

GRAFTECH INTERNATIONAL LTD

Form 10-Q

August 11, 2014

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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, 2014

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)

12900 Snow Road 44130
Parma, 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
Non-Accelerated Filer Smaller Reporting Company

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

As of July 15, 2014, 136,177,470 shares of common stock, par value \$.01 per share, were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)

(Unaudited)

| | As of December 31, 2013 | As of June 30, 2014 | |
|---|----------------------------|---------------------------|---|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 11,888 | \$ 20,728 | |
| Accounts and notes receivable, net of allowance for doubtful accounts of \$6,718 as of December 31, 2013 and \$8,563 as of June 30, 2014 | 199,566 | 177,541 | |
| Inventories | 490,414 | 450,421 | |
| Prepaid expenses and other current assets | 73,790 | 93,693 | |
| Total current assets | 775,658 | 742,383 | |
| Property, plant and equipment | 1,588,880 | 1,621,461 | |
| Less: accumulated depreciation | 767,895 | 938,677 | |
| Net property, plant and equipment | 820,985 | 682,784 | |
| Deferred income taxes | 10,334 | 12,059 | |
| Goodwill | 496,810 | 496,335 | |
| Other assets | 114,061 | 110,277 | |
| Total assets | \$ 2,217,848 | \$ 2,043,838 | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 115,212 | \$ 122,428 | |
| Short-term debt | 1,161 | 142 | |
| Accrued income and other taxes | 30,687 | 23,019 | |
| Rationalizations | 18,421 | 3,592 | |
| Supply chain financing liability | 9,455 | — | |
| Other accrued liabilities | 40,939 | 38,447 | |
| Total current liabilities | 215,875 | 187,628 | |
| Long-term debt | 541,593 | 551,533 | |
| Other long-term obligations | 97,947 | 95,892 | |
| Deferred income taxes | 41,684 | 44,403 | |
| Contingencies – Note 12 | | | |
| Stockholders' equity: | | | |
| Preferred stock, par value \$.01, 10,000,000 shares authorized, none issued | — | — | |
| Common stock, par value \$.01, 225,000,000 shares authorized, 151,929,565 shares issued as of December 31, 2013 and 152,450,629 shares issued as of June 30, 2014 | 1,519 | 1,525 | |
| Additional paid-in capital | 1,820,451 | 1,826,776 | |
| Accumulated other comprehensive loss | (292,624 |) (290,313 |) |
| Retained earnings | 39,625 | (127,325 |) |
| Less: cost of common stock held in treasury, 16,341,311 shares as of December 31, 2013 and 16,223,318 shares as of June 30, 2014 | (247,190 |) (245,221 |) |
| Less: common stock held in employee benefit and compensation trusts, 87,206 shares as of December 31, 2013 and 89,703 shares as of | (1,032 |) (1,060 |) |

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| June 30, 2014 | | |
|---|-------------|-------------|
| Total stockholders' equity | 1,320,749 | 1,164,382 |
| Total liabilities and stockholders' equity | \$2,217,848 | \$2,043,838 |
| See accompanying Notes to Consolidated Financial Statements | | |

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CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Dollars in thousands, except per share amounts)

(Unaudited)

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|--|---|--------------|---|--------------|
| | 2013 | 2014 | 2013 | 2014 |
| CONSOLIDATED STATEMENTS OF OPERATIONS | | | | |
| Net sales | \$301,361 | \$284,184 | \$555,088 | \$564,975 |
| Cost of sales | 252,440 | 266,231 | 457,617 | 521,328 |
| Gross profit | 48,921 | 17,953 | 97,471 | 43,647 |
| Research and development | 2,787 | 2,903 | 5,880 | 5,673 |
| Selling and administrative expenses | 30,161 | 32,137 | 59,874 | 62,044 |
| Rationalizations | — | 831 | — | 917 |
| Impairments | — | 121,570 | — | 121,570 |
| Operating income (loss) | 15,973 | (139,488) | 31,717 | (146,557) |
| Other expense, net | 975 | (41) | 1,525 | 753 |
| Interest expense | 8,947 | 9,155 | 17,955 | 18,154 |
| Interest income | (49) | (55) | (113) | (113) |
| Income (loss) before provision for income taxes | 6,100 | (148,547) | 12,350 | (165,351) |
| Provision for income taxes | 1,718 | 6,886 | 3,758 | 1,599 |
| Net income (loss) | \$4,382 | \$(155,433) | \$8,592 | \$(166,950) |
| Basic income (loss) per common share: | | | | |
| Net income (loss) per share | \$0.03 | \$(1.14) | \$0.06 | \$(1.23) |
| Weighted average common shares outstanding | 134,854 | 135,963 | 134,816 | 135,713 |
| Diluted income (loss) per common share: | | | | |
| Net income (loss) per share | \$0.03 | \$(1.14) | \$0.06 | \$(1.23) |
| Weighted average common shares outstanding | 135,056 | 135,963 | 134,988 | 135,713 |
| STATEMENTS OF COMPREHENSIVE INCOME | | | | |
| Net income (loss) | \$4,382 | \$(155,433) | \$8,592 | \$(166,950) |
| Other comprehensive income: | | | | |
| Foreign currency translation adjustments | (9,823) | (240) | (17,132) | 2,147 |
| Commodities and foreign currency derivatives and other, net of tax of (\$307), (\$169), \$116 and (\$53), respectively | (3,326) | 479 | 207 | 164 |
| Other comprehensive (loss) income, net of tax: | (13,149) | 239 | (16,925) | 2,311 |
| Comprehensive income (loss) | \$(8,767) | \$(155,194) | \$(8,333) | \$(164,639) |

See accompanying Notes to Consolidated Financial Statements

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

(Dollars in thousands)

(Unaudited)

| | For the Six Months Ended | |
|---|--------------------------|--------------|
| | June 30, | |
| | 2013 | 2014 |
| Cash flow from operating activities: | | |
| Net income (loss) | \$8,592 | \$(166,950) |
| Adjustments to reconcile net income to cash provided by operations: | | |
| Depreciation and amortization | 44,868 | 66,507 |
| Impairments | — | 121,570 |
| Deferred income tax provision | 277 | (1,724) |
| Post-retirement and pension plan changes | 2,242 | 3,093 |
| Stock-based compensation | 3,745 | 2,752 |
| Interest expense | 6,919 | 7,471 |
| Other charges, net | 1,420 | 2,783 |
| (Increase) decrease in working capital* | (51,016) | 30,416 |
| Increase in long-term assets and liabilities | (5,401) | (10,018) |
| Net cash provided by operating activities | 11,646 | 55,900 |
| Cash flow from investing activities: | | |
| Capital expenditures | (38,518) | (46,464) |
| Proceeds from the sale of assets | — | 2,523 |
| Proceeds from (payments for) derivative instruments | 1,472 | (194) |
| Insurance recoveries | 284 | 2,834 |
| Net cash used in investing activities | (36,762) | (41,301) |
| Cash flow from financing activities: | | |
| Short-term debt reductions, net | (5,649) | (1,019) |
| Revolving Facility borrowings | 111,000 | 209,000 |
| Revolving Facility reductions | (70,500) | (205,000) |
| Principal payments on long-term debt | (140) | (126) |
| Supply chain financing | (8,369) | (9,455) |
| Proceeds from exercise of stock options | 175 | 2,813 |
| Purchase of treasury shares | (709) | (435) |
| Revolver facility refinancing | — | (2,636) |
| Other | (6,440) | 918 |
| Net cash provided by (used in) financing activities | 19,368 | (5,940) |
| Net (decrease) increase in cash and cash equivalents | (5,748) | 8,659 |
| Effect of exchange rate changes on cash and cash equivalents | (583) | 181 |
| Cash and cash equivalents at beginning of period | 17,317 | 11,888 |
| Cash and cash equivalents at end of period | \$10,986 | \$20,728 |

* Net change in working capital due to the following components:

| | | |
|---|-----------|-----------|
| Change in current assets: | | |
| Accounts and notes receivable, net | \$28,076 | \$22,158 |
| Inventories | (33,384) | 42,298 |
| Prepaid expenses and other current assets | (16,362) | (18,660) |
| Decrease in accounts payable and accruals | (29,741) | (284) |
| Rationalizations | — | (15,076) |

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| | | | |
|---|-----------|-----|----------|
| Increase (decrease) in interest payable | 395 | (20 |) |
| (Increase) decrease in working capital | \$(51,016 |) | \$30,416 |

See accompanying Notes to Consolidated Financial Statements

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

(1) Organization and Summary of Significant Accounting Policies

A. Organization

GrafTech International Ltd. is one of the world's largest manufacturers and providers of high quality synthetic and natural graphite and carbon based products. References herein to "GTI," "we," "our," or "us" refer collectively to GrafTech International Ltd. and its subsidiaries. We have seven major product categories: graphite electrodes, refractory products, needle coke products, advanced electronics technologies, advanced graphite materials, advanced composite materials and advanced materials, which are reported in the following segments:

Industrial Materials includes graphite electrodes, refractory products, and needle coke products, and primarily serves the steel industry.

Engineered Solutions includes advanced electronics technologies, advanced graphite materials, advanced composite materials and advanced materials, and provides primary and specialty products to the advanced electronics, industrial, energy, transportation and defense industries.

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"). December 31, 2013 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, 2013 (the "Annual Report") but does not include all disclosures required by GAAP. 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 period 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 July 2013, the Financial Accounting Standards Board ("FASB") issued guidance on Income Taxes titled "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." This guidance requires that financial statements reflect a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward as reduced by any unrecognized tax benefit, or a portion of an unrecognized tax benefit. The updated guidance became effective for the Company's interim and annual periods beginning after December 15, 2013. We adopted the guidance effective January 1, 2014 and its implementation did not have a material impact to our financial statements.

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. The standard 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 company expects to be entitled in exchange for those goods or services. This ASU is effective for fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years. The Company is in the process of assessing the impact of the adoption of ASU 2014-09 on its financial position, results of operations and cash flows.

(2) Rationalizations and Impairments

2013 Industrial Materials Rationalization

On October 31, 2013, we announced a global initiative to reduce our Industrial Materials segment's cost base and improve our competitive position. As part of this initiative, we ceased production at our two highest cost graphite electrode plants, located in Brazil and South Africa, as well as a machine shop in Russia. These actions are

substantially

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

complete as of June 30, 2014. Our graphite electrode capacity was reduced by approximately 60,000 metric tons as a result of these actions. In parallel, we adopted measures for reductions in overhead and related corporate operations. These actions and measures are expected to reduce global headcount by approximately 600 people or approximately 20 percent of our global workforce.

2013 Engineered Solutions Rationalization

In order to optimize our Engineered Solutions platform and improve our cost structure, we also initiated actions to centralize certain operations and reduce overhead in our Engineered Solutions segment. These actions are expected to reduce global headcount by approximately 40 people and be substantially completed during 2014.

Total 2013 Rationalization Initiatives Impact to 2014 Financial Results

In the three and six months ended June 30, 2014, as a result of the 2013 rationalization initiatives we incurred rationalization charges of \$0.8 million and \$0.9 million, primarily related to contract termination costs. We also incurred non-cash accelerated depreciation charges of \$4.2 million and \$21.7 million in the three and six months ended June 30, 2014, respectively. Other rationalization-related charges recorded in cost of sales in the three and six months ended June 30, 2014 were \$4.9 million and \$5.2 million, respectively, and included cleaning and dismantling costs and loss reserves for inventory.

Charges incurred related to the 2013 rationalization initiatives for the three and six months ended June 30, 2014 are as follows:

| | For the Three Months Ended June 30, 2014 | | | For the Six Months Ended June 30, 2014 | | |
|---|--|--|----------|--|--|----------|
| | Industrial Materials Segment (Dollars in thousands) | Engineered Solutions Segment (Dollars in thousands) | Total | Industrial Materials Segment (Dollars in thousands) | Engineered Solutions Segment (Dollars in thousands) | Total |
| Accelerated depreciation (recorded in Cost of sales) | \$3,832 | \$413 | \$4,245 | \$20,852 | \$826 | \$21,678 |
| Other (recorded in Cost of sales) | 4,255 | 625 | 4,880 | 4,576 | 615 | 5,191 |
| Other (recorded in Selling and administrative) | 54 | — | 54 | 79 | — | 79 |
| Severance and related costs (recorded in Rationalizations) | 831 | — | 831 | 945 | (28) | 917 |
| Total rationalization and related charges | \$8,972 | \$1,038 | \$10,010 | \$26,452 | \$1,413 | \$27,865 |

The 2013 rationalization initiatives will result in approximately \$95 million of pre-tax charges, of which approximately \$25 million will be cash outlays (net of cash inflows). Through June 30, 2014, we incurred \$93.6 million of expense related to these initiatives.

