

GRAFTECH INTERNATIONAL LTD

Form 10-Q

October 25, 2017

Table of Contents

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 September 30, 2017

OR

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

for the transition period from _____ to _____

Commission file number: 1-13888

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large Accelerated Filer Accelerated Filer Emerging Growth Company

Non-Accelerated Filer Smaller Reporting Company

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

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

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

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

Table of Contents

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION:

Item 1. Financial Statements

Condensed Consolidated Balance Sheets as of December 31, 2016 and September 30, 2017 (unaudited) 3

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2016 and 2017 (unaudited) 4

Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2016 and 2017 (unaudited) 5

Notes to Condensed Consolidated Financial Statements (unaudited) 6

Introduction to Part I, Item 2, and Part II, Item 1 and Item 1A 25

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 30

Item 3. Quantitative and Qualitative Disclosures About Market Risk 39

Item 4. Controls and Procedures 40

PART II. OTHER INFORMATION:

Item 1. Legal Proceedings 41

Item 1A. Risk Factors 41

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 41

Item 3. Defaults Upon Senior Securities 41

Item 4. Mine Safety Disclosures 41

Item 5. Other Information 41

Item 6. Exhibits 42

SIGNATURE 43

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

Unaudited

	As of December 31, 2016	As of September 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$11,610	\$16,376
Accounts and notes receivable, net of allowance for doubtful accounts of \$326 as of December 31, 2016 and \$387 as of September 30, 2017	80,568	80,132
Inventories	156,111	164,568
Prepaid expenses and other current assets	21,665	19,978
Current assets of discontinued operations	60,979	15,375
Total current assets	330,933	296,429
Property, plant and equipment	585,704	627,582
Less: accumulated depreciation	76,849	118,118
Net property, plant and equipment	508,855	509,464
Deferred income taxes	19,803	19,220
Goodwill	171,117	171,117
Other assets	141,568	123,778
Total assets	\$1,172,276	\$1,120,008
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$47,663	\$58,376
Short-term debt	8,852	13,282
Accrued income and other taxes	5,256	8,131
Other accrued liabilities	30,594	34,027
Current liabilities of discontinued operations	20,042	11,957
Total current liabilities	112,407	125,773
Long-term debt	356,580	320,430
Other long-term obligations	82,148	78,976
Deferred income taxes	42,906	43,368
Long-term liabilities of discontinued operations	850	581
Contingencies – Note 9	—	—
Stockholders' equity:		
Common stock, par value \$.01, 1,000 shares authorized, 100 shares issued as of December 31, 2016 and September 30, 2017	—	—
Additional paid-in capital	854,337	854,337
Accumulated other comprehensive (loss) income	(7,558) 13,583
Accumulated deficit	(269,394) (317,040
Total stockholders' equity	577,385	550,880
Total liabilities and stockholders' equity	\$1,172,276	\$1,120,008

See accompanying Notes to Condensed Consolidated Financial Statements

3

Table of Contents

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

	For the Three Months Ended September 30, 2016		For the Nine Months Ended September 30, 2017	
CONSOLIDATED STATEMENTS OF OPERATIONS				
Net sales	\$ 111,590	\$ 137,245	\$ 322,530	\$ 358,298
Cost of sales	113,602	120,420	331,297	329,200
Additions to lower of cost or market inventory reserve	4,898	264	19,523	1,773
Gross (loss) profit	(6,910)	16,561	(28,290)	27,325
Research and development	526	1,338	1,964	3,110
Selling and administrative expenses	12,215	13,322	39,430	37,200
Operating (loss) profit	(19,651)	1,901	(69,684)	(12,985)
Other (income) expense, net	(567)	(643)	(1,528)	3,610
Interest expense	6,964	7,792	19,860	23,240
Interest income	(158)	(58)	(169)	(320)
Loss from continuing operations before provision for income taxes	(25,890)	(5,190)	(87,847)	(39,515)
(Benefit from) provision for income taxes	(1,789)	1,963	(7,675)	3,249
Net loss from continuing operations	(24,101)	(7,153)	(80,172)	(42,764)
Income (loss) from discontinued operations, net of tax	1,134	3,234	(107,568)	(4,882)
Net loss	\$(22,967)	\$(3,919)	\$(187,740)	\$(47,646)
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)				
Net loss	\$(22,967)	\$(3,919)	\$(187,740)	\$(47,646)
Other comprehensive (loss) income:				
Foreign currency translation adjustments	2,300	7,546	13,974	21,141
Commodities and foreign currency derivatives and other	118	—	145	—
Other comprehensive income, net of tax:	2,418	7,546	14,119	21,141
Comprehensive (loss) income	\$(20,549)	\$3,627	\$(173,621)	\$(26,505)

