
	2016	2017	2016	2017
	(Dollars in thousands)			
Service cost	\$508	\$496	\$1,016	\$992
Interest cost	1,498	1,385	2,996	2,769
Expected return on plan assets	(1,310)	(1,389)	(2,620 )	(2,777)
Net cost	\$696	\$492	\$1,392	\$984

The components of our consolidated net postretirement costs are set forth in the following table:

	For the		For the Six	
	Three		Months	
	Months		Months	
	Ended June		Ended June	
	30,		30,	
	2016	2017	2016	2017
	(Dollars in thousands)			
Service cost	\$1	\$1	\$2	\$1
Interest cost	272	241	543	483
Net cost	\$273	\$242	\$545	\$484

## (5) Goodwill and Other Intangible Assets

We are required to review goodwill and indefinite-lived intangible assets annually for impairment. Goodwill impairment is tested at the graphite electrodes reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value.

## PART I (CONT'D)

## GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following tables represents the changes in the carrying value of goodwill and intangibles during three months ended June 30, 2017:

## Goodwill

Balance as of December 31, 2016 \$171,117

Adjustments —

Balance as of June 30, 2017 \$171,117

## Intangible Assets

	As of December 31, 2016			As of June 30, 2017		
	Gross Carrying Amount	Accumulated Amortization & Impairment	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization & Impairment	Net Carrying Amount
	(Dollars in Thousands)					
Trade name	\$22,500	\$ (3,235 )	\$19,265	\$22,500	\$ (4,386 )	\$18,114
Technological know-how	55,300	(10,397 )	44,903	55,300	(13,949 )	41,351
Customer –related intangible	64,500	(6,177 )	58,323	64,500	(8,412 )	56,088
Total finite-lived intangible assets	\$142,300	\$ (19,809 )	\$122,491	\$142,300	\$ (26,747 )	\$115,553

Amortization expense of acquired intangible assets was \$3.6 million and \$7.2 million in the three and six months ended June 30, 2016 and \$3.5 million and \$6.9 million in the three and six months ended June 30, 2017. Estimated amortization expense will approximate \$6.7 million in the remainder of 2017, \$12.9 million in 2018, \$12.2 million in 2019, \$11.4 million in 2020 and \$10.7 million in 2021.

## (6)Debt and Liquidity

The following table presents our long-term debt:

	As of December 31, 2016	As of June 30, 2017
	(Dollars in thousands)	
Credit Facility (Revolving Facility and Term Loan Facility)	\$90,731	\$98,031
Senior Notes	274,132	277,341
Other Debt	569	591
Total Debt	365,432	375,963
Less: Short-term Debt	(8,852 )	(8,007 )
Long-term Debt	\$356,580	\$367,956

The fair value of debt, which was determined using Level 2 inputs, was \$363.9 million versus a book value of \$376.0 million as of June 30, 2017. As a result of our acquisition by Brookfield and the resulting purchase price accounting adjustments, our Senior Notes were adjusted to their fair market value as of August 15, 2015. The discount to fair value will be accreted over the remaining term of the Notes.

## Credit Facility

On April 23, 2014, the Company and certain of its subsidiaries entered into an Amended and Restated Credit Agreement with a borrowing capacity of \$400 million and a maturity date of April 2019 (the "Revolving Facility"). On February 27, 2015, GrafTech and certain of its subsidiaries entered into a further Amended and Restated Credit Agreement that provides for, among other things, greater financial flexibility and a \$40 million senior secured delayed draw term loan facility (the "Term Loan Facility").



On July 28, 2015, GrafTech and certain of its subsidiaries entered into an amendment to the Amended and Restated Credit Agreement to change the terms regarding the occurrence of a default upon a change in control (which

PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

is defined thereunder to include the acquisition by any person of more than 25 percent of GrafTech's outstanding shares) to exclude the acquisition of shares by Brookfield. In addition, effective upon such acquisition, the financial covenants were eased, resulting in increased availability under the Revolving Facility. The size of the Revolving Facility was also reduced from \$400 million to \$375 million. The size of the Term Loan Facility remained at \$40 million.

On April 27, 2016, GrafTech and certain of its subsidiaries entered into an amendment to the Revolving Facility. The size of the Revolving Facility was permanently reduced from \$375 million to \$225 million. New covenants were also added to the Revolving Facility, including a requirement to make mandatory repayments of outstanding amounts under the Revolving Facility and the Term Loan Facility with the proceeds of any sale of all or any substantial part of the assets included in the Engineered Solutions segment and a requirement to maintain minimum liquidity (consisting of domestic cash, cash equivalents and availability under the Revolving Facility) in excess of \$25 million. The covenants were also modified to provide for: the elimination of certain exceptions to the Company's negative covenants limiting the Company's ability to make certain investments, sell assets, make restricted payments, incur liens, incur debt and prepay or redeem other indebtedness; a restriction on the amount of cash and cash equivalents permitted to be held on the balance sheet at any one time without paying down the Revolving Facility and the Term Loan Facility; and changes to the Company's financial covenants so that until the earlier of March 31, 2019 or the Company has \$75 million in trailing twelve month EBITDA (as defined in the Revolving Facility), the Company is required to maintain trailing twelve month EBITDA above certain minimums ranging from (\$40 million) to \$35 million after which the Company's existing financial covenants under the Revolving Facility will apply.

With this amendment, the Company has full access to the \$225 million Revolving Facility, subject to the \$25 million minimum liquidity requirement. As of June 30, 2017, the Company had \$68.5 million of borrowings on the Revolving Facility and \$14.1 million of letters of credit drawn against the Revolving Facility.

The \$40 million Term Loan Facility was fully drawn on August 11, 2015, in connection with the repayment of the Senior Subordinated Notes. The balance of the Term Loan Facility was \$29.5 million as of June 30, 2017.

The interest rate applicable to the Revolving Facility and Term Loan Facility is LIBOR plus a margin ranging from 2.25% to 4.75% (depending on our total senior secured leverage ratio). The borrowers pay a per annum fee ranging from 0.35% to 0.70% (depending on our senior secured leverage ratio) on the undrawn portion of the commitments under the Revolving Facility.

Senior Notes

On November 20, 2012, the Company issued \$300 million principal amount of 6.375% Senior Notes due 2020 (the "Senior Notes"). The Senior Notes are the Company's senior unsecured obligations and rank pari passu with all of the Company's existing and future senior unsecured indebtedness. The Senior Notes are guaranteed on a senior unsecured basis by each of the Company's existing and future subsidiaries that guarantee certain other indebtedness of the Company or another guarantor.

The Senior Notes bear interest at a rate of 6.375% per year, payable semi-annually in arrears on May 15 and November 15 of each year. The Senior Notes mature on November 15, 2020.

The Company is entitled to redeem some or all of the Senior Notes at any time on or after November 15, 2016, at the redemption prices set forth in the indenture. In addition, prior to November 15, 2016, the Company may redeem some or all of the Senior Notes at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, plus a "make whole" premium determined as set forth in the indenture.

The indenture for the Senior Notes states that if, prior to maturity, a change in control (as defined in the indenture) of the Company occurs and thereafter certain downgrades of the ratings of the Senior Notes as specified in the indenture

occur, the Company will be required to offer to repurchase any or all of the Senior Notes at a repurchase price equal to 101% of the aggregate principal amount of the Senior Notes, plus any accrued and unpaid interest. On August 17, 2015, a change in control occurred due to the Merger. However, the downgrade of the ratings of the Senior Notes, as specified in the indenture, did not occur. Therefore, the Company was not required to offer to repurchase the Senior Notes as a result of the Merger.

The indenture for the Senior Notes also contains covenants that, among other things, limit the ability of the Company and certain of its subsidiaries to: (i) create liens or use assets as security in other transactions; (ii) engage

## PART I (CONT'D)

## GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

in certain sale/leaseback transactions; and (iii) merge, consolidate or sell, transfer, lease or dispose of substantially all of their assets.

The indenture for the Senior Notes also contains customary events of default, including (i) failure to pay principal or interest on the Senior Notes when due and payable, (ii) failure to comply with covenants or agreements in the indenture or the Senior Notes which failures are not cured or waived as provided in the indenture, (iii) failure to pay indebtedness of the Company, any Subsidiary Guarantor or Significant Subsidiary (each, as defined in the indenture) within any applicable grace period after maturity or acceleration and the total amount of such indebtedness unpaid or accelerated exceeds \$50.0 million, (iv) certain events of bankruptcy, insolvency, or reorganization, (v) failure to pay any judgment or decree for an amount in excess of \$50.0 million against the Company, any Subsidiary Guarantor or any Significant Subsidiary that is not discharged, waived or stayed as provided in the indenture, (vi) cessation of any Subsidiary Guarantee (as defined in the indenture) to be in full force and effect or denial or disaffirmance by any subsidiary guarantor of its obligations under its subsidiary guarantee, and (vii) a default under the Company's Senior Subordinated Notes. In the case of an event of default, the principal amount of the Senior Notes plus accrued and unpaid interest may be accelerated.

## (7) Inventories

Inventories are comprised of the following:

	As of	As of
	December 31,	June 30,
	2016	2017

(Dollars in thousands)

## Inventories:

Raw materials and supplies	\$54,469	\$50,472
Work in process	52,379	69,237
Finished goods	49,263	44,715
Total	\$156,111	\$164,424

Due to decreased pricing in our graphite electrode product line, we recorded a lower of cost or market inventory adjustment of \$14.6 million and \$1.5 million in the six months ended June 30, 2016 and June 30, 2017, respectively. The decrease is attributable to the reduction in product costs and associated improvement on product margins.

## (8) Interest Expense

The following tables present the components of interest expense:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017
Interest incurred on debt	\$4,819	\$6,217	\$9,716	\$12,086
Accretion of fair value adjustment on Senior Notes	1,571	1,609	3,134	3,208
Amortization of debt issuance costs	46	76	46	154
Total interest expense	\$6,436	\$7,902	\$12,896	\$15,448

(Dollars in thousands)

## Interest Rates

The Revolving Facility and Term Loan Facility had an effective interest rate of 5.52% and 5.98% as of December 31, 2016 and June 30, 2017, respectively. The Senior Notes have a fixed interest rate of 6.375%.