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

The following table represents the roll-forward of the liability incurred for employee termination benefits and contract termination costs incurred in connection with the 2013 rationalization initiatives described above. This liability is recorded as a current liability on the Consolidated Balance Sheet.

| | |
|---|---------------------------|
| | (Dollars in thousands) |
| Balance as of December 31, 2013 | \$ 18,421 |
| Charges incurred | 609 |
| Change in estimates | 308 |
| Payments and settlements | (15,993) |
| Effect of change in currency exchange rates | 247 |
| Balance as of June 30, 2014 | \$ 3,592 |

2014 Engineered Solutions Rationalization

On July 29, 2014, we announced additional rationalization initiatives to increase profitability, reduce cost and improve global competitiveness in our Engineered Solutions segment. During the second quarter of 2014, worldwide pricing of our isomolded graphite products ("isomolded") within our Advanced Graphite Material ("AGM") product group, as well as our expectation of future pricing significantly eroded, driven by significant over-capacity and recent competitor responses. In addition, the solar production has continued to erode with poly-silicone, silicone and silicone wafer production migrating to China. New competitors servicing this industry have commenced production in China at pricing levels making the market now unprofitable. As a result of these conditions, the Company has decided to cease isomolded production and pursue an alternative supply chain relationships in our isomolded product line.

As a result of the above, we tested our long-lived assets used to produce advanced graphite materials for recovery, based on undiscounted cash flows from the use and eventual disposition of these assets. The carrying value of the assets exceeded these undiscounted cash flows, and accordingly, we estimated the fair-value of long-lived assets based on a market participant view. This impairment charge totaled \$121.6 million in the three months ended June 30, 2014, and included the impairment of certain acquired customer relationship and technology intangible assets. Goodwill associated with this line of business of \$0.4 million was fully impaired, and included in the \$121.6 million charge. Other impairment related charges, primarily inventory write-downs, were \$10.6 million in the three months ended June 30, 2014. If business conditions and plans do not achieve our expected returns in the Engineered Solutions segment, we may undertake additional restructurings, rationalizations or similar actions which could result in additional charges, write-offs and impairments.

Severance and other related expected costs of these actions, including the costs to relocate certain fixed assets, are expected to result in approximately \$12 million of additional charges. Approximately \$7 million of these additional costs will be cash outlays, the majority of which will be incurred in 2014.

| | |
|---|--|
| | For the Three and Six Months Ended June 30, 2014 (Dollars in thousands) |
| Impairments (recorded in Impairments) | \$ 121,570 |
| Other (recorded in Cost of sales) | 10,563 |
| Total 2014 Engineered Solutions rationalization | \$ 132,133 |

and related charges

(3) Stock-Based Compensation

For the three months ended June 30, 2013 and 2014, we recognized stock-based compensation expense totaling \$1.4 million and \$2.2 million, respectively. A majority of the expense, \$1.3 million and \$1.6 million, respectively, was recorded as selling and administrative expenses in the Consolidated Statements of Operations, with the remaining expenses recorded as cost of sales and research and development. Stock-based compensation expense in the three

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PART I (CONT'D)
 GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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months ended June 30, 2013 was positively impacted by a \$1.3 million adjustment to compensation expense due to changes in share multiples for certain performance share units.

For the six months ended June 30, 2013 and 2014, we recognized stock-based compensation expense of \$3.7 million and \$2.8 million, respectively. A majority of the expense, \$3.4 million and \$2.1 million, respectively, was recorded as selling and administrative expenses in the Consolidated Statements of Operations, with the remaining expenses recorded as cost of sales and research and development.

As of June 30, 2014, the total compensation cost related to non-vested restricted stock, performance shares and stock options not yet recognized was \$10.9 million, which will be recognized over the remaining weighted average life of 1.5 years.

Restricted Stock and Performance Shares

Restricted stock and performance share awards activity under the plans for the six months ended June 30, 2014 was:

| | Number of Shares | Weighted- Average Grant Date Fair Value |
|--|---------------------|--|
| Outstanding unvested as of January 1, 2014 | 1,633,491 | \$10.98 |
| Granted | 209,600 | 10.60 |
| Vested | (125,434) | 12.92 |
| Forfeited/canceled/expired | (725,136) | 10.07 |
| Outstanding unvested as of June 30, 2014 | 992,521 | 11.32 |

Stock Options

Stock option activity under the plans for the six months ended June 30, 2014 was:

| | Number of Shares | Weighted- Average Exercise Price |
|--|---------------------|---|
| Outstanding as of January 1, 2014 | 1,916,718 | \$12.47 |
| Granted | 145,034 | 11.56 |
| Forfeited/canceled/expired | (164,572) | 11.60 |
| Exercised | (316,733) | 8.88 |
| Outstanding unvested as of June 30, 2014 | 1,580,447 | 13.19 |

(4) Earnings per Share

The following table shows the information used in the calculation of our share counts for basic and diluted earnings per share:

| | For the Three Months Ended | | For the Six Months Ended | |
|--|----------------------------|-------------|--------------------------|-------------|
| | June 30, 2013 | 2014 | June 30, 2013 | 2014 |
| Weighted average common shares outstanding for basic calculation | 134,854,024 | 135,963,054 | 134,816,074 | 135,713,004 |
| Add: Effect of stock options and restricted stock | 201,809 | — | 171,517 | — |
| Weighted average common shares outstanding for diluted calculation | 135,055,833 | 135,963,054 | 134,987,591 | 135,713,004 |

PART I (CONT'D)
 GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Basic earnings per common share are calculated by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted earnings per share are calculated by dividing net income (loss) by the sum of the weighted average number of common shares outstanding plus the additional common shares that would have been outstanding if potentially dilutive securities had been issued.

The weighted average common shares outstanding for the diluted earnings per share calculation excludes consideration of stock options covering 870,657 shares and 1,590,814 shares in the three and six months ended June 30, 2013, respectively.

(5) Segment Reporting

We operate in two reportable segments: Industrial Materials and Engineered Solutions.

Industrial Materials. Our Industrial materials Segment manufactures and delivers high quality graphite electrodes, refractory products and needle coke products. Electrodes are key components of the conductive power systems used to produce steel and other non-ferrous metals. Refractory products are used in blast furnaces and submerged arc furnaces due to their high thermal conductivity and the ease with which they can be machined to large or complex shapes. 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.

Engineered Solutions. The Engineered Solutions segment includes advanced electronics technologies, advanced graphite materials, advanced composite materials and advanced materials. Advanced electronics technologies products consist of electronic thermal management solutions, fuel cell components and sealing materials. Advanced graphite materials are highly engineered synthetic graphite products used in many areas due to their unique properties and the ability to tailor them to specific solutions. These products are used in transportation, alternative energy, metallurgical, chemical, oil and gas exploration and various other industries. Advanced composite materials are highly engineered carbon products that are woven into various shapes primarily to support the aerospace and defense industries.

Advanced materials use carbon and graphite powders as components or additives in a variety of industries, including metallurgical processing, battery and fuel cell components, and polymer additives.

We continue to evaluate the performance of our segments based on segment operating income. Intersegment sales and transfers are not material and the accounting policies of the reportable segments are the same as those for our Consolidated Financial Statements as a whole. Corporate expenses are allocated to segments based on each segment's percentage of consolidated net sales.

The following tables summarize financial information concerning our reportable segments:

| | For the Three Months Ended | | For the Six Months Ended | |
|---------------------------------------|----------------------------|--------------|--------------------------|--------------|
| | June 30, 2013 | 2014 | June 30, 2013 | 2014 |
| | (Dollars in thousands) | | (Dollars in thousands) | |
| Net sales to external customers: | | | | |
| Industrial Materials | \$231,339 | \$206,655 | \$440,116 | \$425,431 |
| Engineered Solutions | 70,022 | 77,529 | 114,972 | 139,544 |
| Total net sales | \$301,361 | \$284,184 | \$555,088 | \$564,975 |
| Segment operating income (loss): | | | | |
| Industrial Materials | \$7,530 | \$(11,366) | \$23,608 | \$(20,790) |
| Engineered Solutions | 8,443 | (128,122) | 8,109 | (125,767) |
| Total segment operating income (loss) | \$15,973 | \$(139,488) | \$31,717 | \$(146,557) |

Reconciliation of segment operating income (loss) to

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| | | | | |
|---|---------|--------------|----------|--------------|
| income (loss) before provision for income taxes | | | | |
| Other expense (income), net | \$975 | \$(41) | \$1,525 | \$753 |
| Interest expense | 8,947 | 9,155 | 17,955 | 18,154 |
| Interest income | (49) | (55) | (113) | (113) |
| Income (loss) before provision for income taxes | \$6,100 | \$(148,547) | \$12,350 | \$(165,351) |

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

Assets are managed based on geographic location because certain reportable segments share certain facilities. Assets by reportable segment are estimated based on the value of long-lived assets at each location and the activities performed at the location. As a result of the rationalization initiatives and related impairments discussed in Note 2, the carrying value of our long-lived assets has changed significantly since December 31, 2013, particularly in our Engineered Solutions segment. The following is a summary of long-lived assets by reportable segment.

| | As of December 31, 2013 | As of June 30, 2014 |
|-------------------------|-------------------------------|------------------------|
| | (Dollars in thousands) | |
| Long-lived assets (a): | | |
| Industrial Materials. | \$ 601,322 | \$ 586,305 |
| Engineered Solutions | 219,663 | 96,479 |
| Total long-lived assets | \$ 820,985 | \$ 682,784 |

(6) Benefit Plans

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

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|------------------------------------|---|----------|---|----------|
| | 2013 | 2014 | 2013 | 2014 |
| | (Dollars in thousands) | | (Dollars in thousands) | |
| Service cost | \$489 | \$473 | \$978 | \$946 |
| Interest cost | 1,985 | 2,169 | 3,970 | 4,338 |
| Expected return on plan assets | (1,706) | (1,938) | (3,412) | (3,876) |
| Amortization of prior service cost | 6 | 1 | 12 | 2 |
| Net cost | \$774 | \$705 | \$1,548 | \$1,410 |

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

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---------------------------------------|---|---------|---|---------|
| | 2013 | 2014 | 2013 | 2014 |
| | (Dollars in thousands) | | (Dollars in thousands) | |
| Service cost | \$28 | \$19 | \$56 | \$38 |
| Interest cost | 331 | 352 | 662 | 704 |
| Curtailement loss | — | 1,048 | — | 1,048 |
| Amortization of prior service benefit | (50) | (47) | (100) | (94) |
| Net cost | \$309 | \$1,372 | \$618 | \$1,696 |

(7) 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 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.

Our annual impairment test of goodwill was performed as of December 31, 2013 for all reporting units. The estimated fair values of our reporting units were based on discounted cash flow models derived from internal earnings forecasts and assumptions. The assumptions and estimates used in these valuations incorporated the current and expected economic environment. Based on these valuations, the fair value substantially exceeded our net asset value.

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In addition to the quantitative analysis, we qualitatively assessed our reporting units and believe that the quantitative analysis supporting the fair value in excess of the carrying value was appropriate.

As a result of the deteriorating market conditions impacting our AGM product group, as discussed in Note 2, we performed a goodwill impairment test as of June 30, 2014 for the \$0.4 million of goodwill assigned to our AGM reporting unit. As a result of this test, it was determined that the full \$0.4 million of goodwill was impaired, and thus written off.