See accompanying Notes to Condensed Consolidated Financial Statements

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

(Dollars in thousands, unaudited)

	For the Nine Months Ended September 30, 2016	For the Nine Months Ended September 30, 2017
Cash flow from operating activities:		
Net loss	\$(187,740)	\$(47,646)
Adjustments to reconcile net loss to cash provided by operations:		
Depreciation and amortization	62,775	50,982
Impairments	105,623	5,300
Gain on sale of assets	—	(3,676)
Change in inventory lower-of-cost-or-market reserve net of depreciation	6,000	(1,578)
Deferred income tax provision	(11,738)	(3,049)
Post-retirement and pension plan changes	3,164	2,226
Interest expense	4,872	5,089
Other charges, net	(2,042)	4,877
Net change in working capital*	54,005	22,197
Change in long-term assets and liabilities	(6,188)	(1,141)
Net cash provided by operating activities	28,731	33,581
Cash flow from investing activities:		
Capital expenditures	(22,257)	(23,028)
Proceeds from the sale of assets	685	4,038
Proceeds from divestitures	—	26,818
Other	(1,171)	—
Net cash (used in) provided by investing activities	(22,743)	7,828
Cash flow from financing activities:		
Short-term debt, net	503	5,945
Revolving Facility borrowings	40,000	35,000
Revolving Facility reductions	(41,000)	(77,755)
Revolving Facility refinancing fees	(922)	—
Principal payments on long-term debt	(104)	(107)
Net cash used in financing activities	(1,523)	(36,917)
Net change in cash and cash equivalents	4,465	4,492
Effect of exchange rate changes on cash and cash equivalents	755	274
Cash and cash equivalents at beginning of period	6,927	11,610
Cash and cash equivalents at end of period	\$12,147	\$16,376
* Net change in working capital due to the following components:		
Accounts and notes receivable, net	\$9,685	\$1,961
Inventories	41,399	8,588
Prepaid expenses and other current assets	(1,170)	(187)
Change in accounts payable and accruals	(770)	7,135
Increase in interest payable	4,861	4,700
Net change in working capital	\$54,005	\$22,197

Note: The Statements of Cash Flows include both continuing and discontinued operations

See accompanying Notes to Condensed Consolidated Financial Statements

5

PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Organization and Summary of Significant Accounting Policies

A. Organization

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

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

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

B. Basis of Presentation

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

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

C. New Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU supersedes the revenue recognition requirements in Accounting Standards Codification 605—Revenue Recognition and most industry-specific guidance throughout the Codification. This ASU requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU was expected to be effective for fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years. On July 9, 2015, the FASB deferred the effective date to fiscal years beginning after December 15, 2017. During the fourth quarter of 2016, we completed the initial evaluation of the new standard and the related assessment and review of a representative sample of existing revenue contracts with our customers. We determined, on a preliminary basis, that although the timing and pattern of revenue recognition may change, the amount of revenue recognized during the year should remain substantially the same. We intend to adopt this standard using the modified retrospective method. We have begun an initiative to offer three to five year supply contracts to our strategic customers. ASU No. 2014-09 could have a material impact on the way in which we would recognize revenue under these contracts. We will continue to evaluate revenue recognition of these contracts as they are entered into.

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

adoption of this standard on its financial position, results of operations or cash flows.

6

PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

In January 2017, the FASB issued ASU No. 2017-04 Intangibles-Goodwill and Other (Topic 350). This guidance was issued to simplify the accounting for goodwill impairment. The guidance removes the second step of the goodwill impairment test, which requires that a hypothetical purchase price allocation be performed to determine the amount of impairment, if any. Under this new guidance, a goodwill impairment charge will be based on the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance will become effective on a prospective basis for the Company on January 1, 2020 with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact of the adoption of this standard on its results of operations.