## PART I (CONT'D)

## GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## (9) Contingencies

## Legal Proceedings

We are involved in various investigations, lawsuits, claims, demands, environmental compliance programs and other legal proceedings arising out of or incidental to the conduct of our business. While it is not possible to determine the ultimate disposition of each of these matters, we do not believe that their ultimate disposition will have a material adverse effect on our financial position, results of operations or cash flows.

Litigation has been pending in Brazil brought by employees seeking to recover additional amounts under certain wage increase provisions applicable in 1989 and 1990 under collective bargaining agreements to which employers in the Bahia region of Brazil were a party (including our subsidiary in Brazil), plus interest thereon. Prior to October 1, 2015, we were not party to such litigation. Companies in Brazil have recently settled claims arising out of these provisions and, in May 2015, the litigation was remanded, in favor of the employees, by the Brazil Supreme Court to the lower courts for further proceedings which included procedural aspects of the case, such as admissibility of instruments filed by the parties. We cannot predict the outcome of such litigation. On October 1, 2015, an action was filed by current and former employees against our subsidiary in Brazil to recover amounts under such provisions, plus interest thereon, which amounts together with interest could be material to us. In the 1<sup>st</sup> quarter 2017, this case was ruled in favor of the employees at the state court level. The Company has appealed and intends to vigorously defend. The claims specify neither the employees covered nor the amount of damages sought, therefore a range of potential losses cannot be estimated.

## Product Warranties

We generally sell products with a limited warranty. We accrue for known warranty claims if a loss is probable and can be reasonably estimated. We also accrue for estimated warranty claims incurred based on a historical claims charge analysis. Claims accrued but not yet paid and the related activity within the accrual for the six months ended June 30, 2017, are presented below:

	(Dollars in thousands)
Balance as of December 31, 2016	\$ 969
Product warranty adjustments	(230 )
Accruals and Payments	(68 )
Balance as of June 30, 2017	\$ 671

## (10) Income Taxes

We compute and apply to ordinary income an estimated annual effective tax rate on a quarterly basis based on current and forecasted business levels and activities, including the mix of domestic and foreign results and enacted tax laws. The estimated annual effective tax rate is updated quarterly based on actual results and updated operating forecasts. Ordinary income refers to income (loss) before income tax expense excluding significant, unusual, or infrequently occurring items. The tax effect of an unusual or infrequently occurring item is recorded in the interim period in which it occurs as a discrete item of tax.

## PART I (CONT'D)

## GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following tables summarize the provision for income taxes for the three and six months ended June 30, 2016 and June 30, 2017:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2017	2016	2017

(Dollars in thousands)

Tax (benefit) expense	\$ (5,591)	\$ 925	\$ (5,886)	\$ 1,286
Pretax loss	(27,852)	(12,408)	(61,957)	(34,325)
Effective tax rates	20.1	% (7.5)	% 9.5	% (3.7)

For the three and six months ended June 30, 2016 and 2017 the effective tax rate differs from the U.S. statutory rate of 35% primarily due to recent losses in the U.S. and Switzerland where we receive no tax benefit due to a full valuation allowance and worldwide earnings from various countries tax at different rates. The recognition of the valuation allowance does not result in or limit the Company's ability to utilize these tax assets in the future.

As of June 30, 2017, we had unrecognized tax benefits of \$3.4 million, \$3.0 million of which, if recognized, would have a favorable impact on our effective tax rate.

We file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. All U.S. federal tax years prior to 2013 are generally closed by statute or have been audited and settled with the applicable domestic tax authorities. All other jurisdictions are still open to examination beginning after 2010.

We continue to assess the realization of our deferred tax assets based on determinations of whether it is more likely than not that deferred tax benefits will be realized through the generation of future taxable income. Appropriate consideration is given to all available evidence, both positive and negative, in assessing the need for a valuation allowance. Examples of positive evidence would include a strong earnings history, an event or events that would increase our taxable income through a continued reduction of expenses, and tax planning strategies that would indicate an ability to realize deferred tax assets. In circumstances where the significant positive evidence does not outweigh the negative evidence in regards to whether or not a valuation allowance is required, we have established and maintained valuation allowances on those net deferred tax assets.

## (11) Derivative Instruments

We use derivative instruments as part of our overall foreign currency and commodity risk management strategies to manage the risk of exchange rate movements that would reduce the value of our foreign cash flows and to minimize commodity price volatility. Foreign currency exchange rate movements create a degree of risk by affecting the value of sales made and costs incurred in currencies other than the U.S. dollar.

Certain of our derivative contracts contain provisions that require us to provide collateral. Since the counterparties to these financial instruments are large commercial banks and similar financial institutions, we do not believe that we are exposed to material counterparty credit risk. We do not anticipate nonperformance by any of the counter-parties to our instruments. Our derivative risk management strategy has not resulted in a material impact to our financial results in 2016 or 2017. Our derivative assets and liabilities are included within "Prepaid expenses and other current assets" and "Other current liabilities" on the Condensed Consolidated Balance Sheets and effects of these derivatives are recorded in revenue, cost of goods sold and other expense (income) on the Condensed Consolidated Statements of Operations.

## Foreign currency derivatives

We enter into foreign currency derivatives from time to time to attempt to manage exposure to changes in currency exchange rates. These foreign currency instruments, which include, but are not limited to, forward exchange contracts and purchased currency options, attempt to hedge global currency exposures such as foreign

currency denominated debt, sales, receivables, payables, and purchases. Forward exchange contracts are agreements to exchange different currencies at a specified future date and at a specified rate. There was no



PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

ineffectiveness on these contracts designated as hedging instruments during the six months ended June 30, 2016 and 2017, respectively.

In 2016 and 2017, we entered into foreign currency derivatives denominated in the Mexican peso, South African rand, Brazilian real, euro and Japanese yen. These derivatives were entered into to protect the risk that the eventual cash flows resulting from commercial and business transactions may be adversely affected by changes in exchange rates between the U.S. dollar and the Mexican peso, euro and Japanese yen. As of June 30, 2017, we had outstanding Mexican peso, euro, and Japanese yen currency contracts with an aggregate notional amount of \$21.4 million.

The foreign currency derivatives outstanding as of June 30, 2017, have maturities through September 29, 2017.

Commodity derivative contracts

We periodically enter into derivative contracts for certain refined oil products and natural gas. These contracts are entered into to protect against the risk that eventual cash flows related to these products may be adversely affected by future changes in prices. As of June 30, 2017, we had no outstanding derivative swap contracts for refined oil products or natural gas.

Net Investment Hedges

We use certain intercompany debt to hedge a portion of our net investment in our foreign operations against currency exposure (net investment hedge). Intercompany debt denominated in foreign currency and designated as a non-derivative net investment hedging instrument was \$13.3 million and \$14.0 million as of December 31, 2016 and June 30, 2017, respectively. Within the currency translation adjustment portion of other comprehensive income, we recorded no gain or loss in the three months ended June 30, 2016 and a loss of \$0.6 million for the six months ended June 30, 2016, resulting from these net investment hedges. We incurred a gain of \$0.1 million and a loss of \$0.7 million in the three and six months ended June 30, 2017, respectively, resulting from these net investment hedges.

(12) Guarantor Information

On November 20, 2012, GrafTech International Ltd. (the "Parent") issued \$300 million aggregate principal amount of Senior Notes. The Senior Notes mature on November 15, 2020 and bear interest at a rate of 6.375% per year, payable semi-annually in arrears on May 15 and November 15 of each year. The Senior Notes are guaranteed on a senior basis by the following wholly-owned direct and indirect subsidiaries of the Parent: GrafTech Finance Inc., GrafTech Holdings Inc., GrafTech USA LLC, Seadrift Coke LP, GrafTech Global Enterprises Inc., GrafTech International Holdings Inc., GrafTech DE LLC, GrafTech Seadrift Holding Corp, GrafTech International Trading Inc., GrafTech Technology LLC, GrafTech NY Inc., and Graphite Electrode Network LLC.

The guarantors of the Senior Notes, solely in their respective capacities as such, are collectively called the "Guarantors." Our other subsidiaries, which are not guarantors of the Senior Notes, are called the "Non-Guarantors."

All of the guarantees are unsecured. All of the guarantees are full, unconditional (subject to limited exceptions described below) and joint and several. Each of the Guarantors are 100% owned, directly or indirectly, by the Parent. All of the guarantees of the Senior Notes continue until the Senior Notes have been paid in full, and payment under such guarantees could be required immediately upon the occurrence of an event of default under the Senior Notes. If a Guarantor makes a payment under its guarantee of the Senior Notes, it would have the right under certain circumstances to seek contribution from the other Guarantors.

The Guarantors will be released from the guarantees upon the occurrence of certain events, including the following: the unconditional release or discharge of any guarantee or indebtedness that resulted in the creation of the guarantee of the Senior Notes by such Guarantor; the sale or other disposition, including by way of merger or consolidation or the sale of its capital stock, following which such Guarantor is no longer a subsidiary of the Parent; or the Parent's exercise of its legal defeasance option or its covenant defeasance option as described in the indenture applicable to the Senior Notes. If any Guarantor is released, no holder of the Senior Notes will have a claim as a creditor against such Guarantor. The indebtedness and other liabilities, including trade payables and preferred stock, if any, of each

Guarantor are effectively senior to the claim of any holders of the Senior Notes.  
Investments in subsidiaries are recorded on the equity basis.

PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following tables set forth condensed consolidating balance sheets as of December 31, 2016 and June 30, 2017, condensed consolidating statements of operations and comprehensive income for the three and six months ended June 30, 2016 and 2017 and the condensed consolidating statements of cashflows for the six months ended June 30, 2016 and 2017.