We evaluated other potential triggering events and did not note any events which would indicate that it is more likely than not that the carrying value of the remaining goodwill would be greater than fair value as of June 30, 2014. However, a further deterioration in the global economic environments or in any of the input assumptions in our calculation could adversely affect the fair value of our reporting units and result in an impairment of some or all of the goodwill that remains on the consolidated balance sheet.

The changes in the carrying value of goodwill during the six months ended June 30, 2014 is as follows:

| | Total (Dollars in Thousands) |
|---------------------------------|------------------------------------|
| Balance as of December 31, 2013 | \$496,810 |
| Impairment | (413) |
| Currency translation effect | (62) |
| Balance as of June 30, 2014 | \$496,335 |

The following table summarizes acquired intangible assets with determinable useful lives by major category as of December 31, 2013 and June 30, 2014:

| | As of December 31, 2013 | | | As of June 30, 2014 | | |
|---|---|-----------------------------|---------------------------|-----------------------------|---|---------------------------|
| | Gross Carrying Amount (Dollars in Thousands) | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization & Impairment | Net Carrying Amount |
| Trade name | \$7,900 | \$(3,944) | \$3,956 | \$7,900 | \$(4,264) | \$3,636 |
| Technological know-how | 43,349 | (18,582) | 24,767 | 43,349 | (21,953) | 21,396 |
| Customer –related intangible | 110,798 | (44,664) | 66,134 | 110,798 | (51,197) | 59,601 |
| Total finite-lived intangible assets | \$162,047 | \$(67,190) | \$94,857 | \$162,047 | \$(77,414) | \$84,633 |

Accumulated amortization as of June 30, 2014 included impairment charges related to our rationalization initiatives discussed in Note 2. The impairments represented charges of \$0.4 million to Customer-related intangible and \$0.3 million to Technological know-how.

Amortization expense of acquired intangible assets was \$5.2 million and \$5.5 million in the three months ended June 30, 2013 and June 30, 2014, respectively. Estimated amortization expense will approximate \$9.5 million in the remainder of 2014, \$17.1 million in 2015, \$13.1 million in 2016, \$11.8 million in 2017 and \$10.7 million in 2018.

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(8) Long-Term Debt and Liquidity

The following table presents our long-term debt:

| | As of December 31, 2013 | As of June 30, 2014 |
|---------------------------|----------------------------|---------------------|
| | (Dollars in thousands) | |
| Revolving Facility | \$64,000 | \$68,000 |
| Senior Notes | 300,000 | 300,000 |
| Senior Subordinated Notes | 175,675 | 181,720 |
| Other Debt | 1,918 | 1,813 |
| Total | \$541,593 | \$551,533 |

The fair value of long-term debt, which was determined using Level 2 inputs, was \$549.8 million, versus a book value of \$541.6 million as of December 31, 2013. As of June 30, 2014, the fair value of our long-term debt was \$559.9 million versus a book value of \$551.5 million.

Revolving Facility

On April 23, 2014, GrafTech and certain of its subsidiaries entered into an Amended and Restated Credit Agreement (the "Revolving Facility") that provides for, among other things, a five-year tenor, reduced borrowing spreads and greater financial flexibility. This amended facility has a borrowing capacity of \$470 million and matures in April 2019.

The interest rate applicable to the Amended and Restated Credit Facility is, at GrafTech's option, either LIBOR plus a margin ranging from 1.25% to 2.00% (depending on our total net leverage ratio) or, in the case of dollar denominated loans, the alternate base rate plus a margin ranging from 0.25% to 1.00% (depending upon such ratio). The alternate base rate is the highest of (i) the prime rate announced by JPMorgan Chase Bank, N.A., (ii) the federal fund effective rate plus one-half of 1.0% and (iii) the London interbank offering rate (as adjusted) for a one-month period plus 1.0%. The borrowers pay a per annum fee ranging from 0.20% to 0.35% (depending on our total leverage ratio) on the undrawn portion of the commitments under the Revolving Facility.

The financial covenants under this amended facility require us to maintain a minimum cash interest coverage ratio of 2.50 to 1.00 and a maximum senior secured leverage ratio of 3.00 to 1.00, subject to adjustment for certain events.

Senior Notes

On November 20, 2012, GrafTech International Ltd. issued \$300 million principal amount of 6.375% Senior Notes due 2020. These 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, commencing on May 15, 2013. 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 Company is also entitled to redeem up to 35% of the aggregate principal amount of the Senior Notes before November 15, 2015 with the net proceeds from certain equity offerings at a redemption price of 106.375% of the principal amount plus accrued and unpaid interest, if any.

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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.

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

The Senior Notes also contain 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 (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 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.

Senior Subordinated Notes

On November 30, 2010, in connection with our acquisitions of Seadrift Coke L.P. and C/G Electrodes LLC, we issued Senior Subordinated Notes for an aggregate face amount of \$200 million. These Senior Subordinated Notes are non-interest bearing and mature in 2015. Because these notes are non-interest bearing, we were required to record them at their present value (determined using an interest rate of 7%). The difference between the face amount of the notes and their present value is recorded as debt discount. The debt discount is amortized to income using the interest method, over the life of the notes. The loan balance, net of unamortized discount, was \$175.7 million as of December 31, 2013 and \$181.7 million as of June 30, 2014.

(9) Inventories

Inventories are comprised of the following:

| | As of December 31, 2013 | As of June 30, 2014 |
|----------------------------|----------------------------|------------------------|
| | (Dollars in thousands) | |
| Inventories: | | |
| Raw materials and supplies | \$ 184,420 | \$ 168,232 |
| Work in process | 245,160 | 222,281 |
| Finished goods | 78,446 | 85,785 |
| | 508,026 | 476,298 |
| Reserves | (17,612 |) (25,877 |
| Total | \$ 490,414 | \$ 450,421 |

Additions to the reserve during the second quarter of 2014 included \$10.6 million related to the Engineered Solutions rationalization initiatives discussed in Note 2.

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(10) Interest Expense

The following table presents an analysis of interest expense:

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---------|---|----------|
| | 2013 | 2014 | 2013 | 2014 |
| | (Dollars in thousands) | | (Dollars in thousands) | |
| Interest incurred on debt | \$5,434 | \$5,345 | \$10,883 | \$10,667 |
| Amortization of discount on Senior Subordinated Notes | 2,848 | 3,048 | 5,649 | 6,045 |
| Amortization of debt issuance costs | 588 | 762 | 1,143 | 1,395 |
| Supply Chain Financing mark-up | 77 | — | 280 | 47 |
| Total interest expense | \$8,947 | \$9,155 | \$17,955 | \$18,154 |

Interest Rates

The Revolving Facility had an effective interest rate of 2.42% and 2.16% as of December 31, 2013 and June 30, 2014, respectively. The Senior Subordinated Notes have an implied interest rate of 7.00%. The Senior Notes have a fixed interest rate of 6.375%.

(11) Supply Chain Financing

We have a supply chain financing arrangement with a financing party. Under this arrangement, we essentially assign our rights to purchase needle coke from a supplier to the financing party. The financing party purchases the product from a supplier under the supplier's standard payment terms and then immediately resells it to us under longer payment terms. The financing party pays the supplier the purchase price for the product and then we pay the financing party. Our payment to the financing party for this needle coke includes a mark-up (the "Mark-Up"). The Mark-Up is a premium expressed as a percentage of the purchase price. The Mark-Up is subject to quarterly reviews. This arrangement helps us to maintain a balanced cash conversion cycle between inventory payments and the collection of receivables. Based on the terms of the arrangement, the total amount that we owe to the financing party can not exceed \$49.3 million at any point in time.

We record the inventory once title and risk of loss transfers from the supplier to the financing party. We record our liability to the financing party as an accrued liability. Our liability under this arrangement was \$9.5 million as of December 31, 2013. We recognized Mark-Up of \$0.3 million as interest expense in the six months ended June 30, 2013. We had minimal borrowings under this arrangement during the six months ended June 30, 2014 and we incurred negligible Mark-Up.

(12) 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.

As a result of its audit of the Company's Seadrift Coke, L.P. subsidiary, the U.S. Environmental Protection Agency ("EPA") in the 2014 second quarter alleged that the subsidiary failed to accurately report emissions under the Emergency Planning and Community Right-to-Know Act. The subsidiary is in settlement negotiations with the EPA. Any fines or penalties are not expected to be material to our financial condition, results of operations or cash flows.

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

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charge analysis. Claims accrued but not yet paid and the related activity within the accrual for the six months ended June 30, 2014, are presented below:

| | |
|---------------------------------|------------------------|
| | (Dollars in thousands) |
| Balance as of December 31, 2013 | \$1,050 |
| Product warranty adjustments | (258) |
| Payments and settlements | (141) |
| Balance as of June 30, 2014 | \$651 |

(13) 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. These items may include the cumulative effect of changes in tax laws or rates, impairment charges, adjustments to prior period uncertain tax positions, or adjustments to our valuation allowance due to changes in judgment of the realizability of deferred tax assets. We assess this approach each quarter to determine if there are any mitigating circumstances where a discrete tax rate computation would be more appropriate.

The following table summarizes the provision for income taxes for the three and six months ended June 30, 2013 and June 30, 2014:

| | For the Three Months Ended | | For the Six Months Ended | |
|----------------------|----------------------------|--------------|--------------------------|--------------|
| | June 30, 2013 | 2014 | June 30, 2013 | 2014 |
| | (Dollars in thousands) | | (Dollars in thousands) | |
| Tax expense | \$1,718 | \$6,886 | \$3,758 | \$1,599 |
| Pretax income (loss) | \$6,100 | \$(148,547) | \$12,350 | \$(165,351) |
| Effective tax rates | 28.2 | % (4.6)% | 30.4 | % (1.0)% |

During the second quarter of 2014, we impaired the long-lived assets of, and announced the exiting of certain product lines in our Advanced Graphite Material product group which is described in more detail in Note 2. The impairment charges and other impairment related charges were incurred primarily in the U.S. jurisdiction. As a result, we determined that it is no longer "more likely than not" that we will generate sufficient future U.S. taxable income to realize our deferred tax assets related to the U.S., foreign tax credit and state net operating loss carryforwards, as well as against our net U.S. deferred tax assets. As a result of the significant negative evidence of recent losses, the Company recognized a \$57.0 million non-cash charge in the second quarter of 2014 to increase the valuation allowance against these deferred income tax assets. The recognition of the valuation allowance does not result in or limit the Company's ability to utilize these tax assets in the future.

For the three and six months ended June 30, 2014, the effective tax rate differs from the U.S. statutory rate of 35% primarily due to the recording of a valuation allowance against U.S. net deferred tax assets.

As of June 30, 2014, we had unrecognized tax benefits of \$4.7 million, which, if recognized, would have a favorable impact on our effective tax rate. It is reasonably possible that a reduction of unrecognized tax benefits of \$2.6 million may occur within 12 months due to the expiration of statutes of limitation.

During the six months ended June 30, 2014, we settled our audits with the U.S. federal tax authorities for the tax years ended 2008 and 2010-2011, reducing our unrecognized tax benefits by \$2.7 million, of which \$0.3 million had 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.

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federal tax years prior to 2012 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 2008.

We continue to assess the need for valuation allowances against 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 maintained valuation allowances on those net deferred tax assets. We established a valuation allowance against our U.S. net deferred tax assets in the second quarter of 2014, as described in more detail above.

(14) 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 US 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.

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 ineffectiveness on these contracts designated as hedging instruments during the six months ended June 30, 2013 and 2014, respectively. In 2013 and 2014, we entered into foreign forward 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 US dollar and the Mexican peso, South African rand, Brazilian real, euro and Japanese yen. As of June 30, 2014, we had outstanding Mexican peso, Brazilian real, euro, and Japanese yen currency contracts with an aggregate notional amount of \$98.2 million. The foreign currency derivatives outstanding as of June 30, 2014 have several maturity dates ranging from July 2014 to February 2015.

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. There was no ineffectiveness on these contracts during the six months ended June 30, 2014. As of June 30, 2014, we had outstanding derivative swap contracts for refined oil products with an aggregate notional amount of \$8.5 million. These contracts have maturity dates ranging from July 2014 to August 2014.