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

(2) Discontinued Operations and Related Assets Held for Sale

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

During 2016, we evaluated the fair value of the Engineered Solutions business segment utilizing the market approach (Level 3 measure). As a result, we incurred an impairment charge to our Engineered Solutions business segment of \$120 million to align the carrying value with estimated fair value. We continued to update this estimate and during the nine months ended September 30, 2017, we further reduced the estimated fair value by \$5.3 million based upon current information.

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

On July 3, 2017 we completed the sale of our Advanced Energy Technologies (AET) business. AET was a product line within our Engineered Solutions business which had been classified as held for sale since the second quarter of 2016. The sale resulted in cash proceeds of \$28.5 million.

On September 30, 2017, we completed the sale of the majority of the U.S. assets of our GrafTech Advanced Graphite Materials (GAGM) business, which was a component of our Engineered Solutions business. The sale of the Italian GAGM assets closed on October 5, 2017. In the jurisdictions where the GAGM assets were not acquired, we initiated the wind-down of the business which we expect to be substantially completed by year-end. The sale was structured as a non-cash transaction with the buyer assuming certain liabilities associated with the assets acquired. In addition, GrafTech retained certain current assets of GAGM, mostly receivables, which will be substantially realized in the course of the 4th quarter of 2017. As such, the disposition of the GAGM assets did not result in any cash proceeds in the third quarter of 2017.

As a result of the sales described above, we recorded a gain of \$3.7 million in the third quarter of 2017. The disposition of the Engineered Solutions business is now substantially complete, with only the wind-down in the fourth

quarter of 2017 remaining.

In accordance with our Credit Facility, all cash proceeds from these sales were used to pay down our Revolving Facility and Term Loan.

7

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2017	2016	2017
	(Dollars in thousands)			
Net sales	\$30,165	\$14,528	\$89,184	\$78,721
Cost of sales	23,497	14,574	74,051	71,596
Gross profit (loss)	6,668	(46)	15,133	7,125
Research and development	707	106	2,398	1,387
Selling and administrative expenses	3,983	3,561	13,474	11,360
Gain on sale of assets	—	(3,676)	—	(3,676)
Impairments	—	—	105,623	5,300
Operating income (loss)	1,978	(37)	(106,362)	(7,246)
Other income	(3)	(56)	(75)	(71)
Interest expense	783	—	2,452	1,131
Income (loss) from discontinued operations before income taxes	1,198	19	(108,739)	(8,306)
Provision for (benefit from) income taxes on discontinued operations	64	(3,215)	(1,171)	(3,424)
Income (loss) from discontinued operations	\$1,134	\$3,234	\$(107,568)	\$(4,882)

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

	For the Nine Months Ended September 30,	
	2016	2017
	(Dollars in thousands)	
Depreciation and amortization	\$3,849	\$2,418
Impairment	105,623	5,300
Gain on sale of assets	—	(3,676)
Inventory	(217)	13,804
Deferred income taxes	(1,172)	(3,068)
Capital expenditures	3,621	528

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

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

	As of December 31, 2016	As of September 30, 2017
	(Dollars in thousands)	
Assets of discontinued operations:		
Accounts receivable	\$17,094	\$10,004
Inventories	71,816	8,092
Prepaid expenses and other current assets	320	2,173
Net property plant and equipment	79,048	8,892
Other assets	12,608	746
Total assets of discontinued operations prior to impairment	180,886	29,907
Impairment	(119,907)	(14,532)
Total assets of discontinued operations	\$60,979	\$15,375
Liabilities of discontinued operations:		
Accounts payable	\$7,253	\$1,270
Accrued income and other taxes	2,326	238
Other accrued liabilities	10,463	10,449
Total current liabilities of discontinued operations	20,042	11,957
Other long-term obligations	850	581
Total liabilities of discontinued operations	\$20,892	\$12,538

(3) Segment Reporting

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

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

PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Information concerning our reportable segment is as follows:

	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2016	2017	2016	2017
	(Dollars in thousands)			
Net sales to external customers:				
Industrial Materials	\$111,590	\$137,245	\$322,530	\$358,298
Operating (loss) income:				
Industrial Materials	(14,238)	8,308	(50,776)	4,218
Corporate, R&D and Other expenses	(5,413)	(6,407)	(18,908)	(17,203)
Total operating (loss) income	\$(19,651)	\$1,901	\$(69,684)	\$(12,985)