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## PART I (CONT'D)

## GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## CONDENSED CONSOLIDATING BALANCE SHEETS

As of December 31, 2016

(in thousands)

	Parent	Guarantors	Non-Guarantors	Consolidating Entries and Eliminations	Consolidated
<b>ASSETS</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$—	\$636	\$10,974	\$—	\$11,610
Accounts receivable - affiliates	51,592	3,624	19,643	(74,859)	—
Accounts receivable - trade	—	7,518	73,050	—	80,568
Inventories	—	44,563	111,548	—	156,111
Prepaid and other current assets	1,350	4,853	15,462	—	21,665
Current assets of discontinued operations	—	51,160	14,296	(4,477)	60,979
Total current assets	52,942	112,354	244,973	(79,336)	330,933
Investment in affiliates	844,379	601,597	—	(1,445,976)	—
Property, plant and equipment	—	191,503	317,352	—	508,855
Deferred income taxes	—	—	19,803	—	19,803
Goodwill	—	70,399	100,718	—	171,117
Notes receivable - affiliate	—	49,003	—	(49,003)	—
Other assets	—	70,767	70,801	—	141,568
Total Assets	\$897,321	\$1,095,623	\$753,647	\$(1,574,315)	\$1,172,276
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>Current Liabilities:</b>					
Accounts payable - affiliate	\$806	\$71,243	\$2,810	\$(74,859)	\$—
Accounts payable - trade	964	8,033	38,666	—	47,663
Short-term debt	—	3,062	5,790	—	8,852
Accrued income and other taxes	—	2,095	3,161	—	5,256
Other accrued liabilities	2,444	12,205	15,945	—	30,594
Short-term liabilities of discontinued operations	—	20,381	4,138	(4,477)	20,042
Total current liabilities	4,214	117,019	70,510	(79,336)	112,407
Long-term debt - affiliate	41,590	—	7,413	(49,003)	—
Long-term debt - third party	274,132	81,695	753	—	356,580
Other long-term obligations	—	50,943	31,205	—	82,148
Deferred income taxes	—	909	41,997	—	42,906
Long-term liabilities of discontinued operations	—	678	172	—	850
Stockholders' equity	577,385	844,379	601,597	(1,445,976)	577,385
Total Liabilities and Stockholders' Equity	\$897,321	\$1,095,623	\$753,647	\$(1,574,315)	\$1,172,276



## PART I (CONT'D)

## GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## CONDENSED CONSOLIDATING BALANCE SHEETS

As of June 30, 2017

(in thousands)

	Parent	Guarantors	Non-Guarantors	Consolidating Entries and Eliminations	Consolidated
<b>ASSETS</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$—	\$811	\$ 11,119	\$—	\$ 11,930
Accounts receivable - affiliates	51,592	14,331	9,484	(75,407)	—
Accounts receivable - trade	—	9,705	72,292	—	81,997
Inventories	—	45,037	119,387	—	164,424
Prepaid and other current assets	554	5,786	18,005	—	24,345
Current assets of discontinued operations	—	32,839	11,840	(2,063)	42,616
Total current assets	52,146	108,509	242,127	(77,470)	325,312
Investment in affiliates	828,394	581,431	—	(1,409,825)	—
Property, plant and equipment	—	183,901	322,847	—	506,748
Deferred income taxes	—	—	19,340	—	19,340
Goodwill	—	70,399	100,718	—	171,117
Notes receivable - affiliate	—	60,101	—	(60,101)	—
Other assets	—	64,577	62,179	—	126,756
Total Assets	\$880,540	\$1,068,918	\$ 747,211	\$(1,547,396)	\$ 1,149,273
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>Current Liabilities:</b>					
Accounts payable - affiliate	\$814	\$61,074	\$ 13,519	\$(75,407)	\$—
Accounts payable - trade	—	7,701	39,552	—	47,253
Short-term debt	—	7,863	144	—	8,007
Accrued income and other taxes	—	1,405	6,134	—	7,539
Other accrued liabilities	2,444	7,986	16,849	—	27,279
Liabilities of discontinued operations	—	14,622	3,609	(2,063)	16,168
Total current liabilities	3,258	100,651	79,807	(77,470)	106,246
Long-term debt - affiliate	52,688	—	7,413	(60,101)	—
Long-term debt - third party	277,341	89,778	837	—	367,956
Other long-term obligations	—	48,151	32,989	—	81,140
Deferred income taxes	—	1,158	44,549	—	45,707
Long-term liabilities of discontinued operations	—	786	185	—	971
Stockholders' equity	547,253	828,394	581,431	(1,409,825)	547,253
Total Liabilities and Stockholders' Equity	\$880,540	\$1,068,918	\$ 747,211	\$(1,547,396)	\$ 1,149,273



## PART I (CONT'D)

## GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

For the Three months ended June 30, 2016

(in thousands)

	Parent	Guarantors	Non-Guarantors	Consolidating Entries and Eliminations	Consolidated
Sales - affiliates	\$—	\$38,238	\$16,081	\$ (54,319 )	\$—
Sales - third party	—	21,824	93,541	—	115,365
Net sales	—	60,062	109,622	(54,319 )	115,365
Cost of sales	—	43,760	130,825	(54,319 )	120,266
Additions to lower cost or market inventory reserve	—	1,761	1,743	—	3,504
Gross profit (loss)	—	14,541	(22,946 )	—	(8,405 )
Research and development	—	786	—	—	786
Selling and administrative expenses	—	3,716	9,707	—	13,423
Operating income (loss)	—	10,039	(32,653 )	—	(22,614 )
Other expense (income), net	—	472	(1,670 )	—	(1,198 )
Interest expense - affiliate	236	—	—	(236 )	—
Interest expense - third party	6,353	13	70	—	6,436
Interest income - affiliate	—	(236 )	—	236	—
Income (Loss) from continuing operations before provision for income taxes	(6,589 )	9,790	(31,053 )	—	(27,852 )
Provision for income taxes	—	238	(5,829 )	—	(5,591 )
Equity in loss from continuing operations of subsidiary	(15,672 )	(25,224 )	—	40,896	—
Net loss from continuing operations	(22,261 )	(15,672 )	(25,224 )	40,896	(22,261 )
Loss from discontinued operations, net of tax	—	(103,752 )	(2,386 )	—	(106,138 )
Equity in loss from discontinued operations of subsidiary	(106,138 )	(2,386 )	—	108,524	—
Net loss from discontinued operations	(106,138 )	(106,138 )	(2,386 )	108,524	(106,138 )
Net loss	\$(128,399)	\$(121,810)	\$(27,610)	\$ 149,420	\$(128,399)

Statements of  
Comprehensive Income (Loss)



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Net loss	\$(128,399)	\$(121,810)	\$(27,610 )	\$ 149,420	\$(128,399 )
Other comprehensive income	(936 )	(936 )	(936 )	1,872	(936 )
Comprehensive loss	\$(129,335)	\$(122,746)	\$(28,546 )	\$ 151,292	\$(129,335 )

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## PART I (CONT'D)

## GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

For the Three months ended June 30, 2017

(in thousands)

	Parent	Guarantors	Non-Guarantors	Consolidating Entries and Eliminations	Consolidated
Sales - affiliates	\$—	\$ 21,453	\$ 12,623	\$ (34,076 )	\$ —
Sales - third party	—	22,482	93,832	—	116,314
Net sales	—	43,935	106,455	(34,076 )	116,314
Cost of sales	—	45,314	95,185	(34,076 )	106,423
Additions to lower of cost or market inventory reserve	—	209	3	—	212
Gross (loss) profit	—	(1,588 )	11,267	—	9,679
Research and development	—	943	—	—	943
Selling and administrative expenses	—	3,970	8,225	—	12,195
Operating (loss) income	—	(6,501 )	3,042	—	(3,459 )
Other expense (income), net	(1 )	221	966	—	1,186
Interest expense - affiliate	788	—	—	(788 )	—
Interest expense - third party	6,391	1,423	88	—	7,902
Interest income - affiliate	—	(788 )	—	788	—
Interest income - third party	—	—	(139 )	—	(139 )
(Loss) income from continuing operations before provision for income taxes	(7,178 )	(7,357 )	2,127	—	(12,408 )
Provision for income taxes	—	123	802	—	925
Equity in loss from continuing operations of subsidiary	(6,155 )	1,325	—	4,830	—
Net (loss) income from continuing operations	(13,333 )	(6,155 )	1,325	4,830	(13,333 )
Income (loss) income from discontinued operations, net of tax	77	(3,638 )	(489 )	—	(4,050 )
Equity in loss from discontinued operations of subsidiary	(4,127 )	(489 )	—	4,616	—
Net loss from discontinued operations	(4,050 )	(4,127 )	(489 )	4,616	(4,050 )
Net (loss) income	\$(17,383)	\$(10,282 )	\$ 836	\$ 9,446	\$(17,383 )

Statements of  
Comprehensive Income (Loss)

Net (loss) income	\$ (17,383)	\$ (10,282 )	\$ 836	\$ 9,446	\$ (17,383 )
Other comprehensive income	8,755	8,755	8,755	(17,510 )	8,755
Comprehensive (loss) income	\$ (8,628 )	\$ (1,527 )	\$ 9,591	\$ (8,064 )	\$ (8,628 )

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## PART I (CONT'D)

## GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

For the Six Months Ended June 30, 2016

(in thousands)