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 designated in foreign currency and designated as a non-derivative net investment hedging instrument was \$25.2 million and \$12.2 million as of December 31, 2013 and

June 30, 2014, respectively. Within our currency translation adjustment portion of other comprehensive income, we

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recorded gains of \$1.8 million and \$0.2 million in three months ended June 30, 2013 and June 30, 2014, respectively, resulting from these net investment hedges.

The fair value of all derivatives is recorded as assets or liabilities on a gross basis in our Consolidated Balance Sheets. The following tables present the fair values of our derivatives and their respective balance sheet locations as of December 31, 2013 and June 30, 2014:

| | Asset Derivatives | | Liability Derivatives | |
|---|------------------------|------------|---------------------------|------------|
| | Location | Fair Value | Location | Fair Value |
| As of December 31, 2013 | (Dollars in Thousands) | | | |
| Derivatives designated as cash flow hedges: | | | | |
| Foreign currency derivatives | Other receivables | \$772 | Other payables | \$1,185 |
| Commodity derivative contracts | Other current assets | 834 | Other current liabilities | — |
| Total fair value | | \$1,606 | | \$1,185 |
| As of June 30, 2014 | | | | |
| Derivatives designated as cash flow hedges: | | | | |
| Foreign currency derivatives | Other receivables | \$364 | Other payables | \$198 |
| Commodity derivative contracts | Other current assets | 314 | Other current liabilities | — |
| Total fair value | | \$678 | | \$198 |
| | Asset Derivatives | | Liability Derivatives | |
| | Location | Fair Value | Location | Fair Value |
| As of December 31, 2013 | (Dollars in Thousands) | | | |
| Derivatives not designated as hedges: | | | | |
| Foreign currency derivatives | Other receivables | \$328 | Other payables | \$24 |
| Total fair value | | \$328 | | \$24 |
| As of June 30, 2014 | | | | |
| Derivatives not designated as hedges: | | | | |
| Foreign currency derivatives | Other receivables | \$230 | Other payables | \$200 |
| Total fair value | | \$230 | | \$200 |

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The location and amount of realized (gains) losses on derivatives are recognized in the Statements of Operations when the hedged item impacts earnings and are as follows for the three and six months ended June 30, 2013 and 2014:

| | Location of (Gain)/Loss Reclassified from Other Comprehensive Income (Effective Portion) | Amount of (Gain)/Loss Recognized (Effective Portion) | |
|---|--|--|-----------|
| | | 2013 | 2014 |
| Three Months Ended June 30, | | (Dollars in Thousands) | |
| Derivatives designated as cash flow hedges: | | | |
| Foreign currency derivatives, excluding tax of \$28 and (\$3), respectively | Cost of goods sold/Other expense / (income) / Revenue | \$ (284) | \$ 27 |
| Commodity forward derivatives, excluding tax of (\$167) and \$181, respectively | Cost of goods sold / Revenue | \$ 460 | \$ (503) |
| | | | |
| | Location of (Gain)/Loss Recognized in the Consolidated Statement of Operations | Amount of (Gain)/Loss Recognized | |
| Three Months Ended June 30, | | 2013 | 2014 |
| | | (Dollars in thousands) | |
| Derivatives not designated as hedges: | | | |
| Foreign currency derivatives | Cost of goods sold/Other expense (income) | \$ 360 | \$ 130 |
| | | | |
| | Location of (Gain)/Loss Reclassified from Other Comprehensive Income (Effective Portion) | Amount of (Gain)/Loss Recognized (Effective Portion) | |
| Six Months Ended June 30, | | 2013 | 2014 |
| | | (Dollars in Thousands) | |
| Derivatives designated as cash flow hedges: | | | |
| Foreign currency derivatives, excluding tax of \$19 and (\$33), respectively | Cost of goods sold/Other expense / (income) / Revenue | \$ (190) | \$ 328 |
| Commodity forward derivatives, excluding tax of (\$50) and (\$9), respectively. | Cost of goods sold / Revenue | \$ 137 | \$ 26 |
| | | | |
| | Location of (Gain)/Loss Recognized in the Consolidated Statement of Operations | Amount of (Gain)/Loss Recognized | |
| Six Months Ended June 30, | | 2013 | 2014 |
| | | (Dollars in thousands) | |
| Derivatives not designated as hedges: | | | |
| Foreign currency derivatives | Cost of goods sold/Other expense (income) | \$ (1,421) | \$ (61) |

Our foreign currency and commodity derivatives are treated as hedges and are required to be measured at fair value on a recurring basis. With respect to the inputs used to determine the fair value, we use observable, quoted rates that are determined by active markets and, therefore, classify the contracts as “Level 2”.

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(15) 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 have been 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 LLP, Fiber Materials, Inc., Intermat, 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.

The following tables set forth condensed consolidating balance sheets as of December 31, 2013 and June 30, 2014 and condensed consolidating statements of operations and comprehensive income for the three and six months ended June 30, 2013 and 2014 and condensed consolidating statements of cash flows for the six months ended June 30, 2013 and 2014 of the Parent, Guarantors and the Non-Guarantors.

Amounts presented in comprehensive income for the three and six months ended June 30, 2013 have been revised. Previously, the Company did not present comprehensive income of subsidiaries in the guarantor column. This amount has been revised to present \$4.1 million in comprehensive loss for the guarantors during the three months ended June 30, 2013 and \$1.1 million in comprehensive income during the six months ended June 30, 2013.

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CONDENSED CONSOLIDATING BALANCE SHEETS

As of December 31, 2013

(in thousands)

| | Parent | Guarantors | Non-Guarantors | Consolidating Entries and Eliminations | Consolidated |
|---|-------------|-------------|----------------|--|--------------|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$— | \$4,752 | \$7,136 | \$— | \$11,888 |
| Accounts receivable - affiliates | 42,410 | 28,551 | 15,824 | (86,785) | — |
| Accounts receivable - trade | — | 48,998 | 150,568 | — | 199,566 |
| Inventories | — | 174,935 | 315,479 | — | 490,414 |
| Prepaid and other current assets | — | 22,555 | 51,235 | — | 73,790 |
| Total current assets | 42,410 | 279,791 | 540,242 | (86,785) | 775,658 |
| Investment in affiliates | 1,709,914 | 828,012 | — | (2,537,926) | — |
| Property, plant and equipment | — | 540,273 | 280,712 | — | 820,985 |
| Deferred income taxes | — | — | 10,334 | — | 10,334 |
| Goodwill | — | 293,162 | 203,648 | — | 496,810 |
| Notes receivable - affiliate | 51,090 | 7,413 | — | (58,503) | — |
| Other assets | 4,752 | 53,447 | 55,862 | — | 114,061 |
| Total assets | \$1,808,166 | \$2,002,098 | \$1,090,798 | \$(2,683,214) | \$2,217,848 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Current liabilities: | | | | | |
| Accounts payable - affiliate | \$— | \$58,206 | \$28,579 | \$(86,785) | \$— |
| Accounts payable - trade | — | 41,971 | 73,241 | — | 115,212 |
| Short-term debt | — | 165 | 996 | — | 1,161 |
| Accrued income and other taxes | 2,678 | 4,736 | 23,273 | — | 30,687 |
| Rationalizations | — | 1,890 | 16,531 | — | 18,421 |
| Supply chain financing liability | — | — | 9,455 | — | 9,455 |
| Other accrued liabilities | 2,444 | 12,404 | 26,091 | — | 40,939 |
| Total current liabilities | 5,122 | 119,372 | 178,166 | (86,785) | 215,875 |
| Long-term debt - affiliate | — | 51,090 | 7,413 | (58,503) | — |
| Long-term debt - third party | 475,675 | 50,525 | 15,393 | — | 541,593 |
| Other long-term obligations | — | 66,590 | 31,357 | — | 97,947 |
| Deferred income taxes | 6,620 | 4,607 | 30,457 | — | 41,684 |
| Stockholders' equity | 1,320,749 | 1,709,914 | 828,012 | (2,537,926) | 1,320,749 |
| Total liabilities and stockholders' equity | \$1,808,166 | \$2,002,098 | \$1,090,798 | \$(2,683,214) | \$2,217,848 |

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

CONDENSED CONSOLIDATING BALANCE SHEETS

As of June 30, 2014

(in thousands)

| | Parent | Guarantors | Non- Guarantors | Consolidating Entries and Eliminations | Consolidated |
|---|-------------|-------------|--------------------|--|--------------|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$— | \$2,506 | \$18,222 | \$— | \$20,728 |
| Accounts receivable - affiliates | 37,979 | 33,667 | 26,143 | (97,789) | — |
| Accounts receivable - trade | — | 48,287 | 129,254 | — | 177,541 |
| Inventories | — | 175,040 | 275,381 | — | 450,421 |
| Prepaid and other current assets | — | 23,468 | 70,225 | — | 93,693 |
| Total current assets | 37,979 | 282,968 | 519,225 | (97,789) | 742,383 |
| Investment in affiliates | 1,563,399 | 808,923 | — | (2,372,322) | — |
| Property, plant and equipment | — | 426,710 | 256,074 | — | 682,784 |
| Deferred income taxes | — | — | 12,059 | — | 12,059 |
| Goodwill | — | 292,749 | 203,586 | — | 496,335 |
| Notes receivable - affiliate | 42,906 | 7,413 | — | (50,319) | — |
| Other assets | 4,437 | 53,862 | 51,978 | — | 110,277 |
| Total assets | \$1,648,721 | \$1,872,625 | \$1,042,922 | \$(2,520,430) | \$2,043,838 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Current liabilities: | | | | | |
| Accounts payable - affiliate | \$— | \$64,124 | \$33,665 | \$(97,789) | \$— |
| Accounts payable - trade | 28 | 54,390 | 68,010 | — | 122,428 |
| Short-term debt | — | 142 | — | — | 142 |
| Accrued income and other taxes | 147 | 1,685 | 21,187 | — | 23,019 |
| Rationalizations | — | 805 | 2,787 | — | 3,592 |
| Other accrued liabilities | 2,444 | 10,217 | 25,786 | — | 38,447 |
| Total current liabilities | 2,619 | 131,363 | 151,435 | (97,789) | 187,628 |
| Long-term debt - affiliate | — | 42,906 | 7,413 | (50,319) | — |
| Long-term debt - third party | 481,720 | 57,459 | 12,354 | — | 551,533 |
| Other long-term obligations | — | 63,829 | 32,063 | — | 95,892 |
| Deferred income taxes | — | 13,669 | 30,734 | — | 44,403 |
| Stockholders' equity | 1,164,382 | 1,563,399 | 808,923 | (2,372,322) | 1,164,382 |
| Total liabilities and stockholders' equity | \$1,648,721 | \$1,872,625 | \$1,042,922 | \$(2,520,430) | \$2,043,838 |

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

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
 For the three months ended June 30, 2013
 (in thousands)

| | Parent | Guarantors | Non- Guarantors | Consolidating Entries and Eliminations | Consolidated |
|---------------------------------------|------------|------------|--------------------|--|--------------|
| Sales - affiliates | \$— | \$52,679 | \$36,487 | \$(89,166) | \$— |
| Sales - third party | — | 127,592 | 173,769 | — | 301,361 |
| Net sales | — | 180,271 | 210,256 | (89,166) | 301,361 |
| Cost of sales | — | 152,517 | 189,089 | (89,166) | 252,440 |
| Gross profit | — | 27,754 | 21,167 | — | 48,921 |
| Research and development | — | 2,787 | — | — | 2,787 |
| Selling and administrative expenses | — | 10,588 | 19,573 | — | 30,161 |
| Operating income | — | 14,379 | 1,594 | — | 15,973 |
| Other expense, net | — | 671 | 304 | — | 975 |
| Interest expense - affiliate | — | 434 | 188 | (622) | — |
| Interest expense - third party | 7,799 | 790 | 358 | — | 8,947 |
| Interest income - affiliate | (346) | (188) | (88) | 622) | — |
| Interest income - third party | — | — | (49) | —) | (49) |
| (Loss) income before income taxes | (7,453) | 12,672) | 881 | — | 6,100 |
| (Benefit) provision for income taxes | (2,750) | 3,575) | 893 | — | 1,718 |
| Equity in earnings of subsidiary | 9,085 | (12) | — | (9,073) | — |
| Net income (loss) | \$4,382 | \$9,085 | \$(12) | \$(9,073) | \$4,382 |
| Statements of Comprehensive Income | | | | | |
| Net income (loss) | \$4,382 | \$9,085 | \$(12) | \$(9,073) | \$4,382 |
| Other comprehensive (loss) income | (13,149) | (13,149) | (11,757) | 24,906) | (13,149) |
| Comprehensive (loss) income | \$(8,767) | \$(4,064) | \$(11,769) | \$15,833) | \$(8,767) |