Reconciliation of segment operating loss to loss before provision for income taxes

Other expense (income), net	\$(567)	\$(643)	\$(1,528)	\$3,610
Interest expense	6,964	7,792	19,860	23,240
Interest income	(158)	(58)	(169)	(320)
Loss from continuing operations before provision for income taxes	\$(25,890)	\$(5,190)	\$(87,847)	\$(39,515)

(4) Benefit Plans

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

	For the Three		For the Nine	
	Months		Months	
	Ended		Ended	
	September		September 30,	
	2016	2017	2016	2017
	(Dollars in thousands)			
Service cost	\$506	\$496	\$1,517	\$1,487
Interest cost	1,498	1,385	4,494	4,154
Expected return on plan assets	(1,307)	(1,389)	(3,922)	(4,166)
Net cost	\$697	\$492	\$2,089	\$1,475

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

	For the		For the	
	Three		Nine	
	Months		Months	
	Ended		Ended	
	September		September	
	30,	30,	2016	2017
	2016	2017	2016	2017
	(Dollars in thousands)			
Service cost	\$1	\$1	\$3	\$1
Interest cost	272	241	815	724
Net cost	\$273	\$242	\$818	\$725

(5) Goodwill and Other Intangible Assets

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

The following tables represent the changes in the carrying value of goodwill and intangibles for the nine months ended September 30, 2017:

PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Goodwill

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

Adjustments —

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

Intangible Assets

	As of December 31, 2016			As of September 30, 2017		
	Gross Carrying Amount	Accumulated Amortization & Impairment	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization & Impairment	Net Carrying Amount
	(Dollars in Thousands)					
Trade name	\$22,500	\$ (3,235)	\$19,265	\$22,500	\$ (4,954)	\$17,546
Technological know-how	55,300	(10,397)	44,903	55,300	(15,646)	39,654
Customer –related intangible	64,500	(6,177)	58,323	64,500	(9,527)	54,973
Total finite-lived intangible assets	\$142,300	\$ (19,809)	\$122,491	\$142,300	\$ (30,127)	\$112,173

Amortization expense of acquired intangible assets was \$3.5 million and \$10.7 million in the three and nine months ended September 30, 2016 and \$3.4 million and \$10.3 million in the three and nine months ended September 30, 2017. Estimated amortization expense will approximate \$3.3 million in the remainder of 2017, \$12.9 million in 2018, \$12.2 million in 2019, \$11.4 million in 2020 and \$10.7 million in 2021.

(6) Debt and Liquidity

The following table presents our long-term debt:

	As of December 31, 2016	As of September 30, 2017
	(Dollars in thousands)	
Credit Facility (Revolving Facility and Term Loan Facility)	\$90,731	\$54,076
Senior Notes	274,132	278,959
Other Debt	569	677
Total Debt	365,432	333,712
Less: Short-term Debt	(8,852)	(13,282)
Long-term Debt	\$356,580	\$320,430

The fair value of debt, which was determined using Level 2 inputs, was \$347.4 million versus a book value of \$333.7 million as of September 30, 2017. As a result of our acquisition by Brookfield and the resulting purchase price accounting adjustments, our Senior Notes were adjusted to their fair market value as of August 15, 2015. The discount to fair value will be accreted over the remaining term of the Notes.

Credit Facility

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

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

defined thereunder to include the acquisition by any person of more than 25 percent of GrafTech's outstanding shares) to exclude the acquisition of shares by Brookfield. In addition, effective upon such acquisition, the financial

PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

covenants were eased, resulting in increased availability under the Revolving Facility. The size of the Revolving Facility was also reduced from \$400 million to \$375 million. The size of the Term Loan Facility remained at \$40 million.

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

With this amendment, the Company has full access to the \$225 million Revolving Facility, subject to the \$25 million minimum liquidity requirement. As of September 30, 2017, the Company had \$35.3 million of borrowings on the Revolving Facility and \$11.6 million of letters of credit drawn against the Revolving Facility.