	Parent	Guarantors	Non-Guarantors	Consolidating Entries and Eliminations	Consolidated
Sales - affiliates	\$—	\$79,137	\$35,724	\$ (114,861 )	\$—
Sales - third party	—	42,644	168,297	—	210,941
Net sales	—	121,781	204,021	(114,861 )	210,941
Cost of sales	—	105,414	227,143	(114,861 )	217,696
Additions to lower cost or market inventory reserve	—	3,782	10,843	—	14,625
Gross profit (loss)	—	12,585	(33,965 )	—	(21,380 )
Research and development	—	1,438	—	—	1,438
Selling and administrative expenses	—	9,789	17,426	—	27,215
Operating (loss) income	—	1,358	(51,391 )	—	(50,033 )
Other expense (income), net	6	742	(1,708 )	—	(960 )
Interest expense - affiliate	434	—	—	(434 )	—
Interest expense - third party	12,697	54	145	—	12,896
Interest income - affiliate	—	(434 )	—	434	—
Interest income - third party	—	—	(12 )	—	(12 )
Income (Loss) from continuing operations before provision for income taxes	(13,137 )	996	(49,816 )	—	(61,957 )
Provision for income taxes	—	255	(6,141 )	—	(5,886 )
Equity in loss from continuing operations of subsidiary	(42,934 )	(43,675 )	—	86,609	—
Net loss from continuing operations	(56,071 )	(42,934 )	(43,675 )	86,609	(56,071 )
Loss from discontinued operations, net of tax	—	(105,330 )	(3,372 )	—	(108,702 )
Equity in loss from discontinued operations of subsidiary	(108,702 )	(3,372 )	—	112,074	—
Net loss from discontinued operations	(108,702 )	(108,702 )	(3,372 )	112,074	(108,702 )
Net loss	\$(164,773 )	\$(151,636 )	\$(47,047 )	\$ 198,683	\$(164,773 )

Statements of

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Comprehensive Income (Loss)

Net loss	\$(164,773)	\$(151,636)	\$(47,047 )	\$ 198,683	\$(164,773 )
Other comprehensive income	11,701	11,701	11,701	(23,402 )	11,701
Comprehensive loss	\$(153,072)	\$(139,935)	\$(35,346 )	\$ 175,281	\$(153,072 )

## PART I (CONT'D)

## GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

For the Six Months Ended June 30, 2017

(in thousands)

	Parent	Guarantors	Non-Guarantors	Consolidating Entries and Eliminations	Consolidated
Sales - affiliates	\$—	\$ 46,797	\$ 24,708	\$ (71,505 )	\$ —
Sales - third party	—	44,363	176,690	—	221,053
Net sales	—	91,160	201,398	(71,505 )	221,053
Cost of sales	—	91,784	188,501	(71,505 )	208,780
Additions to lower of cost or market inventory reserve	—	934	575	—	1,509
Gross (loss) profit	—	(1,558 )	12,322	—	10,764
Research and development	—	1,772	—	—	1,772
Selling and administrative expenses	—	7,269	16,609	—	23,878
Operating loss	—	(10,599 )	(4,287 )	—	(14,886 )
Other expense (income), net	6	436	3,811	—	4,253
Interest expense - affiliate	1,447	—	—	(1,447 )	—
Interest expense - third party	12,771	2,475	202	—	15,448
Interest income - affiliate	—	(1,447 )	—	1,447	—
Interest income - third party	—	—	(262 )	—	(262 )
Loss from continuing operations before provision for income taxes	(14,224 )	(12,063 )	(8,038 )	—	(34,325 )
Provision for income taxes	—	254	1,032	—	1,286
Equity in loss from continuing operations of subsidiary	(21,387 )	(9,070 )	—	30,457	—
Net loss from continuing operations	(35,611 )	(21,387 )	(9,070 )	30,457	(35,611 )
Income (loss) from discontinued operations, net of tax	77	(7,780 )	(413 )	—	(8,116 )
Equity in loss from discontinued operations of subsidiary	(8,193 )	(413 )	—	8,606	—
Net loss from discontinued operations	(8,116 )	(8,193 )	(413 )	8,606	(8,116 )
Net loss	\$ (43,727 )	\$ (29,580 )	\$ (9,483 )	\$ 39,063	\$ (43,727 )

Statements of  
Comprehensive Income (Loss)

Net loss	\$ (43,727)	\$ (29,580 )	\$ (9,483 )	\$ 39,063	\$ (43,727 )
Other comprehensive income	13,595	13,595	13,595	(27,190 )	13,595
Comprehensive (loss) income	\$ (30,132)	\$ (15,985 )	\$ 4,112	\$ 11,873	\$ (30,132 )

## PART I (CONT'D)

## GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2016

(in thousands)

	Parent	Guarantors	Non-Guarantors	Consolidating Entries and Eliminations	Consolidated
Net cash (used in) provided by operating activities:	\$(9,568)	\$ 14,014	\$ 6,739	\$ —	\$ 11,185
Cash flow from investing activities:					
(Loans to) repayments from affiliates	—	(9,568 )	—	9,568	—
Capital expenditures	—	(4,825 )	(10,315 )	—	(15,140 )
Other	—	—	(721 )	—	(721 )
Proceeds from sale of fixed assets	—	458	99	—	557
Net cash (used in) provided by investing activities	—	(13,935 )	(10,937 )	9,568	(15,304 )
Cash flow from financing activities:					
Loans from (Repayments to) affiliates	9,568	—	—	(9,568 )	—
Short-term debt, net	—	6,002	5,002	—	11,004
Revolving Facility borrowings	—	27,000	5,000	—	32,000
Revolving Facility reductions	—	(32,000 )	—	—	(32,000 )
Principal payments on long term debt	—	(69 )	—	—	(69 )
Revolver facility refinancing	—	(922 )	—	—	(922 )
Net cash provided by (used in) financing activities	9,568	11	10,002	(9,568 )	10,013
Net change in cash and cash equivalents	—	90	5,804	—	5,894
Effect of exchange rate changes on cash and cash equivalents	—	—	588	—	588
Cash and cash equivalents at beginning of period	—	646	6,281	—	6,927
Cash and cash equivalents at end of period	\$—	\$ 736	\$ 12,673	\$ —	\$ 13,409



## PART I (CONT'D)

## GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2017

(in thousands)

	Parent	Guarantors	Non-Guarantors	Consolidating Entries and Eliminations	Consolidated
Net cash (used in) provided by operating activities:	\$(9,659)	\$ (1,514 )	\$ 39,265	\$ (24,619 )	\$ 3,473
Cash flow from investing activities:					
Loans to affiliates	—	(9,659 )	—	9,659	—
Capital expenditures	—	(1,497 )	(11,948 )	—	(13,445 )
Proceeds from sale of assets	—	114	3,042	—	3,156
Net cash (used in) provided by investing activities	—	(11,042 )	(8,906 )	9,659	(10,289 )
Cash flow from financing activities:					
Loans from affiliates	9,659	—	—	(9,659 )	—
Dividends to affiliates	—	—	(24,619 )	24,619	—
Short-term debt, net	—	802	(5,658 )	—	(4,856 )
Revolving Facility borrowings	—	30,000	—	—	30,000
Revolving Facility reductions	—	(18,000 )	—	—	(18,000 )
Principal payments on long term debt	—	(71 )	—	—	(71 )
Net cash provided by (used in) financing activities	9,659	12,731	(30,277 )	14,960	7,073
Net change in cash and cash equivalents	—	175	82	—	257
Effect of exchange rate changes on cash and cash equivalents	—	—	63	—	63
Cash and cash equivalents at beginning of period	—	636	10,974	—	11,610
Cash and cash equivalents at end of period	\$—	\$ 811	\$ 11,119	\$ —	\$ 11,930

PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(13) Subsequent Events

On July 3, 2017 we completed the sale of our Advanced Energy Technologies (AET) business. AET was a product line within our Engineered Solutions business which has been classified as held for sale since the second quarter of 2016. The sale resulted in cash proceeds of \$28.5 million and an additional impairment loss of \$2.8 million. The loss represented a condition that existed as of our balance sheet date and as such was recorded in our results for the three and six months ended June 30, 2017 as an impairment of long-lived assets within discontinued operations. See Note 2 "Discontinued Operations and Related Assets Held for Sale" for the results of our Engineered Solutions business and further background. In accordance with our Credit Facility, all proceeds from this sale were used to pay down our Revolving Facility and Term Loan.

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PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

(Unaudited)

Introduction to Part I, Item 2, and Part II, Item 1 and Item 1A

Important Terms. We define various terms to simplify the presentation of information in this Report. These terms, which definitions are incorporated herein by reference, are defined in “Part I – Preliminary Notes – Important Terms” of the Annual Report.

Presentation of Financial, Market and Legal Data. We present our financial information on a consolidated basis.

Unless otherwise noted, when we refer to dollars, we mean U.S. dollars.

Unless otherwise specifically noted, market and market share data in this Report are our own estimates or derived from sources described in “Part I – Preliminary Notes – Presentation of Financial, Market and Legal Data” in the Annual Report, which description is incorporated herein by reference. Our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed under “Forward Looking Statements and Risks” in this Report and “Forward Looking Statements” and “Risk Factors” in the Annual Report. We cannot guarantee the accuracy or completeness of this market and market share data and have not independently verified it. None of the sources has consented to the disclosure or use of data in this Report.

Reference is made to the Annual Report for background information on various risks and contingencies and other matters related to circumstances affecting us and our industry.

Neither any statement made in this Report nor any charge taken by us relating to any legal proceedings constitutes an admission as to any wrongdoing.