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

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
 For the three months ended June 30, 2014
 (in thousands)

| | Parent | Guarantors | Non-Guarantors | Consolidating Entries and Eliminations | Consolidated |
|---|-------------|-------------|----------------|--|--------------|
| Sales - affiliates | \$— | \$53,959 | \$33,364 | \$(87,323) | \$— |
| Sales - third party | — | 110,806 | 173,378 | — | 284,184 |
| Net sales | — | 164,765 | 206,742 | (87,323) | 284,184 |
| Cost of sales | — | 157,447 | 196,107 | (87,323) | 266,231 |
| Gross profit | — | 7,318 | 10,635 | — | 17,953 |
| Research and development | — | 2,903 | — | — | 2,903 |
| Selling and administrative expenses | — | 14,265 | 17,872 | — | 32,137 |
| Impairments | — | 121,570 | — | — | 121,570 |
| Rationalizations | — | 16 | 815 | — | 831 |
| Operating loss | — | (131,436) | (8,052) | — | (139,488) |
| Other (income) expense, net | — | (4) | (37) | — | (41) |
| Interest expense - affiliate | — | 210 | — | (210) | — |
| Interest expense - third party | 8,003 | 906 | 246 | — | 9,155 |
| Interest income - affiliate | (210) | — | — | 210 | — |
| Interest income - third party | — | — | (55) | — | (55) |
| Loss before income taxes | (7,793) | (132,548) | (8,206) | — | (148,547) |
| Provision for (benefit from) income taxes | (2,806) | 9,847 | (155) | — | 6,886 |
| Equity in losses of subsidiary | (150,446) | (8,051) | — | 158,497 | — |
| Net (loss) income | \$(155,433) | \$(150,446) | \$(8,051) | \$158,497 | \$(155,433) |
| Statements of Comprehensive Income | | | | | |
| Net income (loss) | \$(155,433) | \$(150,446) | \$(8,051) | \$158,497 | \$(155,433) |
| Other comprehensive income (loss) | 239 | 239 | 45 | (284) | 239 |
| Comprehensive (loss) income | \$(155,194) | \$(150,207) | \$(8,006) | \$158,213 | \$(155,194) |

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

CONDENSED CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the six months ended June 30, 2013

(in thousands)

| | Parent | Guarantors | Non- Guarantors | Consolidating Entries and Eliminations | Consolidated |
|---------------------------------------|------------|------------|--------------------|--|--------------|
| Sales - affiliates | \$— | \$ 97,946 | \$ 72,639 | \$(170,585) | \$— |
| Sales - third party | — | 225,788 | 329,300 | — | 555,088 |
| Net sales | — | 323,734 | 401,939 | (170,585) | 555,088 |
| Cost of sales | — | 275,343 | 352,859 | (170,585) | 457,617 |
| Gross profit | — | 48,391 | 49,080 | — | 97,471 |
| Research and development | — | 5,880 | — | — | 5,880 |
| Selling and administrative expenses | — | 23,082 | 36,792 | — | 59,874 |
| Operating income | — | 19,429 | 12,288 | — | 31,717 |
| Other (income) expense, net | — | 714 | 811 | — | 1,525 |
| Interest expense - affiliate | — | 833 | 376 | (1,209) | — |
| Interest expense - third party | 15,544 | 1,595 | 816 | — | 17,955 |
| Interest income - affiliate | (710) | (376) | (123) | 1,209 | — |
| Interest income - third party | — | — | (113) | — | (113) |
| Income before income taxes | (14,834) | 16,663 | 10,521 | — | 12,350 |
| Provision for income taxes | (5,370) | 5,018 | 4,110 | — | 3,758 |
| Equity in earnings of subsidiary | 18,056 | 6,411 | — | (24,467) | — |
| Net income | \$ 8,592 | \$ 18,056 | \$ 6,411 | \$(24,467) | \$ 8,592 |
| Statements of Comprehensive Income | | | | | |
| Net income | \$ 8,592 | \$ 18,056 | \$ 6,411 | \$(24,467) | \$ 8,592 |
| Other comprehensive (loss) income | (16,925) | (16,925) | (16,108) | 33,033 | (16,925) |
| Comprehensive (loss) income | \$(8,333) | \$ 1,131 | \$(9,697) | \$ 8,566 | \$(8,333) |

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

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
 For the six months ended June 30, 2014
 (in thousands)

| | Parent | Guarantors | Non-Guarantors | Consolidating Entries and Eliminations | Consolidated |
|---|--------------|--------------|----------------|--|--------------|
| Sales - affiliates | \$— | \$ 124,316 | \$ 68,571 | \$(192,887) | \$— |
| Sales - third party | — | 221,930 | 343,045 | — | 564,975 |
| Net sales | — | 346,246 | 411,616 | (192,887) | 564,975 |
| Cost of sales | — | 314,476 | 399,739 | (192,887) | 521,328 |
| Gross profit | — | 31,770 | 11,877 | — | 43,647 |
| Research and development | — | 5,673 | — | — | 5,673 |
| Selling and administrative expenses | — | 24,132 | 37,912 | — | 62,044 |
| Impairments | — | 121,570 | — | — | 121,570 |
| Rationalizations | — | 52 | 865 | — | 917 |
| Operating loss | — | (119,657) | (26,900) | — | (146,557) |
| Other expense (income), net | — | 820 | (67) | — | 753 |
| Interest expense - affiliate | — | 436 | — | (436) | — |
| Interest expense - third party | 15,955 | 1,646 | 553 | — | 18,154 |
| Interest income - affiliate | (436) | — | — | 436 | — |
| Interest income - third party | — | — | (113) | — | (113) |
| Loss before income taxes | (15,519) | (122,559) | (27,273) | — | (165,351) |
| Provision for (benefit from) income taxes | (5,587) | 14,399 | (7,213) | — | 1,599 |
| Equity in losses of subsidiary | (157,018) | (20,060) | — | 177,078 | — |
| Net (loss) income | \$(166,950) | \$(157,018) | \$(20,060) | \$ 177,078 | \$(166,950) |
| Statements of Comprehensive Income | | | | | |
| Net (loss) income | \$(166,950) | \$(157,018) | \$(20,060) | \$ 177,078 | \$(166,950) |
| Other comprehensive income (loss) | 2,311 | 2,311 | 2,522 | (4,833) | 2,311 |
| Comprehensive (loss) income | \$(164,639) | \$(154,707) | \$(17,538) | \$ 172,245 | \$(164,639) |

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

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

For the six months ended June 30, 2013

(in thousands)

| | Parent | Guarantors | Non-Guarantors | Consolidating Entries and Eliminations | Consolidated | |
|--|----------|------------|----------------|--|--------------|---|
| Net cash provided by operating activities: | \$(6,611 |) \$13,289 | \$4,968 | \$— | \$11,646 | |
| Cash flow from investing activities: | | | | | | |
| (Loans to) repayments from affiliates | 7,566 | — | — | (7,566 |) — | |
| Capital expenditures | — | (24,633 |) (13,885 |) — | (38,518 |) |
| Proceeds from derivative instruments | — | (140 |) 1,612 | — | 1,472 | |
| Insurance recoveries | — | 216 | 68 | — | 284 | |
| Net cash (used in) provided by investing activities | 7,566 | (24,557 |) (12,205 |) (7,566 |) (36,762 |) |
| Cash flow from financing activities: | | | | | | |
| Loans from (repayments to) affiliates | — | (7,566 |) — | 7,566 | — | |
| Short-term debt borrowings | — | — | (5,649 |) — | (5,649 |) |
| Revolving Facility borrowings | — | 61,000 | 50,000 | — | 111,000 | |
| Revolving Facility reductions | — | (42,500 |) (28,000 |) — | (70,500 |) |
| Principal payments on long term debt | — | (84 |) (56 |) — | (140 |) |
| Supply chain financing | — | — | (8,369 |) — | (8,369 |) |
| Proceeds from exercise of stock options | 175 | — | — | — | 175 | |
| Purchase of treasury shares | (709 |) — | — | — | (709 |) |
| Other | (421 |) (15 |) (6,004 |) — | (6,440 |) |
| Net cash used in financing activities | (955 |) 10,835 | 1,922 | 7,566 | 19,368 | |
| Net (decrease) increase in cash and cash equivalents | — | (433 |) (5,315 |) — | (5,748 |) |
| Effect of exchange rate changes on cash and cash equivalents | — | — | (583 |) — | (583 |) |
| Cash and cash equivalents at beginning of period | — | 4,425 | 12,892 | — | 17,317 | |
| Cash and cash equivalents at end of period | \$— | \$3,992 | \$6,994 | \$— | \$10,986 | |

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

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

For the six months ended June 30, 2014

(in thousands)

| | Parent | Guarantors | Non- Guarantors | Consolidating Entries and Eliminations | Consolidated |
|--|-------------|------------|--------------------|--|--------------|
| Net cash (used in) provided by operating activities: | \$(11,480) | \$33,155 | \$34,225 | \$— | \$55,900 |
| Cash flow from investing activities: | | | | | |
| Loans to affiliates | 8,184 | — | — | (8,184) | — |
| Capital expenditures | — | (31,882) | (14,582) | — | (46,464) |
| Payments for (proceeds from) derivatives | — | 74 | (268) | — | (194) |
| Proceeds from sale of assets | — | — | 2,523 | — | 2,523 |
| Insurance recoveries | — | — | 2,834 | — | 2,834 |
| Net cash provided by (used in) investing activities | 8,184 | (31,808) | (9,493) | (8,184) | (41,301) |
| Cash flow from financing activities: | | | | | |
| Loans from affiliates | — | (8,184) | — | 8,184 | — |
| Short-term debt borrowings | — | (23) | (996) | — | (1,019) |
| Revolving Facility borrowings | — | 131,000 | 78,000 | — | 209,000 |
| Revolving Facility reductions | — | (124,000) | (81,000) | — | (205,000) |
| Principal payments on long term debt | — | (66) | (60) | — | (126) |
| Supply chain financing | — | — | (9,455) | — | (9,455) |
| Proceeds from exercise of stock options | 2,813 | — | — | — | 2,813 |
| Purchase of treasury shares | (435) | — | — | — | (435) |
| Revolver facility refinancing | — | (2,320) | (316) | — | (2,636) |
| Other | 918 | — | — | — | 918 |
| Net cash provided by (used in) financing activities | 3,296 | (3,593) | (13,827) | 8,184 | (5,940) |
| Net increase in cash and cash equivalents | — | (2,246) | 10,905 | — | 8,659 |
| Effect of exchange rate changes on cash and cash equivalents | \$— | \$— | \$181 | \$— | \$181 |
| Cash and cash equivalents at beginning of period | — | 4,752 | 7,136 | — | 11,888 |
| Cash and cash equivalents at end of period | \$— | \$2,506 | \$18,222 | \$— | \$20,728 |

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(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 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): operational and financial performance; 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 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; our position in markets we serve; 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; capital expenditures; nature and timing of restructuring charges and payments; stock repurchase activities; 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, contingencies, and environmental compliance including any regulatory initiatives with respect to greenhouse gas emissions; consulting projects; potential offerings, sales and other actions regarding debt or equity securities of us or our subsidiaries; 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,” “anticipate,” “expect,” “intend,” “show,” “could,” “target,” “goal,” “continue to,” “positioned to” and similar expressions, or the negatives thereof, 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 dispersed as we anticipate;

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PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

(Unaudited)

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 or supply to them which could affect 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 value;

the possibility that the financial assumptions 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. monetary or fiscal policy may adversely affect global economic activity and demand for our products;

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 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;

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PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

(Unaudited)

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 might result in the filing of claims against our Brazilian subsidiary;

the possibility of delays in or failure to achieve successful development and commercialization of new or improved Engineered Solutions products or that such products or solutions could be subsequently displaced by other products or technologies;

the possibility that we will fail to develop new customers or applications for our Engineered Solutions products or such new product applications will not be adopted by the market place;

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;

the possibility that challenging conditions or changes in the capital markets will limit our ability to 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;

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;

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PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

(Unaudited)

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 amount, prices and timing of purchases, if any, of shares purchased pursuant to our share repurchase program;

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 common stock.