The \$40 million Term Loan Facility was fully drawn on August 11, 2015, in connection with the repayment of the Senior Subordinated Notes. The balance of the Term Loan Facility was \$18.8 million as of September 30, 2017.

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

Senior Notes

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

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

The Company is entitled to redeem some or all of the Senior Notes at any time on or after November 15, 2016, at the redemption prices set forth in the indenture.

The indenture for the Senior Notes states that if, prior to maturity, a change in control (as defined in the indenture) of the Company occurs and thereafter certain downgrades of the ratings of the Senior Notes as specified in the indenture occur, the Company will be required to offer to repurchase any or all of the Senior Notes at a repurchase price equal to 101% of the aggregate principal amount of the Senior Notes, plus any accrued and unpaid interest. On August 17, 2015, a change in control occurred due to the Merger. However, the downgrade of the ratings of the Senior Notes, as specified in the indenture, did not occur. Therefore, the Company was not required to offer to repurchase the Senior

Notes as a result of the Merger.

The indenture for the Senior Notes also contains covenants that, among other things, limit the ability of the Company and certain of its subsidiaries to: (i) create liens or use assets as security in other transactions; (ii) engage in certain sale/leaseback transactions; and (iii) merge, consolidate or sell, transfer, lease or dispose of substantially all of their assets.

PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(7) Inventories

Inventories are comprised of the following:

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

(Dollars in thousands)

Inventories:

Raw materials and supplies	\$54,469	\$55,492
Work in process	52,379	65,349
Finished goods	49,263	43,727
Total	\$156,111	\$164,568

We recorded lower of cost or market inventory adjustments of \$19.5 million and \$1.8 million in the nine months ended September 30, 2016 and September 30, 2017, respectively. The decrease is attributable to the reduction in product costs and increases in prices.

(8) Interest Expense

The following tables present the components of interest expense:

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2016	2017	2016	2017

(Dollars in thousands)

Interest incurred on debt	\$5,306	\$6,097	\$15,020	\$18,183
Accretion of fair value adjustment on Senior Notes	1,581	1,618	4,715	4,826
Amortization of debt issuance costs	77	77	125	231
Total interest expense	\$6,964	\$7,792	\$19,860	\$23,240

Interest Rates

The Revolving Facility and Term Loan Facility had an effective interest rate of 5.52% and 5.99% as of December 31, 2016 and September 30, 2017, respectively. The Senior Notes have a fixed interest rate of 6.375%.

(9) Contingencies

Legal Proceedings

We are involved in various investigations, lawsuits, claims, demands, environmental compliance programs and other legal proceedings arising out of or incidental to the conduct of our business. While it is not possible to

13

PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

determine the ultimate disposition of each of these matters, we do not believe that their ultimate disposition will have a material adverse effect on our financial position, results of operations or cash flows.

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

Product Warranties

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

	(Dollars in thousands)	
Balance as of December 31, 2016	\$	969
Product warranty adjustments	(210)
Accruals and Payments	(290)
Balance as of September 30, 2017	\$	469

(10) Income Taxes

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2017	2016	2017
	(Dollars in thousands)			

Tax (benefit) expense	\$(1,789)	\$1,963	\$(7,675)	\$3,249
Pretax loss	(25,890)	(5,190)	(87,847)	(39,515)
Effective tax rates	6.9	%	(37.8))%
	8.7	%	(8.2))%

For the three and nine months ended September 30, 2016 and 2017 the effective tax rate differs from the U.S. statutory rate of 35% primarily due to recent losses in the U.S. and Switzerland where we receive no tax benefit due to

a full valuation allowance and worldwide earnings from various countries taxed at different rates. The recognition of the valuation allowance does not result in or limit the Company's ability to utilize these tax assets in the future.

PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

As of September 30, 2017, we had unrecognized tax benefits of \$2.6 million, \$2.3 million of which, if recognized, would have a favorable impact on our effective tax rate.

We file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. All U.S. federal tax years prior to 2014 are generally closed by statute or have been audited and settled with the applicable domestic tax authorities. All other jurisdictions are still open to examination beginning after 2010.