Forward Looking Statements

Forward Looking Statements and Risks. This Report contains forward looking statements. In addition, we or our representatives have made or may make forward looking statements on telephone or conference calls, by webcasts or emails, in person, in presentations or written materials, or otherwise. These include statements about such matters as future, targeted or expected (or the impact of current, future, expected or targeted): outlook for 2017 or beyond; operational and financial performance; growth prospects and rates; future or targeted profitability, cash flow, liquidity and capital resources, production rates, inventory levels and EBITDA; the impact of rationalization, product line change, cost and liquidity initiatives; changes in the operating rates or efficiency in our operations or our competitors' or customers' operations; product quality; diversification, new products, and product improvements and their impact on our business; the integration or impact of acquired businesses; divestitures, asset sales, investments and acquisitions that we may make in the future; possible debt or equity financing or refinancing (including factoring and supply chain financing) activities; the impact of customer bankruptcies; conditions and changes in the global financial and credit markets; possible changes in control of the Company and the impacts thereof; the impact of accounting changes; and currency exchange and interest rates and changes therein; changes in production capacity in our operations and our competitors' or customers' operations and the utilization rates of that capacity; growth rates for, prices and sales of, and demand for, our products and our customers' products; costs of materials and production, including increases or decreases therein, our ability to pass on any such increases in our product prices or impose surcharges thereon, or customer or market demand to reduce our prices due to such decreases; changes in customer order patterns due to changes in economic conditions; productivity, business process and operational initiatives; the markets we serve and our position in those markets; financing and refinancing activities; investments and acquisitions and the performance of the businesses underlying such acquisitions and investments; employment and contributions of key personnel; employee relations and collective bargaining agreements covering many of our operations; tax rates and the effects of jurisdictional mix; capital expenditures and changes therein; nature and timing of restructuring and rationalization charges and payments; inventory and supply chain management; customer and supplier contractual provisions and related opportunities and issues; competitive activities; strategic plans, initiatives and business projects; regional and global economic and industry market conditions, the timing and magnitude of changes in such conditions; interest rate management activities; currency rate management activities; deleveraging activities; rationalization, restructuring, realignment, strategic alliance, raw material and supply chain, technology development and collaboration, investment, acquisition, venture, operational, tax, financial and capital projects; legal proceedings,

investigations, contingencies, and environmental compliance including any regulatory initiatives with respect to greenhouse gas emissions; consulting projects; and costs, working capital, revenues, business opportunities, debt levels, cash flows, cost savings and reductions, margins, earnings and growth. The words “will,” “may,” “plan,” “estimate,” “project,” “believe,”

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PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

(Unaudited)

“anticipate,” “expect,” “intend,” “should,” “would,” “could,” “target,” “goal,” “continue to,” “positioned to” and similar expressions, identify some of these statements.

Our expectations and targets are not predictors of actual performance and historically our performance has deviated, often significantly, from our expectations and targets. Actual future events and circumstances (including future results and trends) could differ materially, positively or negatively, from those set forth in these statements due to various factors. These factors include:

the possibility that additions to capacity for producing EAF steel, increases in overall EAF steel production capacity, and increases or other changes in steel production may not occur or may not occur at the rates that we anticipate or may not be as geographically distributed as we anticipate;

the possibility that increases or decreases in graphite electrode manufacturing capacity (including growth by producers in developing countries), competitive pressures (including changes in, and the mix, distribution, and pricing of, competitive products), reduction in specific consumption rates, increases or decreases in customer inventory levels, or other changes in the graphite electrode markets may occur, which may impact demand for, prices or unit and dollar volume sales of graphite electrodes and growth or profitability of our graphite electrodes business;

the possible failure of changes in EAF steel production or graphite electrode production to result in stable or increased, or offset decreases in, graphite electrode demand, prices, or sales volume;

the possibility that a determination that we have failed to comply with one or more export controls or trade sanctions to which we are subject with respect to products or technology exported from the United States or other jurisdictions could result in civil or criminal penalties, denial of export privileges and loss of revenues from certain customers;

the possibility that, for all of our product lines, capital improvement and expansion in our customers' operations or increases in demand for their products may not occur or may not occur at the rates that we anticipate or the demand for their products may decline, which may affect their demand for the products we sell to them, which could affect our profitability and cash flows as well as the recoverability of our assets;

the possibility that assumptions related to future expectations of financial performance materially change and impact our goodwill and long-lived asset carrying values;

the possibility that our financial assumptions and expectations materially change as a result of government or state-owned government subsidies, incentives and trade barriers;

the possibility that current economic disruptions or other conditions may result in idling or permanent closing of blast furnace capacity or delay of blast furnace capacity additions or replacements which may affect demand and prices for our refractory products;

the possibility that continued global consolidation of the world's largest steel producers could impact our business or industry;

the possibility that average graphite electrode revenue per metric ton in the future may be different than current spot or market prices due to changes in product mix, changes in currency exchange rates, changes in competitive market conditions or other factors;

the possibility that price increases, adjustments or surcharges may not be realized or that price decreases may occur;

the possibility that current challenging economic conditions and economic demand reduction may continue to impact our revenues and costs;

the possibility that U.S., European, Chinese, or other governmental monetary or fiscal policy may adversely affect global economic activity and demand for our products;

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PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

(Unaudited)

the possibility that potential future cuts in defense spending by the United States government as a part of efforts to reduce federal budget deficits could reduce demand for certain of our products and associated revenue;

the possibility that decreases in prices for energy and raw materials may lead to downward pressure on prices for our products and delays in customer orders for our products as customers anticipate possible future lower prices;

the possibility that customers may delay or cancel orders;

the possibility that we may not be able to reduce production costs or delay or cancel raw material purchase commitments;

the possibility that economic, political and other risks associated with operating globally, including national and international conflicts, terrorist acts, political and economic instability, civil unrest, community activism and natural or nuclear calamities might interfere with our supply chains, customers or activities in a particular location;

the possibility that reductions in customers' production, increases in competitors' capacity, competitive pressures, or other changes in other markets we serve may occur, which may impact demand for, prices of or unit and dollar volume sales of, our other products, or growth or profitability of our other product lines, or change our position in such markets;

the possibility that we will not be able to hire and retain key personnel, maintain appropriate relations with unions, associations and employees or to renew or extend our collective bargaining or similar agreements on reasonable terms as they expire or do so without a work stoppage or strike;

the possibility that an adverse determination in litigation pending in Brazil involving disputes related to the proper interpretation of certain collectively bargained wage increase provisions applicable to both us and other employers in the Bahia region;

the possibility that our manufacturing capabilities may not be sufficient or that we may experience delays in expanding or fail to expand our manufacturing capacity to meet demand for existing, new or improved products;

the possibility that we may propose acquisitions or divestitures in the future, that we may not complete the acquisitions or divestitures, and that investments and acquisitions that we may make in the future may not be successfully integrated into our business or provide the performance or returns expected or that divestitures may not generate the proceeds anticipated;

the possibility that challenging conditions or changes in the capital markets will limit our ability to undertake refinancing activities or obtain financing for growth and other initiatives, on acceptable terms or at all;

the possibility that conditions or changes in the global equity markets may have a material impact on our future pension funding obligations and liabilities on our balance sheet;

the possibility that the amount or timing of our anticipated capital expenditures may be limited by our financial resources or financing arrangements or that our ability to complete capital projects may not occur timely enough to adapt to changes in market conditions or changes in regulatory requirements;

the possibility that the actual outcome of uncertainties associated with assumptions and estimates using judgment when applying critical accounting policies and preparing financial statements may have a material impact on our results of operations or financial position;

the possibility that we may be unable to protect our intellectual property or may infringe the intellectual property rights of others, resulting in damages, limitations on our ability to produce or sell products or limitations on our ability to prevent others from using that intellectual property to produce or sell products;

the occurrence of unanticipated events or circumstances or changing interpretations and enforcement agendas relating to legal proceedings or compliance programs;

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PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

(Unaudited)

the occurrence of unanticipated events or circumstances or changing interpretations and enforcement agendas relating to health, safety or environmental compliance or remediation obligations or liabilities to third parties or relating to labor relations;

the possibility that new or expanded regulatory initiatives with respect to greenhouse gas emissions could increase the capital intensive nature of our business and add to our costs of production;

the possibility that our provision for income taxes and effective income tax rate or cash tax rate may fluctuate significantly due to (i) changes in applicable tax rates or laws, (ii) changes in the sources of our income, (iii) changes in tax planning, (iv) new or changing interpretations of applicable regulations, (v) changes in profitability, (vi) changes in our estimate of our future ability to use foreign tax credits or other tax attributes, and (vii) other factors;

the possibility of changes in interest or currency exchange rates or in inflation or deflation;

the possibility that our outlook could be significantly impacted by, among other things, developments in North Africa, the Middle East, North Korea, and other areas of concern, the occurrence of further terrorist acts and developments resulting from the war on terrorism;

the possibility that interruption in our major raw material, energy or utility supplies due to, among other things, natural or nuclear disasters, process interruptions, actions by producers and capacity limitations, may adversely affect our ability to manufacture and supply our products or result in higher costs;

the possibility that the magnitude of changes in the cost of major raw materials, energy or utility suppliers by reason of shortages, changes in market pricing, pricing terms in applicable supply contracts, or other events may adversely affect our ability to manufacture and supply our products or result in higher costs;

the possibility of interruptions in production at our facilities due to, among other things, critical equipment failure, which may adversely affect our ability to manufacture and supply our products or result in higher costs;

the possibility that we may not achieve the earnings or other financial or operational metrics that we provide as guidance from time to time;

the possibility that the anticipated benefits from rationalizations and other cost savings initiatives may be delayed or may not occur, may vary in cost or may result in unanticipated disruptions;

the possibility of security breaches affecting our information technology systems;

the possibility that our disclosure or internal controls may become inadequate because of changes in conditions or personnel or that those controls may not operate effectively and may not prevent or detect misstatements or errors;

the possibility that severe economic conditions may adversely affect our business, liquidity or capital resources;

the possibility that delays may occur in the financial statement closing process;

the possibility of changes in performance that may affect financial covenant compliance or funds available for borrowing; and

other risks and uncertainties, including those described elsewhere in this Report or our other SEC filings, as well as future decisions by us.

Occurrence of any of the events or circumstance described above could also have a material adverse effect on our business, financial condition, results of operations or cash flows or the market price of our securities.

No assurance can be given that any future transaction about which forward looking statements may be made will be completed or as to the timing or terms of any such transaction.

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PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

(Unaudited)

All subsequent written and oral forward looking statements by or attributable to us or persons acting on our behalf are expressly qualified in their entirety by these factors. Except as otherwise required to be disclosed in periodic reports required to be filed by public companies with the SEC pursuant to the SEC's rules, we have no duty to update these statements.

For a more complete discussion of these and other factors, see "Risk Factors," in Part I, Item 1A of our 2016 Annual Report on Form 10-K.