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.

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.

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For a more complete discussion of these and other factors, see “Risk Factors,” in Part I, Item 1A of our 2013 Annual Report on Form 10-K.

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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.

In its July 24th report, the International Monetary Fund (IMF) reduced its estimate for 2014 global GDP growth to 3.4 percent, representing the first downward revision this year, reflecting both the legacy of the weak first quarter and a less optimistic outlook for several emerging markets. The IMF also states that global growth is expected to rebound from the second quarter of 2014, as some of the drivers underlying first-quarter weakness should have only temporary effects.

On July 23, 2014, the World Steel Association cited that global steel production, excluding China, increased 2.0 percent in the first half of 2014 as compared to the same period in the prior year. For the same period, the European Union and the Middle East continued to recover with year-over-year steel production growth rates of four and nine percent, respectively. North America steel production and operating rates continue to show improvement as well. GrafTech's global steel customers remain cautiously optimistic as trends indicate stable to improving conditions for the remainder of this year.

As a result of recent developments in the Middle East and the recent imposition of additional sanctions in Russia in light of developments in the Ukraine, which could have a significant impact on trade and energy costs in the European Union, we note increased risks to the assessments described below.

GrafTech previously announced that it was targeting 2014 EBITDA* to be in the range of \$135 million to \$150 million, a reduction in the company's prior estimate that reflected weaker second quarter results, anticipated delays in Engineered Solutions customer orders and the resulting mix shift causing lower than expected operating income margins. As a result of the recent developments described above and recent public announcements by our largest customer for advanced electronic products, including recent ES order delays and cancellations, we note increased risks to such target.

*NOTE ON EBITDA: EBITDA is a non-GAAP financial measure that we currently calculate using GAAP amounts from the Consolidated Financial Statements. We believe that EBITDA measures are generally accepted as providing useful information regarding a company's ability to incur and service debt. We also believe that EBITDA measures provide useful information about the productivity and cash generation potential of its ongoing businesses.

Management uses EBITDA measures as well as other financial measures in connection with its decision-making activities. EBITDA measures should not be considered in isolation or as a substitute for net income (loss), cash flows from operations or other consolidated income or cash flow data prepared in accordance with GAAP. Our method for calculating EBITDA measures may not be comparable to methods used by other companies and is not the same as the method for calculating EBITDA measures under our senior secured Revolving Facility.

See below for a reconciliation of 2014 targeted EBITDA to targeted net income attributable to GrafTech International Ltd., the most directly comparable financial measure calculated and reported in accordance with GAAP:

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GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

(Unaudited)

| | Full Year Target 2014 (Dollars in thousands) |
|---|--|
| EBITDA | \$135,000 - \$150,000 |
| Adjustments | |
| Depreciation and amortization | \$(90,000) |
| Rationalization related depreciation | (21,679) |
| Rationalizations | (4,917) |
| Impairments | (121,570) |
| Rationalizations and impairments - other related charges | (25,396) |
| Proxy contest expenses | (2,438) |
| Operating income | (131,000) - (116,000) |
| Other (expense) income, net | (2,000) |
| Interest expense | (36,000) |
| Interest income | — |
| Income taxes | 0 - (4,000) |
| Net (loss) income | \$(169,000) - \$(158,000) |

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GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

(Unaudited)

Results of Operations and Segment Review

Three Months Ended June 30, 2013 as Compared to Three Months Ended June 30, 2014.

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. Financial information is presented for the three months ended June 30, 2013 and June 30, 2014. Throughout our MD&A, changes that are less than 5% or less than \$1.0 million, may be deemed not meaningful and are generally excluded from the discussion.

| (in thousands, except per share data and % change) | For the Three Months Ended | | Increase (Decrease) | % Change | |
|--|-------------------------------|-------------|------------------------|-------------|----|
| | June 30, 2013 | 2014 | | | |
| Net sales | \$301,361 | \$284,184 | \$(17,177) | (6) |)% |
| Cost of sales | 252,440 | 266,231 | 13,791 | 5 | % |
| Gross profit | 48,921 | 17,953 | (30,968) | (63) |)% |
| Research and development | 2,787 | 2,903 | 116 | 4 | % |
| Selling and administrative expenses | 30,161 | 32,137 | 1,976 | 7 | % |
| Rationalizations | — | 831 | 831 | 100 | % |
| Impairment of long-lived assets | — | 121,570 | 121,570 | 100 | % |
| Operating income (loss) | 15,973 | —(139,488) | (155,461) | (973) |)% |
| Other expense (income), net | 975 | (41) | (1,016) | (104) |)% |
| Interest expense | 8,947 | 9,155 | 208 | 2 | % |
| Interest income | (49) | (55) | (6) | 12 | % |
| Income (loss) before provision for income taxes | 6,100 | (148,547) | (154,647) | (2,535) |)% |
| Provision for (benefit from) income taxes | 1,718 | 6,886 | 5,168 | 301 | % |
| Net income (loss) | \$4,382 | \$(155,433) | \$(159,815) | (3,647) |)% |
| Basic income (loss) per common share: | \$0.03 | \$(1.14) | \$(1.17) | | |
| Diluted income (loss) per common share: | \$0.03 | \$(1.14) | \$(1.17) | | |

Net sales, by operating segment for the three months ended June 30, 2013 and June 30, 2014 were:

| (in thousands, except per % change) | For the Three Months Ended | | (Decrease) Increase | % Change | |
|-------------------------------------|-------------------------------|-----------|------------------------|-------------|----|
| | June 30, 2013 | 2014 | | | |
| Industrial Materials | \$231,339 | \$206,655 | \$(24,684) | (11) |)% |
| Engineered Solutions | 70,022 | 77,529 | 7,507 | 11 | % |
| Total net sales | \$301,361 | \$284,184 | \$(17,177) | (6) |)% |

An analysis of the components of change in net sales for Industrial Materials and Engineered Solutions is set forth in the following table:

| | Volume | Price/Mix | Currency | Net Change | | | |
|----------------------|--------|-----------|----------|---------------|---|-------|----|
| Industrial Materials | (2 |)% | (10 |)% | 1 | % (11 |)% |

| | | | | | | |
|----------------------|----|---|----|------|------|---|
| Engineered Solutions | 11 | % | (1 |)% 1 | % 11 | % |
|----------------------|----|---|----|------|------|---|

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Net sales. Net sales for our Industrial Materials segment decreased to \$206.7 million in the three months ended June 30, 2014 from \$231.3 million in the three months ended June 30, 2013. This decrease was driven primarily by a deterioration in the realized selling price of electrodes partially offset by increased graphite electrode sales volumes. The weighted average selling price, excluding currency impacts, of electrodes in the three months ended June 30, 2014 decreased approximately 12% compared to the three months ended June 30, 2013. Additionally, our needle coke business experienced third party price declines in the three months ended June 30, 2014, compared to the same period of 2013. While we experienced increased graphite electrode sales volumes, these volume increases were offset by decreased third-party sales volume of needle coke as we are sourcing a greater percentage of needle coke internally. Net sales for our Engineered Solutions segment increased to \$77.5 million in the three months ended June 30, 2014, compared to net sales of \$70.0 million in the three months ended June 30, 2013. The increase in revenue was primarily driven by new product sales of high temperature furnace systems and other products serving industrial sectors resulting in increased sales of \$4.3 million in our advance graphite materials products. Additionally, sales increased in our advanced electronics technologies products resulting from increased sales volumes of our thermal solutions serving the advanced consumer electronics market.

Cost of sales. For the three months ended June 30, 2014, we experienced increases in cost of sales of \$13.8 million. Costs related to rationalization initiatives recorded in cost of sales for the three months ended June 30, 2014 were \$20.6 million. Excluding these charges, cost of sales decreased by \$6.8 million compared to the three months ended June 30, 2013. The decrease was primarily driven by lower sales volumes for our needle coke products as a result of an increase in internal coke usage and the reduced graphite electrode manufacturing cost driven by our rationalization initiatives compared to the three months ended June 30, 2013. The three months ended June 30, 2014 also included approximately \$6 million of costs incurred at our Seadrift facility for an extended maintenance outage.

Selling and administrative expenses. Selling and administrative expenses increased \$2.0 million in the three months ended June 30, 2014 compared to the three months ended June 30, 2013, due primarily to \$2.4 million of incremental costs associated with our annual shareholder meeting and the contested election of directors. Stock-based compensation expense in the three months ended June 30, 2013 was positively impacted by a \$1.3 million adjustment to compensation expense to due changes in share multiples for certain performance share units.

Rationalizations. During the three months ended June 30, 2014, we recorded a \$0.8 million charge for rationalizations, primarily related to severance and contract termination costs in our Industrial Materials segment. These charges were due to the planned closures of our South Africa and Brazil graphite electrode manufacturing operations and our machine shop in Russia that were announced in 2013. Going forward, we anticipate that these actions will result in annual savings of \$75 million, with approximately \$50 million to be realized in 2014.

Impairments. In the second quarter of 2014, we announced additional rationalization initiatives in our Engineered Solutions segment resulting from deteriorated pricing and competitor responses for certain products (see Note 2 to the financial statements). As a result we recorded long-lived asset impairment charges of \$121.6 million and other related charges totaling \$10.6 million. Going forward, we anticipate that these actions will result in annual savings of \$16 million, with approximately \$1 million to be realized in 2014. If business conditions and plans do not achieve our expected returns in the Engineered Solutions segment, we may undertake additional restructurings, rationalizations or similar actions which could result in additional charges, write-offs and impairments.

The company is also reevaluating its business structure of the Industrial Materials and Engineered Solutions segments and the ongoing needs to support those businesses. The company expects to complete this assessment over the next quarter. Anticipated actions under consideration include a combination of layoffs, attrition, early retirement, reduced contractor costs and other cost savings initiatives designed to simplify work processes and drive greater accountability.

Other expense (income). During the three months ended June 30, 2014, we experienced foreign currency exchange gains of \$0.5 million, compared to foreign currency exchange losses of \$0.3 million during the three months ended June 30, 2013.

Segment operating income (loss). Corporate expenses are allocated to segments based on each segment's percentage of consolidated sales. The following table represents our operating income (loss) by segment for the three months ended June 30, 2013 and June 30, 2014:

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(Unaudited)

| | For the Three Months Ended June 30, | |
|---------------------------------------|--|--------------|
| | 2013 | 2014 |
| | (Dollars in thousands) | |
| Industrial Materials | \$7,530 | \$(11,366) |
| Engineered Solutions | 8,443 | (128,122) |
| Total segment operating income (loss) | \$15,973 | \$(139,488) |

The percentage relationship of cost of operations to sales for Industrial Materials and Engineered Solutions is set forth in the following table:

| | For the Three Months Ended June 30, | | | |
|----------------------|-------------------------------------|-------|--------|---|
| | (Percentage of sales) | | | |
| | 2013 | 2014 | Change | |
| Industrial Materials | 97 | % 106 | % 9 | % |
| Engineered Solutions | 88 | % 265 | % 177 | % |

Segment operating costs and expenses as a percentage of sales for Industrial Materials increased to 106% for the three months ended June 30, 2014, compared to 97% for the three months ended June 30, 2013. This increase in costs is primarily due \$9.0 million of rationalization and related expenses incurred during the three months ended June 30, 2014. Additionally, Industrial Materials recorded approximately \$1.9 million of costs related to our annual meeting. Excluding these costs, Industrial Materials was essentially break even for during the three months ended June 30, 2014. Both our graphite electrodes and needle coke products continues to face downward pricing pressure, eroding margins compared to the three months ended June 30, 2013.