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

(11) Derivative Instruments

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

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

Foreign currency derivatives

We enter into foreign currency derivatives from time to time to attempt to manage exposure to changes in currency exchange rates. These foreign currency instruments, which include, but are not limited to, forward exchange contracts and purchased currency options, attempt to hedge global currency exposures such as foreign currency denominated debt, sales, receivables, payables, and purchases. Forward exchange contracts are agreements to exchange different currencies at a specified future date and at a specified rate. There was no ineffectiveness on these contracts designated as hedging instruments during the nine months ended September 30, 2016 and 2017, respectively.

In 2016 and 2017, we entered into foreign currency derivatives denominated in the Mexican peso, South African rand, Brazilian real, euro and Japanese yen. These derivatives were entered into to protect the risk that the eventual cash flows resulting from commercial and business transactions may be adversely affected by changes in exchange rates between the U.S. dollar and the Mexican peso, euro, South African rand and Japanese yen. As of September 30, 2017, we had outstanding Mexican peso, euro, and Japanese yen currency contracts with an aggregate notional amount of \$18.8 million. The foreign currency derivatives outstanding as of September 30, 2017, have maturities through December 29, 2017.

Commodity derivative contracts

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

products or natural gas.

15

PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Net Investment Hedges

We use certain intercompany debt to hedge a portion of our net investment in our foreign operations against currency exposure (net investment hedge). Intercompany debt denominated in foreign currency and designated as a non-derivative net investment hedging instrument was \$13.3 million and \$13.5 million as of December 31, 2016 and September 30, 2017, respectively. Within the currency translation adjustment portion of other comprehensive income, we recorded losses of \$0.9 million and \$1.5 million for the three and nine months ended September 30, 2016, respectively. We incurred a gain of \$0.5 million and a loss of \$0.2 million in the three and nine months ended September 30, 2017, respectively, resulting from these net investment hedges.

(12) Guarantor Information

On November 20, 2012, GrafTech International Ltd. (the "Parent") issued \$300 million aggregate principal amount of Senior Notes. The Senior Notes mature on November 15, 2020 and bear interest at a rate of 6.375% per year, payable semi-annually in arrears on May 15 and November 15 of each year. The Senior Notes are guaranteed on a senior basis by the following wholly-owned direct and indirect subsidiaries of the Parent: GrafTech Finance Inc., GrafTech Holdings Inc., GrafTech USA LLC, Seadrift Coke LP, GrafTech Global Enterprises Inc., GrafTech International Holdings Inc., GrafTech DE LLC, GrafTech Seadrift Holding Corp, GrafTech 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, 2016 and September 30, 2017, condensed consolidating statements of operations and comprehensive income for the three and nine months ended September 30, 2016 and 2017 and the condensed consolidating statements of cashflows for the nine months ended September 30, 2016 and 2017.

PART I (CONT'D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEETS

As of December 31, 2016

(in thousands)

	Parent	Guarantors	Non-Guarantors	Consolidating Entries and Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash and cash equivalents	\$—	\$636	\$10,974	\$—	\$11,610
Accounts receivable - affiliates	51,592	3,624	19,643	(74,859)	—
Accounts receivable - trade	—	7,518	73,050	—	80,568
Inventories	—	44,563	111,548	—	156,111
Prepaid and other current assets	1,350	4,853	15,462	—	21,665
Current assets of discontinued operations	—	51,160	14,296	(4,477)	60,979
Total current assets	52,942	112,354	244,973	(79,336)	330,933
Investment in affiliates	844,379	601,597	—	(1,445,976)	—
Property, plant and equipment	—	191,503	317,352	—	508,855
Deferred income taxes	—	—	19,803	—	19,803
Goodwill	—	70,399	100,718	—	171,117
Notes receivable - affiliate	—	49,003	—	(49,003)	—
Other assets	—	70,767	70,801	—	141,568
Total Assets	\$897,321	\$1,095,623	\$753,647	\$(1,574,315)	\$1,172,276
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities:					
Accounts payable - affiliate	\$806	\$71,243	\$2,810	\$(74,859)	\$—
Accounts payable - trade	964	8,033	38,666	—	47,663
Short-term debt	—	3,062	5,790	—	8,852
Accrued income and other taxes	—	2,095	3,161	—	5,256
Other accrued liabilities	2,444	12,205	15,945	—	30,594
Short-term liabilities of discontinued operations					