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PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

(Unaudited)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Global Economic Conditions and Outlook

Outlook. We are impacted in varying degrees, both positively and negatively, as global, regional or country conditions fluctuate. Our discussions about market data and global economic conditions below are based on or derived from published industry accounts and statistics.

In its July, 2017 report, the International Monetary Fund (IMF) confirmed its April estimated global growth rate of 3.5 percent for 2017 and 3.6 percent for 2018. The IMF noted that the unchanged global growth projections mask somewhat different contributions at a country level. U.S. growth projections are lower than in April reflecting the assumption that fiscal policy will be less expansionary going forward than previously anticipated. Growth estimated for Japan and the Euro area have increased due to "positive surprises to activity in late 2016 and early 2017". Estimates for China have also been revised upwards since April 2017 due to a strong first quarter of 2017.

In its short range outlook released on April 21, 2017, the World Steel Association (WSA) forecasts that global steel demand will increase by 1.3% in 2017 to 1,535 million tons. This estimate is higher than the 1,510 million tons that WSA forecasted in October for 2017. WSA noted that "in 2017 and 2018 we will see a cyclical upturn in steel demand with a continuing recovery in the developed economies and an accelerating growth momentum in the emerging and developing economies." WSA estimates steel demand in developed countries will increase by 0.7% in 2017 and 1.2% in 2018. Estimated growth in emerging and developing countries excluding China is 4.0% in 2017 and 4.9% in 2018. Offsetting these increases is an estimated zero growth 2017 for Chinese steel demand followed by a decline in demand of 2% in 2018.

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## PART I (CONT'D)

## GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

(Unaudited)

## Results of Operations and Segment Review

The Three Months Ended June 30, 2016 Compared to the Three Months Ended June 30, 2017

The tables presented in our period-over-period comparisons summarize our Consolidated Statements of Operations and illustrate key financial indicators used to assess the consolidated financial results. Throughout our MD&A, insignificant changes may be deemed not meaningful and are generally excluded from the discussion.

	Three Months Ended	
	June 30,	
	2016	2017
	(Dollars in thousands)	
Net sales	\$115,365	\$116,314
Cost of sales	120,266	106,423
Additions to lower of cost or market inventory reserve	3,504	212
Gross profit (loss)	(8,405 )	9,679
Research and development	786	943
Selling and administrative expenses	13,423	12,195
Operating loss	(22,614 )	(3,459 )
Other expense (income), net	(1,198 )	1,186
Interest expense	6,436	7,902
Interest income	—	(139 )
Loss from continuing operations before provision for income taxes	(27,852 )	(12,408 )
Provision for (benefit from) income taxes	(5,591 )	925
Net loss from continuing operations	(22,261 )	(13,333 )
(Loss) Income from discontinued operations, net of tax	(106,138 )	(4,050 )
Net loss	\$(128,399)	\$(17,383)

Net sales. Net sales for our Industrial Materials segment increased modestly from \$115.4 million in the three months ended June 30, 2016 to \$116.3 million in the three months ended June 30, 2017. While volumes contributed approximately \$1.6 million of additional revenue, it was mostly negated by a negative foreign currency impact. The remainder of the increase was driven by approximately 2% increase in the weighted average sales price. This represents the first measurable period over period price increase since 2012. The price increase is driven by improved demand from our customers and limited supply resulting from industry-wide capacity reductions in graphite electrode production over the last three years.

Cost of sales. We experienced decreases in cost of sales from \$120.3 million in the three months ended June 30, 2016 compared to \$106.4 million in the three months ended June 30, 2017. This decrease was primarily the result of decreases in the price of raw materials, lower depreciation and increased utilization. Raw materials prices follow the crude oil pricing trends, and while oil prices began to fall in early 2016, the three months ended June 30, 2016 raw material costs reflected the higher priced decant oil purchases in 2015. Depreciation expense decreased due to the non-recurrence of a one-time depreciation charge in the second quarter of 2016 related to the idling of our St Mary's facility of approximately \$2.0 million. Additionally, we experienced lower overall depreciation expense as a result of purchase price adjustments that have fully depreciated. Increased utilization was driven primarily by our rationalization initiatives over the last three years, continued cost control initiatives and optimization of our graphite electrode plant capacity.

Lower of cost or market inventory adjustment. In the three months ended June 30, 2016, we incurred a lower of cost or market adjustment of \$3.5 million in certain product lines within our graphite electrode business reflecting decreased pricing. This adjustment totaled \$0.2 million in the same period of 2017. The decrease is attributable to

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## PART I (CONT'D)

## GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

(Unaudited)

the reduction in product costs and associated improvement on product margins in the six months ended June 30, 2017 as compared to the same period of 2016.

**Selling and administrative expenses.** Selling and administrative expenses have decreased from \$13.4 million in the three months ended June 30, 2016 to \$12.2 million in the three months ended June 30, 2017. This decrease was primarily driven by cost savings measures over the past three years.

**Other (Income) Expense.** Other expense decreased from an income of \$1.2 million in the three months ended June 30, 2016, to expense of \$1.2 million in the three months ended June 30, 2017 due to unfavorable foreign currency impacts on non-operating assets and liabilities, partially offset by interest income received as part of the resolution of a value added tax dispute in a foreign jurisdiction.

**Interest Expense.** Interest expense increased from \$6.4 million in the three months ended June 30, 2016, to \$7.9 million in the three months ended June 30, 2017 primarily due to an increase in the variable interest rate on our Revolving Credit Facility.

**Loss from Discontinued Operations.** Our loss from discontinued operations improved from a loss of \$106.1 million for the three months ended June 30, 2016 to a loss of \$4.1 million in the three months ended June 30, 2017. The 2016 results included an impairment of \$105.6 million to reduce the carrying value of the assets of Engineered Solutions down to the estimated fair market value. The three months ended June 30, 2017 included a similar charge of \$2.8 million.

**Segment operating income (loss).** The following table represents our operating income (loss) by segment:

	Three Months Ended June 30, 2016      2017	
	(Dollars in thousands)	
Industrial Materials	\$(16,291)	\$2,308
Corporate, R&D and Other Expenses	(6,323 )	(5,767 )
Total operating loss	\$(22,614)	\$(3,459)

**Provision for income taxes.** The following table summarizes the expense/(benefit) for income taxes:

	Three Months Ended June 30, 2016      2017	
	(Dollars in thousands)	
Tax expense (benefit)	\$(5,591)	\$925
Pretax loss	(27,852)	(12,408)
Effective tax rates	20.1 %	(7.5 )%

For the three months ended June 30, 2016 and 2017, the effective tax rate differs from the U.S. statutory rate of 35% primarily due to recent losses in foreign jurisdictions where a tax benefit will be recognized, offset by recent losses in the U.S. and Switzerland where we receive no tax benefit due to a full valuation allowance and worldwide earnings from various countries taxed at different rates. The recognition of the valuation allowance does not result in or limit the Company's ability to utilize these tax assets in the future.

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## PART I (CONT'D)

## GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

(Unaudited)

## The Six Months Ended June 30, 2016 Compared to the Six Months Ended June 30, 2017

The tables presented in our period-over-period comparisons summarize our Consolidated Statements of Operations and illustrate key financial indicators used to assess the consolidated financial results. Throughout our MD&A, insignificant changes may be deemed not meaningful and are generally excluded from the discussion.

	For the Six Months Ended June 30,	
	2016	2017
	(Dollars in thousands)	
Net sales	\$210,941	\$221,053
Cost of sales	217,696	208,780
Additions to lower of cost or market inventory reserve	14,625	1,509
Gross profit (loss)	(21,380 )	10,764
Research and development	1,438	1,772
Selling and administrative expenses	27,215	23,878
Operating loss	(50,033 )	(14,886 )
Other expense (income), net	(960 )	4,253
Interest expense	12,896	15,448
Interest income	(12 )	(262 )
Loss from continuing operations before provision for income taxes	(61,957 )	(34,325 )
Provision for (benefit from) income taxes	(5,886 )	1,286
Net loss from continuing operations	(56,071 )	(35,611 )
Loss from discontinued operations, net of tax	(108,702 )	(8,116 )
Net loss	\$(164,773)	\$(43,727)

Net sales. Net sales for our Industrial Materials segment increased from \$210.9 million in the six months ended June 30, 2016 to \$221.1 million in the six months ended June 30, 2017. The increase in sales volume of graphite electrodes in the first six months of 2017 as compared to the same period of 2016 contributed \$25.8 million of additional revenue. This increase was partially offset by a 7.4% decrease in the weighted average sales price of graphite electrodes. The increased volume is the result of an improvement in customer demand driven by growth in the EAF market.

Cost of sales. Cost of sales decreased from \$217.7 million in the six months ended June 30, 2016 to \$208.8 million in the six months ended June 30, 2017. This decrease was despite the increase in sales volume and driven primarily by decreases in the price of raw materials, lower depreciation and increased utilization. Raw materials prices follow crude oil pricing trends, and while oil prices began to fall in early 2016, the six months ended June 30, 2016 raw material costs reflected higher priced decant oil purchases in 2015. Depreciation expense decreased due to the non-recurrence of a one-time depreciation charge in the second quarter of 2016 related to the idling of our St Mary's facility of approximately \$2.0 million. Additionally, we experienced lower overall depreciation expense of approximately \$6.0 million as a result of purchase price adjustments that have fully depreciated. Increased utilization was driven primarily by our rationalization initiatives over the last three years, continued cost control initiatives and optimization of our graphite electrode plant capacity.

Lower of cost or market inventory adjustment. We incurred a lower of cost or market adjustment of \$14.6 million in the six months ended June 30, 2016 and \$1.5 million in the six months ended June 30, 2017 for certain product lines within our graphite electrode business. The year over year decrease is attributable to the reduction in product costs and associated improvement on product margins in the six months ended June 30, 2017 as compared to the same period of

2016.

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## PART I (CONT'D)

## GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

(Unaudited)

**Selling and general administrative.** Selling and general administrative expenses decreased from \$27.2 million in the six months ended June 30, 2016 compared to \$23.9 million in the six months ended June 30, 2017 driven primarily by continued cost reduction efforts.