Segment operating costs and expenses as a percentage of sales for Engineered Solutions increased from 88% for the three months ended June 30, 2013 to 265% for the three months ended June 30, 2014 due primarily to our recently announced rationalization initiatives. Excluding these costs of \$133.1 million, operating expenses as a percentage of sales would have been 94%, a 6% increase from the three months ended June 30, 2013. Although both our advanced electronics technologies and advanced graphite materials product groups had higher sales volumes in the three months ended June 30, 2014 compared to the same period in 2013, downward pricing pressure, particularly in products servicing advanced consumer electronics customers, along with higher costs related to the introduction of new products into the market eroded operating margins.

Provision for income taxes. The following table summarizes the expense/(benefit) for income taxes for the three months ended June 30, 2013 and June 30, 2014:

| | For the Three Months Ended June 30, | |
|----------------------|--|--------------|
| | 2013 | 2014 |
| | (Dollars in thousands) | |
| Tax expense | \$1,718 | \$6,886 |
| Pretax income (loss) | \$6,100 | \$(148,547) |
| Effective tax rates | 28.2 | % (4.6)% |

For the three months ended June 30, 2014, the effective tax rate differs from the U.S. statutory rate of 35% primarily due to the recording of a valuation allowance against U.S. net deferred tax assets. During the second quarter of 2014, GrafTech impaired certain long-lived assets and announced the exit of certain product lines within our Advanced Graphite Material ("AGM") product group, which is described in more detail in Note 2. The impairment charges and other impairment related charges were incurred primarily in the U.S. jurisdiction. As a result, we determined that it is no longer "more likely than not" that we will generate sufficient future U.S. taxable income to realize our U.S. net deferred tax assets. As a result of the significant negative evidence of recent losses, the Company recognized a \$57.0

million non-cash charge in the second quarter of 2014 to increase the valuation allowance against these deferred income tax assets. 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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(Unaudited)

For the three months ended June 30, 2013, the effective tax rate differs from the U.S. statutory rate of 35% due to a tax rate change applied to certain deferred tax assets and jurisdictional mix of income.

Six Months Ended June 30, 2013 as Compared to Six Months Ended June 30, 2014.

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. Financial information is presented for the six months ended June 30, 2013 and June 30, 2014. Throughout our MD&A, changes that are less than 5% or less than \$1.0 million, may be deemed not meaningful and are generally excluded from the discussion.

| (in thousands, except per share data and % change) | For the Six Months Ended | | Increase (Decrease) | % | |
|--|--------------------------|-------------|------------------------|---------|----|
| | June 30, 2013 | 2014 | | Change | |
| Net sales | \$555,088 | \$564,975 | \$9,887 | 2 | % |
| Cost of sales | 457,617 | 521,328 | 63,711 | 14 | % |
| Gross profit | 97,471 | 43,647 | (53,824) | (55) |)% |
| Research and development | 5,880 | 5,673 | (207) | (4) |)% |
| Selling and administrative expenses | 59,874 | 62,044 | 2,170 | 4 | % |
| Rationalizations | — | 917 | 917 | N/A | |
| Impairment of long-lived assets | — | 121,570 | 121,570 | N/A | |
| Operating income (loss) | 31,717 | (146,557) | (178,274) | (562) |)% |
| Other expense, net | 1,525 | 753 | (772) | (51) |)% |
| Interest expense | 17,955 | 18,154 | 199 | 1 | % |
| Interest income | (113) | (113) | — | — | % |
| Income (loss) before provision for income taxes | 12,350 | (165,351) | (177,701) | (1,439) |)% |
| Provision for (benefit from) income taxes | 3,758 | 1,599 | (2,159) | (57) |)% |
| Net income (loss) | \$8,592 | \$(166,950) | \$(175,542) | (2,043) |)% |
| Basic income (loss) per common share: | \$0.06 | \$(1.23) | \$(1.29) | | |
| Diluted income (loss) per common share: | \$0.06 | \$(1.23) | \$(1.29) | | |

Net sales, by reportable segment for the six months ended June 30, 2013 and June 30, 2014 were:

| (in thousands, except per % change) | For the Six Months Ended | | (Decrease) | % | |
|-------------------------------------|--------------------------|-----------|------------|----------|--------|
| | June 30, 2013 | 2014 | | Increase | Change |
| Industrial Materials | \$440,116 | \$425,431 | \$(14,685) | (3) |)% |
| Engineered Solutions | 114,972 | 139,544 | 24,572 | 21 | % |
| Total net sales | \$555,088 | \$564,975 | \$9,887 | 2 | % |

An analysis of the components of change in net sales for Industrial Materials and Engineered Solutions is set forth in the following table:

| | Volume | Price/Mix | Currency | Net Change |
|----------------------|--------|-----------|----------|------------|
| Industrial Materials | 9 | % (13) |)% 1 | % (3) |
| Engineered Solutions | 31 | % (10) |)% — | % 21 |

Net sales. Net sales for our Industrial Materials segment decreased by \$14.7 million in the six months ended June 30, 2014 compared to the six months ended June 30, 2013. Net sales were impacted by a deterioration in the realized selling price of electrodes in the six months ended June 30, 2014. The weighted average selling price, excluding

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currency impacts, of electrodes in the six months ended June 30, 2014 decreased approximately 14% compared to the six months ended June 30, 2013. Partially offsetting the decrease in sales price was an increase in volumes of 9% in total, driven primarily by graphite electrode volumes, offset slightly by lower third party sales in our needle coke business as we sourced a greater percentage of needle coke internally.

Net sales for our Engineered Solutions segment increased \$24.6 million in the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The increase in revenue was primarily driven by new product sales of high temperature furnace systems and other products serving industrial sectors and thermal solutions serving the advanced consumer electronics market. Specifically, sales of our advanced graphite materials products increased \$16.3 million compared to the six months ended June 30, 2013. At the same time, our advanced electronics technologies product sales increased \$10.0 million, due to volume improvements compared to the six months ended June 30, 2013.

Cost of sales. For the six months ended June 30, 2014, we experienced increases in cost of sales of \$63.7 million compared to the six months ended June 30, 2013. Excluding rationalization and impairment related charges (primarily accelerated depreciation), the increase in cost of sales was \$26.3 million. This increase was primarily driven by costs associated with higher graphite electrode volumes, which accounted for an increase of \$31.0 million. Partially offsetting these cost increases were lower manufacturing costs of \$10.7 million in graphite electrodes primarily due to the effects of our rationalization initiative.

Selling and administrative expenses. Selling and administrative expenses increased \$2.2 million in the six months ended June 30, 2014 compared to the six months ended June 30, 2013, due primarily to \$2.4 million costs associated with our annual meeting. Stock-based compensation expense in the six months ended June 30, 2013 was positively impacted by a \$1.3 million adjustment to compensation expense to due changes in share multiples for certain performance share units.

Rationalizations. In the six months ended June 30, 2014, we incurred \$0.9 million of rationalization charges, primarily related to severance and contract termination costs in our Industrial Materials segment. These charges were due to the closures of our South Africa and Brazil graphite electrode manufacturing operations and our machine shop in Russia that were announced in 2013. Going forward, we anticipate that these actions will result in annual savings of \$75 million, with approximately \$50 million to be realized in 2014.

Impairments. In the second quarter of 2014, we announced additional rationalization initiatives in our Engineered Solutions segment resulting from deteriorated pricing and competitor responses for certain products (see Note 2 to the financial statements). As a result we recorded long-lived asset impairment charges of \$121.6 million and other related charges totaling \$10.6 million. Going forward, we anticipate that these actions will result in annual savings of \$15 million, with approximately \$1 million to be realized in 2014.

The company is also reevaluating its business structure of the Industrial Materials and Engineered Solutions segments and the ongoing needs to support those businesses. The company expects to complete this assessment over the next quarter. Anticipated actions under consideration include a combination of layoffs, attrition, early retirement, reduced contractor costs and other cost savings initiatives designed to simplify work processes and drive greater accountability.

Other expense (income). During the six months ended June 30, 2014, we experienced foreign currency exchange gains of \$0.7 million, compared to foreign currency exchange losses of \$0.7 million during the six months ended June 30, 2013.

Segment operating income (loss). Corporate expenses are allocated to segments based on each segment's percentage of consolidated sales. The following table represents our operating income by segment for the six months ended June 30, 2013 and June 30, 2014:

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(Unaudited)

| | For the Six Months Ended June 30, | |
|---------------------------------------|--------------------------------------|--------------|
| | 2013 | 2014 |
| | (Dollars in thousands) | |
| Industrial Materials | \$23,608 | \$(20,790) |
| Engineered Solutions | 8,109 | (125,767) |
| Total segment operating income (loss) | \$31,717 | \$(146,557) |

The percentage relationship of cost of operations to sales for Industrial Materials and Engineered Solutions is set forth in the following table:

| | For the Six Months Ended June 30, | | | |
|----------------------|--------------------------------------|-------|--------|---|
| | (Percentage of sales) | | | |
| | 2013 | 2014 | Change | |
| Industrial Materials | 95 | % 105 | % 10 | % |
| Engineered Solutions | 93 | % 190 | % 51 | % |

Segment operating costs and expenses as a percentage of sales for Industrial Materials increased to 105% for the six months ended June 30, 2014, compared to 95% for the six months ended June 30, 2013. Excluding rationalization and related charges of \$26.5 million, operating expenses as a percentage of sales for the six months ended June 30, 2014 were 99%, a 4% increase from the six months ended June 30, 2013. This increase is due primarily to margin contraction caused by decreased pricing, particularly related to graphite electrode and needle coke products.

Segment operating costs and expenses as a percentage of sales for Engineered Solutions increased from 93% for the six months ended June 30, 2013 to 190% for the six months ended June 30, 2014 due to the rationalization initiatives and related impairments announced in the second quarter of 2014. Excluding these costs, segment operating costs and expenses as a percentage of sales would have increased slightly to 95%. This increase was due to margin contraction caused by decreased pricing in our consumer electronics business, and higher costs related to the introduction of new products into the market.

Provision for income taxes. The following table summarizes the expense for income taxes for the six months ended June 30, 2013 and June 30, 2014:

| | For the Six Months Ended June 30, | |
|----------------------|--------------------------------------|--------------|
| | 2013 | 2014 |
| | (Dollars in thousands) | |
| Tax expense | \$3,758 | \$1,599 |
| Pretax income (loss) | \$12,350 | \$(165,351) |
| Effective tax rates | 30.4 | % (1.0)% |

For the six months ended June 30, 2014, the effective tax rate differs from the U.S. statutory rate of 35% primarily due to the recording of a valuation allowance against our U.S. deferred tax attributes. During the second quarter of 2014, GrafTech impaired certain long-lived assets and announced the exit of certain product lines within our Advanced Graphite Material ("AGM") product group, which is described in more detail in Note 2. The impairment charges and other impairment related charges were incurred primarily in the U.S. jurisdiction. As a result, we determined that it is no longer "more likely than not" that we will generate sufficient future U.S. taxable income to realize our U.S. net deferred tax assets. As a result of the significant negative evidence of recent losses, the Company recognized a \$57.0 million non-cash charge in the second quarter of 2014 to increase the valuation allowance against these deferred income tax assets. 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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For the three months ended June 30, 2013, the effective tax rate differs from the U.S. statutory rate of 35% due to a tax rate change applied to certain deferred tax assets and jurisdictional mix of income.

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, 2014 was an increase of \$4.4 million compared to the same period of 2013. The impact of the exchange rate changes on cost of sales of Industrial Materials for the six months ended June 30, 2014 was a decrease of \$0.2 million compared to the same period of 2013. Changes in currency exchange rates increased net sales of our Engineered Solutions segment by \$0.4 million and increased cost of sales by 0.3 million in the six months ended June 30, 2014 as compared to the same period for 2013.

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 nominal loss in the six months ended June 30, 2013, compared to a gain of \$0.6 million in the six months ended June 30, 2014.

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".