**Other (Income) Expense.** Other expense decreased from income of \$1.0 million in the six months ended June 30, 2016, to expense of \$4.3 million in the six months ended June 30, 2017 due to disadvantageous foreign currency impacts on non-operating assets and liabilities, partially offset by interest income received as part of the resolution of a value added tax dispute in a foreign jurisdiction.

**Interest Expense.** Interest expense increased from \$12.9 million in the six months ended June 30, 2016 to \$15.4 million in the six months ended June 30, 2017 primarily due to increased borrowing costs on our Revolving Credit Facility.

**Loss from Discontinued Operations.** Results from our discontinued operations represented a loss of \$108.7 million in the six months ended June 30, 2016 and a loss of \$8.1 million in the six months ended June 30, 2017. The decrease in loss was primarily due to a \$105.6 million impairment charge to align the carrying value of assets held for sale to their estimated fair value in the six months ended June 30, 2016 compared to an impairment of \$5.3 million in the six months ended June 30, 2017.

**Segment operating income (loss).** The results discussed above are reflected in our operating income (loss) by segment as follows:

	For the Six Months Ended June 30,	
	2016	2017
	(Dollars in thousands)	
Industrial Materials	\$(36,538)	\$(4,090 )
Corporate, R&D and Other Expenses	(13,495 )	(10,796 )
Total operating loss	\$(50,033)	\$(14,886)

**Provision for income taxes.** The following table summarizes the expense/(benefit) for income taxes:

	For the Six Months Ended June 30,	
	2016	2017
	(Dollars in thousands)	
Tax expense (benefit)	\$(5,886)	\$1,286
Pretax loss	(61,957)	(34,325)
Effective tax rates	9.5 %	(3.7 )%

For the six months ended June 30, 2017 and 2016, the effective tax rate differs from the U.S. statutory rate of 35% primarily due to recent losses in foreign jurisdictions where a tax benefit will be recognized offset by recent losses in the U.S. and Switzerland where we receive no tax benefit due to a full valuation allowance and worldwide earnings from various countries tax at different rates. The recognition of the valuation allowance does not result in or limit the Company's ability to utilize these tax assets in the future.

**Effects of Changes in Currency Exchange Rates**

When the currencies of non-U.S. countries in which we have a manufacturing facility decline (or increase) in value relative to the U.S. dollar, this has the effect of reducing (or increasing) the U.S. dollar equivalent cost of sales and other expenses with respect to those facilities. In certain countries where we have manufacturing facilities, and in certain instances where we price our products for sale in export markets, we sell in currencies other than the dollar.

Accordingly, when these currencies increase (or decline) in value relative to the dollar, this has the effect of increasing (or reducing) net sales. The result of these effects is to increase (or decrease) operating profit and net income.

Many of the non-U.S. countries in which we have a manufacturing facility have been subject to significant economic and political changes, which have significantly impacted currency exchange rates. We cannot predict changes in currency exchange rates in the future or whether those changes will have net positive or negative impacts on our net sales, cost of sales or net income.

For net sales of Industrial Materials, the impact of changes in the average exchange rates of other currencies against the U.S. dollar for the six months ended June 30, 2017 was a decrease of \$1.8 million compared to the same period of 2016. The impact of the exchange rate changes on cost of sales of Industrial Materials for the six months ended June 30, 2017 was a decrease of \$3.4 million compared to the same period of 2016.



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PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

(Unaudited)

As part of our cash management, we also have intercompany loans between our subsidiaries. These loans are deemed to be temporary and, as a result, remeasurement gains and losses on these loans are recorded as currency gains / losses in other income (expense), net, on the Consolidated Statements of Operations.

The remeasurement of intercompany loans and the effect of transaction gains and losses on intercompany activities resulted in a loss of \$1.1 million in the six months ended June 30, 2016 compared to a loss of \$1.2 million in the six months ended June 30, 2017.

We have in the past and may in the future use various financial instruments to manage certain exposures to specific financial market risks caused by currency exchange rate changes, as described under "Part I, Item 3—Quantitative and Qualitative Disclosures about Market Risk".

Liquidity and Capital Resources

We believe that we have adequate liquidity to meet our needs. As of June 30, 2017, we had cash and cash equivalents of \$11.9 million, long-term debt of \$368.0 million, short-term debt of \$8.0 million and stockholder's equity of \$547 million.

On April 27, 2016, GrafTech and certain of its subsidiaries entered into an amendment to the Revolving Facility. As a result of the amendment, the size of the Revolving Facility was permanently reduced from \$375 million to \$225 million. New covenants were also added to the Revolving Facility, including a requirement to make mandatory repayments of outstanding amounts under the Revolving Facility and the Term Loan Facility with the proceeds of any sale of all or any substantial part of the assets included in the Engineered Solutions segment and a requirement to maintain minimum liquidity (consisting of domestic cash, cash equivalents and availability under the Revolving Facility) in excess of \$25 million. The covenants were also modified to provide for: the elimination of certain exceptions to the Company's negative covenants limiting the Company's ability to make certain investments, sell assets, make restricted payments, incur liens and incur debt; a restriction on the amount of cash and cash equivalents permitted to be held on the balance sheet at any one time without paying down the Revolving Facility; and changes to the Company's financial covenants so that, until the earlier of March 31, 2019 or the Company has \$75 million in trailing twelve month EBITDA, the Company is required to maintain trailing twelve month EBITDA above certain minimums ranging from (\$40 million) to \$35 million after which the Company's existing financial covenants under the Revolving Facility will apply.

With this amendment, the Company has full access to the \$225 million Revolving Facility, subject to the \$25 million minimum liquidity requirement. As of June 30, 2017, the Company had \$68.5 million of borrowings on the Revolving Facility and \$14.1 million of letters of credit drawn against the Revolving Facility. In addition to the Revolving Facility, the Company has \$29.5 million outstanding on its Term Loan Facility.

We use cash flow from operations and funds available under the Revolving Facility (subject to continued compliance with the financial covenants and representations under the Revolving Facility) as well as cash on hand as our primary sources of liquidity. The Revolving Facility and the Term Loan Facility both mature in April 2019. Under the Revolving Facility, we have additional flexibility for investments, capital expenditures and acquisitions and we can issue letters of credit under the Revolving Facility in an amount not to exceed \$35 million.

The interest rate applicable to the Revolving Facility and the Term Loan Facility is LIBOR plus a margin ranging from 2.25% to 4.75% (depending on our total senior secured leverage ratio). The borrowers pay a per annum fee ranging from 0.35% to 0.70% (depending on our senior secured leverage ratio) on the undrawn portion of the commitments under the Revolving Facility.

Senior Notes

On November 20, 2012, the Company issued \$300 million principal amount of 6.375% Senior Notes due 2020 (the "Senior Notes"). The Senior Notes are the Company's senior unsecured obligations and rank pari passu with all of the Company's existing and future senior unsecured indebtedness. The Senior Notes are guaranteed on a senior unsecured basis by each of the Company's existing and future subsidiaries that guarantee certain other indebtedness of the

Company or another guarantor. The Senior Notes bear interest at a rate of 6.375% per year, payable semi-annually in arrears on May 15 and November 15 of each year. The Senior Notes mature on November 15, 2020.

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GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

(Unaudited)

If, prior to maturity, a change in control (as defined in the indenture) of the Company occurs and thereafter certain downgrades of the ratings of the Senior Notes as specified in the indenture occur, the Company will be required to offer to repurchase any or all of the Senior Notes at a repurchase price equal to 101% of the aggregate principal amount of the Senior Notes, plus any accrued and unpaid interest.

As of December 31, 2016 and June 30, 2017, approximately 75% and 74% our debt, respectfully, consisted of fixed rate or zero interest rate obligations.

Cash Flow and Plans to Manage Liquidity. Our cash flow typically fluctuates significantly between quarters due to various factors. These factors include customer order patterns, fluctuations in working capital requirements, timing of capital expenditures, acquisitions and other factors.

The Company has access to a \$225 million Revolving Facility (subject to a \$25 million minimum liquidity requirement). As of June 30, 2017, the Company had \$68.5 million of borrowings and \$14.1 million of letters of credit, for a total of \$82.6 million drawn against the Revolving Facility.

Potential uses of our liquidity include capital expenditures, acquisitions, debt repayments and other general purposes, including cash outflows related to rationalization activities. Continued volatility in the global economy may require additional borrowings under the Revolving Facility. An improving economy, while resulting in improved results of operations, could increase our cash requirements to purchase inventories, make capital expenditures and fund payables and other obligations until increased accounts receivable are converted into cash. A downturn could significantly and negatively impact our results of operations and cash flows, which, coupled with increased borrowings, could negatively impact our credit ratings, our ability to comply with debt covenants, our ability to secure additional financing and the cost of such financing, if available.

In the event that operating cash flows fail to provide sufficient liquidity to meet our business needs, including capital expenditures, any such shortfall would need to be made up by increased borrowings under our Revolving Facility, to the extent available. We sold two of our Engineered Solutions businesses within the past nine months in accordance with our plan to divest the Engineered Solutions business. The cash proceeds from the sales were used to repay borrowings outstanding under the Revolving Facility and Term Loan Facility. We are currently marketing our final Engineered Solutions business and the proceeds from any potential sale would be used in the same manner. We cannot assure you that we will, or will be able to, consummate any such sales on acceptable terms or at all or as to the price, terms or conditions of any such sales.

As of June 30, 2017, we were in compliance with all financial and other covenants contained in the Revolving Facility, as applicable.

In order to seek to minimize our credit risks, we may reduce our sales of, or refuse to sell (except for cash on delivery or under letters of credit) our products to some customers and potential customers. In the current economic environment, our customers may experience liquidity shortages or difficulties in obtaining credit, including letters of credit. Our unrecovered trade receivables worldwide have not been material during the last 3 years individually or in the aggregate. We cannot assure you that we will not be materially adversely affected by accounts receivable losses in the future.

We manage our capital expenditures taking into account quality, plant reliability, safety, environmental and regulatory requirements, prudent or essential maintenance requirements, global economic conditions, available capital resources, liquidity, long-term business strategy and return on invested capital for the relevant expenditures, cost of capital and return on invested capital of the relevant segment and GrafTech as a whole, and other factors.

We had positive cash flow from operating activities during 2013, 2014, 2015, 2016 and through June 30, 2017.

Although the global economic environment experienced significant swings in these periods, our working capital management and cost-control initiatives allowed us to remain operating cash flow positive in both times of declining and improving operating results.

Related Party Transactions. We have not engaged in or been a party to any other material transactions with affiliates or related parties except for reimbursement of certain costs incurred by Brookfield as required under the Investment

Agreement, transactions with our current or former subsidiaries, compensatory transactions with directors and officers including employee benefits (including reimbursement to Brookfield for compensation costs incurred by it

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## PART I (CONT'D)

## GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

(Unaudited)

for certain personnel who devote substantially all of their working time to us), stock option and restricted stock grants, compensation deferral, stock purchases, and customary indemnification and expense advancement arrangements.

## Cash Flows.

The following table summarizes our cash flow activities:

	For the Six Months Ended June 30, 2016	For the Six Months Ended June 30, 2017
	in millions	
Cash flow provided by (used in):		
Operating activities	\$11.2	\$3.5
Investing activities	\$(15.3)	\$(10.3)
Financing activities	\$10.0	\$7.1

## Operating Activities

Cash flow from operating activities represents cash receipts and cash disbursements related to all of our activities other than investing and financing activities. Operating cash flow is derived by adjusting net income (loss) for:

- Non-cash items such as depreciation and amortization; post retirement obligations, severance and pension plan changes; and stock-based compensation charges;

- Gains and losses attributed to investing and financing activities such as gains and losses on the sale of assets and unrealized currency transaction gains and losses;

- Changes in operating assets and liabilities which reflect timing differences between the receipt and payment of cash associated with transactions and when they are recognized in results of operations.

The net impact of the changes in working capital (operating assets and liabilities), which are discussed in more detail below, include the impact of changes in: receivables, inventories, prepaid expenses, accounts payable, accrued liabilities, accrued taxes, interest payable, and payments of other current liabilities.

During the six months ended June 30, 2016, changes in working capital resulted in a net source of funds of \$24.5 million which was impacted by:

- net cash inflows in accounts receivable of \$5.2 million from the decrease in accounts receivable due to the collection of customer sales;

- net cash inflows from decreases in inventory of \$17.1 million, due primarily to inventory management initiatives;

- net cash outflows from increased prepaid expense of \$2.6 million due to value added tax payments;

- net cash inflows due to increase in accounts payable and accruals of \$6.8 million primarily resulting from timing of payments.

Other uses of cash in the six months ended June 30, 2016 included contributions to pension and other benefit plans of \$5.2 million.

During the six months ended June 30, 2017, changes in working capital resulted in a net source of funds of \$0.2 million which was impacted by:

- net cash inflows in accounts receivable of \$1.1 million from the decrease in accounts receivable due to the collection of customer sales;

- net cash inflows from decreases in inventory of \$6.0 million, due primarily to inventory management initiatives;

- net cash outflows from increased prepaid expense of \$1.5 million due to advanced payments;



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PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

(Unaudited)

net cash outflows due to decrease in accounts payable and accruals of \$5.5 million primarily resulting from timing of payments.

Other uses of cash in the six months ended June 30, 2017 included contributions to pension and other benefit plans of \$4.8 million.

Investing Activities

Net cash used in investing activities was \$15.3 million during the six months ended June 30, 2016 and included capital expenditures of \$15.1 million and \$0.7 million related to cash settlements of derivative instruments.

Net cash used in investing activities was \$10.3 million during the six months ended June 30, 2017 and included capital expenditures of \$13.4 million and proceeds from the sale of fixed assets of \$3.2 million.

Financing Activities

Net cash inflow from financing activities was \$10.0 million during the six months ended June 30, 2016, resulting from net borrowings under our Revolving Facility.

Net cash inflow from financing activities was \$7.1 million during the six months ended June 30, 2017, resulting from net borrowings under our Revolving Facility.

Restrictions on Dividends and Stock Repurchases

It has generally been the policy of our Board of Directors to retain earnings to finance strategic and other plans and programs, conduct business operations, fund acquisitions, meet obligations and repay debt. We did not pay any cash dividends in 2014, 2015 or 2016. We periodically review our dividend policy. We amended our Credit Facility on April 27, 2016 and, under the terms of the amendment, we are restricted from paying dividends.

Recent Accounting Pronouncements

We discuss recently adopted accounting standards in Note 1, "Organization and Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements.

Description of Our Financing Structure

We discuss our financing structure in more detail in Note 6, "Debt and Liquidity" of the Notes to Consolidated Financial Statements.

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PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

(Unaudited)

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks primarily from changes in interest rates, currency exchange rates, energy commodity prices and commercial energy rates. We, from time to time, routinely enter into various transactions that have been authorized according to documented policies and procedures to manage these well-defined risks. These transactions relate primarily to financial instruments described below. Since the counterparties to these financial instruments are large commercial banks and similar financial institutions, we do not believe that we are exposed to material counterparty credit risk. We do not use financial instruments for trading purposes.

Our exposure to changes in interest rates results primarily from floating rate long-term debt tied to LIBOR or Euro LIBOR. Our exposure to changes in currency exchange rates results primarily from:

- sales made by our subsidiaries in currencies other than local currencies;
- raw material purchases made by our foreign subsidiaries in currencies other than local currencies;
- and

investments in and intercompany loans to our foreign subsidiaries and our share of the earnings of those subsidiaries, to the extent denominated in currencies other than the dollar.

Our exposure to changes in energy commodity prices and commercial energy rates results primarily from the purchase or sale of refined oil products and the purchase of natural gas and electricity for use in our manufacturing operations.

**Currency Rate Management.** We enter into foreign currency derivatives from time to time to attempt to manage exposure to changes in currency exchange rates. These foreign currency derivatives, which include, but are not limited to, forward exchange contracts and purchased currency options, attempt to hedge global currency exposures. Forward exchange contracts are agreements to exchange different currencies at a specified future date and at a specified rate. Purchased foreign currency options are instruments which give the holder the right, but not the obligation, to exchange different currencies at a specified rate at a specified date or over a range of specified dates. Forward exchange contracts and purchased currency options are carried at market value.

The outstanding foreign currency derivatives as of December 31, 2016 represented a net unrealized loss of \$0.2 million. There were no net unrealized gains or losses as of June 30, 2017.

**Energy Commodity Management.** We periodically enter into commodity derivative contracts and short duration fixed rate purchase contracts to effectively fix some or all of our natural gas and refined oil product exposure. We had no outstanding commodity derivative contracts as of June 30, 2017.

**Interest Rate Risk Management.** We periodically implement interest rate management initiatives to seek to minimize our interest expense and the risk in our portfolio of fixed and variable interest rate obligations.

We periodically enter into agreements with financial institutions that are intended to limit, or cap, our exposure to incurrence of additional interest expense due to increases in variable interest rates. These instruments effectively cap our interest rate exposure. We currently do not have any such instruments outstanding.

**Sensitivity Analysis.** We use sensitivity analysis to quantify potential impacts that market rate changes may have on the fair values of our foreign currency derivatives and our commodity derivatives. The sensitivity analysis represents the hypothetical changes in value of the hedge position and does not reflect the related gain or loss on the forecasted underlying transaction. As of June 30, 2017, a 10% appreciation or depreciation in the value of the U.S. dollar against foreign currencies from the prevailing market rates would result in a corresponding decrease of \$0.9 million or a corresponding increase of \$0.9 million, respectively, in the fair value of the foreign currency hedge portfolio. Because of the high correlation between the hedging instrument and the underlying exposure, fluctuations in the value of the instruments are generally offset by reciprocal changes in the value of the underlying exposure.

We had no interest rate derivative instruments outstanding as of June 30, 2017. A hypothetical increase in interest rates of 100 basis points (1%) would have increased our interest expense by \$0.5 million for the six months ended June 30, 2017.





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PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

(Unaudited)

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Management is responsible for establishing and maintaining adequate disclosure controls and procedures at the reasonable assurance level. Disclosure controls and procedures are designed to ensure that information required to be disclosed by a reporting company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by it in the reports that it files under the Exchange Act is accumulated and communicated to management, including the chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2017. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these controls and procedures are effective at the reasonable assurance level as of June 30, 2017.

Changes in Internal Controls over Financial Reporting. There have been no changes in our internal controls over financial reporting that occurred during the three months ended June 30, 2017 that materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

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PART II. OTHER INFORMATION

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

Item 1. Legal Proceedings

Additional information required by this Item is set forth in Note 10, "Contingencies" of the Notes to Consolidated Financial Statements and is incorporated herein by reference.

Item 1A. Risk Factors

There have been no material changes to the Risk Factors disclosed in Part I-Item IA of the Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not Applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information.

Not Applicable

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PART II. OTHER INFORMATION

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

Item 6. Exhibits

The exhibits listed in the following table have been filed as part of this Report.

Exhibit Number	Description of Exhibit
31.1	Certification pursuant to Rule 13a-14(a) under the Exchange Act by Jeffrey C. Dutton, President and Chief Executive Officer (Principal Executive Officer).
31.2	Certification pursuant to Rule 13a-14(a) under the Exchange Act by Quinn J Coburn, Vice President and Chief Financial Officer (Principal Financial Officer).
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Jeffrey C. Dutton, President and Chief Executive Officer (Principal Executive Officer).
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Quinn J Coburn, Vice President and Chief Financial Officer (Principal Financial Officer).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURE

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.

GRAFTECH INTERNATIONAL LTD.

Date: August 2, 2017 By: /s/ Quinn J. Coburn

Quinn J. Coburn

Vice President and Chief Financial

Officer (Principal Financial Officer)