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PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

(Unaudited)

Liquidity and Capital Resources

We believe that we have adequate liquidity to meet all of our present needs. Disruptions in the U.S. and international financial markets, however, could adversely affect our liquidity and the cost and availability of financing to us in the future. As of June 30, 2014 we had cash and cash equivalents of \$20.7 million, long-term debt of \$551.5 million, short-term debt of \$0.1 million and stockholder's equity of \$1,164 million. We also had \$299 million of unused borrowing capacity under the Revolving Facility (after considering financial covenants restrictions and outstanding letters of credit of approximately \$7.2 million). As a part of our cash management activities, we manage accounts receivable credit risk, collections, and accounts payable vendor terms to maximize our free cash at any given time and minimize accounts receivable losses.

Our sources of funds have consisted principally of cash flow from operations and debt including our Revolving Facility. Our uses of those funds (other than for operations) have consisted principally of capital expenditures, the repurchase of common shares outstanding, cash paid for acquisitions and associated expenses and debt reduction payments and other obligations.

We have a supply chain financing arrangement with a financing party that provides additional working capital liquidity of up to \$49.3 million. Under this arrangement, we essentially assigned our rights to purchase needle coke from a third-party supplier to the financing party. The financing party purchases the product from our supplier under the supplier's standard payment terms and then immediately resells it to us under longer payment terms. The financing party pays the supplier the purchase price for the product and then we pay the financing party. Our payment to the financing party for this needle coke includes a mark-up (the "Mark-Up"). The Mark-Up is subject to quarterly reviews. In effect, we have a longer period of time to pay the financing party than by purchasing directly from the supplier which helps us maintain a balanced cash conversion cycle between inventory payments and the collection of receivables. We recognized Mark-Up of \$0.3 million as interest expense in the six months ended June 30, 2013. We had minimal borrowings under this arrangement during the six months ended June 30, 2014 and as such, we incurred negligible Mark-Up.

In the event that operating cash flow and the financing of needle coke purchases 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.

We use cash flow from operations, funds from supply chain financing, 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. On April 23, 2014, GrafTech and certain of its subsidiaries entered into an Amended and Restated Credit Agreement that provides for, among other things, a five-year tenor, reduced borrowing spreads and greater financial flexibility. This amended facility has a maximum borrowing capacity of \$470 million principal and matures in April 2019. As of June 30, 2014, we had outstanding borrowings drawn from the Revolving Facility of \$68.0 million and outstanding letters of credit of \$7.2 million. The interest rate applicable under the Amended and Restated Credit Agreement is, at GrafTech's option, either LIBOR plus a margin ranging from 1.25% to 2.00% (depending on our total net leverage ratio) or, in the case of dollar denominated loans, the alternate base rate plus a margin ranging from 0.25% to 1.00% (depending upon such ratio). The alternate base rate is the highest of (i) the prime rate announced by JPMorgan Chase Bank, N.A., (ii) the federal fund effective rate plus one-half of 1.0% and (iii) the London interbank offering rate (as adjusted) for a one-month period plus 1.0%. We pay a per annum fee ranging from 0.20% to 0.35% (depending on our total leverage ratio) on the undrawn portion of the commitments under the Revolving Facility.

As of June 30, 2014, we were in compliance with all financial and other covenants contained in the Revolving Facility. These covenants include maintaining a cash minimum interest coverage ratio of at least 2.50 to 1.00 and a maximum senior secured leverage ratio of 3.00 to 1.00, which are measured based on a rolling average of the prior four quarters. Based on expected operating results and expected cash flows, we expect to be in compliance with these

covenants through December 31, 2014. If we were to believe that we would not continue to comply with these covenants, we would seek an appropriate waiver or amendment from the lenders thereunder. We cannot assure you that we would be able to obtain such waiver, amendment or refinancing on acceptable terms or at all.

As of June 30, 2014, approximately 88% of our debt consists of fixed rate or zero interest rate obligations compared to 86% as of December 31, 2013.

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PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

(Unaudited)

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, stock repurchases and other factors.

Certain of our obligations could have a material impact on our liquidity. Cash flow from operations and from financing activities services payment of our obligations, thereby reducing funds available to us for other purposes. As of June 30, 2014 we had \$299 million of unused borrowing capacity under the Revolving facility (after considering financial covenants restrictions and outstanding letters of credit of approximately \$7.2 million). We expect to use a substantial portion of that capacity for general purposes including capital expenditures, acquisitions, stock repurchases and other purposes including cash outflows related to rationalization activities. Continued volatility in the global economy may require additional borrowings under our Revolving Facility if our supply chain financing arrangement is terminated. 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.

Based on expected operating results and expected cash flows, we expect to be in compliance with our existing financial covenants through December 31, 2014. The non-cash portion of the rationalization charges will not affect the Company's liquidity or compliance with debt covenants.

In order to seek to minimize our credit risks, we 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 the Company as a whole, and other factors. We focus on growth capital expenditures which exceed our weighted average cost of capital. We prioritize projects with superior returns, which are often associated with high growth markets.

We had positive cash flow from operating activities during 2010, 2011, 2012, 2013 and through June 30, 2014. 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.

On July 24, 2012, our Board of Directors authorized a repurchase program for up to ten million shares. Purchases under the program may take place from time to time in the open market, or through privately negotiated transactions, as market, industry and economic conditions warrant. No shares have yet been purchased through this repurchase program. In addition, upon the vesting or payment of stock awards, an employee may elect receipt of the full share amount and either pay the resulting taxes or have shares sold in the open market to cover the tax obligation. We sometimes elect to purchase these shares rather than have them sold in the open market.

Related Party Transactions. Mr. Nathan Milikowsky, a current director of GrafTech and previously a director of GrafTech from December 2010 through May 2013, and certain members of his immediate family and certain entities in which he and members of his immediate family have interests, were substantial equity owners of Seadrift and C/G prior to the acquisitions of those entities by the Company. In connection with those acquisitions, Mr. Milikowsky, his immediate family members and those entities received a portion of the aggregate consideration paid to the equity

holders of Seadrift and C/G pursuant to the Seadrift Merger Agreement and the C/G Merger Agreement, which was comprised of shares of the Company's common stock, cash and Senior Subordinated Notes.

We have not engaged in or been a party to any other material transactions with affiliates or related parties except for transactions with our current or former subsidiaries and compensatory transactions with directors and officers including employee benefits, stock option and restricted stock grants, compensation deferral, and stock purchases).

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PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

(Unaudited)

Cash Flows.

The following is a discussion of our cash flow activities:

| | For the Six Months Ended | |
|----------------------------------|--------------------------|-----------|
| | June 30, | |
| | 2013 | 2014 |
| | (Dollars in millions) | |
| Cash flow provided by (used in): | | |
| Operating activities | \$ 11.6 | \$ 55.9 |
| Investing activities | \$(36.8 |) \$(41.3 |
| Financing activities | \$ 19.4 | \$(5.9 |
| 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; 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.

We continue to attempt to maximize our operating cash flows by focusing on working capital items that are most directly affected by changes in sales volume, such as accounts receivable, inventories and accounts payable.

During the six months ended June 30, 2013, changes in working capital resulted in a net use of funds of \$51.0 million which was impacted by:

- cash inflows of \$28.1 million from the decrease in accounts receivable due to the timing and collection of customer sales;

- cash outflows for inventories of \$33.4 million primarily due to increased volumes on hand, which was a result of contractually obligated raw material purchases and lower than expected sales volumes; and

- net cash outflows from decreases in accounts payable and accruals of \$29.7 million through normal operations.

Other uses of cash in the six months ended June 30, 2013 included contributions to pension and other benefit plans of \$4.5 million.

During the six months ended June 30, 2014, changes in working capital resulted in a net source of funds of \$30.4 million which was impacted by:

- cash inflows of \$22.2 million from the decrease in accounts receivable due to the timing and collection of customer sales and collections;

- cash inflows from inventories of \$42.3 million due primarily to reduced volumes on hand;

- net cash outflows from decreases in accounts payable and accruals of \$0.3 million, due primarily to changes in tax accruals and payables;

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PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

(Unaudited)

• decrease in rationalization accruals of \$15.1 million, due primarily to severance payments;

Other uses of cash in the six months ended June 30, 2014 included contributions to pension and other benefit plans of \$5.6 million.

Investing Activities.

Net cash used in investing activities was \$36.8 million during the six months ended June 30, 2013, and included capital expenditures of \$38.5 million and proceeds from derivative instruments of \$1.5 million.

Net cash used in investing activities was \$41.3 million during the six months ended June 30, 2014 and included capital expenditures of \$46.5 million and proceeds from the sales of assets of \$2.5 million (including rationalization related scrap proceeds of \$1.0 million). During the six months ended June 30, 2014, we received \$2.8 million of recoveries related to an insurance claim made for casualty losses related to productive equipment damaged in a fire.

Financing Activities.

Net cash flow provided by financing activities was \$19.4 million during the six months ended June 30, 2013 and included net borrowings under our Revolving Facility of \$40.5 million which were primarily used to fund capital expenditures and fund working capital additions.

Net cash flow used in financing activities was \$5.9 million during the six months ended June 30, 2014, we used \$9.5 million to pay off our supply chain financing agreement. Net borrowings under our Revolver and short term debt agreements resulted in a source of cash of \$3.0 million.

Restrictions on Dividends and Stock Repurchases

A description of the restriction on our ability to pay dividends and our ability to repurchase common stock is set forth under "Item 5 – Dividend Policies and Restrictions" in the Annual Report and such description is incorporated herein by reference. Such description contains all of the information required with respect thereto.

Under the Revolving Facility, in general, GTI is permitted to pay dividends and repurchase common stock in an aggregate amount (cumulative from October 2011) up to \$75 million (or \$500 million, if certain leverage ratio requirements are satisfied) plus, each year, an aggregate amount equal to 50% of the consolidated net income in the prior year.

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 8, "Long-Term 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, 2013 represented a net unrealized loss of \$0.1 million and a net unrealized gain of \$0.2 million as of June 30, 2014.

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. The outstanding contracts as of December 31, 2013 and June 30, 2014 represented net unrealized gains of \$0.8 million and \$0.3 million, respectively.

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, 2014, 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 increase of \$0.03 million or a corresponding decrease of \$0.5 million, respectively, in the fair value of the foreign currency hedge portfolio. A 10% increase or decrease in the value of the underlying commodity prices that we hedge would result in a corresponding increase or decrease of \$0.9 million as of June 30, 2014 in the fair value of the commodity 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, 2014. A hypothetical increase in interest rates of 100 basis points (1%) would have increased our interest expense by \$0.4 million for the six months ended June 30, 2014.

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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, 2014. 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, 2014.

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, 2014 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

The information required by this Item is set forth in Note 12, "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

On July 24, 2012, our Board of Directors authorized a share repurchase program for up to ten million shares of our common stock. Purchases under this program may take place from time to time in the open market, or through privately negotiated transactions, as market, industry and economic conditions warrant. We had not yet made any purchases under this program as of June 30, 2014.

Upon the vesting or payment of stock awards, an employee may elect receipt of the full share amount and either pay the resulting taxes or sell shares in the open market to cover the tax obligation. We sometimes elect to purchase these shares rather than allow them to be sold in the open market. These repurchases are in addition to the programs authorized by our Board of Directors described above.

| Period | Total Number of Shares Purchased* | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Publicly Announced Plans or Programs |
|--------------------------------|-----------------------------------|------------------------------|--|---|
| April 1 through April 30, 2014 | 3,844 | \$ 11.24 | — | 10,000,000 |
| May 1 through May 31, 2014 | 22,416 | 10.49 | — | 10,000,000 |
| June 1 through June 30, 2014 | 84 | 10.45 | — | 10,000,000 |

* Purchases of vested restricted stock shares from employees as payment for the withholding taxes due upon the vesting or payment of stock awards.

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 Joel L. Hawthorne, President and Chief Executive Officer (Principal Executive Officer). |
| 31.2 | Certification pursuant to Rule 13a-14(a) under the Exchange Act by Erick R. Asmussen, Vice President and Chief Financial Officer (Principal Financial Officer). |
| 32.1 | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Joel L. Hawthorne, President and Chief Executive Officer (Principal Executive Officer). |
| 32.2 | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Erick R. Asmussen, 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.

Date: August 11, 2014

GRAFTECH INTERNATIONAL LTD.
By: /s/ Erick R. Asmussen
Erick R. Asmussen
Vice President and Chief Financial
Officer (Principal Financial Officer)