

GRAFTECH INTERNATIONAL LTD
Form 10-Q
August 03, 2007
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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, 2007
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
(State or other jurisdiction of
incorporation or organization)

06-1385548
(I.R.S. Employer
Identification Number)

12900 Snow Road
Parma, Ohio
(Address of principal executive offices)

44130
(Zip code)

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

As of July 31, 2007, 104,275,778 shares of common stock, par value \$.01 per share, were outstanding.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS***(Dollars in thousands, except share data)**(Unaudited)*

| | At December 31, 2006 | At June 30, 2007 |
|--|---------------------------------|-----------------------------|
| Current Assets: | | |
| Cash and cash equivalents | \$ 149,517 | \$ 33,474 |
| Accounts and notes receivable, net of allowance for doubtful accounts of \$3,186 at December 31, 2006 and \$2,817 at June 30, 2007 | 166,528 | 153,233 |
| Inventories | 239,129 | 251,758 |
| Prepaid expenses and other current assets | 14,071 | 6,892 |
| Assets held for sale | | 2,677 |
| Total current assets | 569,245 | 448,034 |
| | | |
| Property, plant and equipment | 889,389 | 846,256 |
| Less: accumulated depreciation | 599,636 | 548,718 |
| | | |
| Net property, plant and equipment | 289,753 | 297,538 |
| Deferred income taxes | 6,326 | 6,392 |
| Goodwill | 9,822 | 9,817 |
| Other assets | 29,253 | 24,751 |
| Assets held for sale | 1,802 | 1,415 |
| | | |
| Total assets | \$ 906,201 | \$ 787,947 |
| LIABILITIES AND STOCKHOLDERS DEFICIT | | |
| Current liabilities: | | |
| Accounts payable | \$ 62,094 | \$ 61,538 |
| Interest payable | 18,872 | 11,748 |
| Short-term debt | 458 | 189 |
| Accrued income and other taxes | 41,099 | 38,693 |
| Other accrued liabilities | 98,068 | 75,824 |
| Liabilities of assets held for sale | | 395 |
| | | |
| Total current liabilities | 220,591 | 188,387 |
| | | |
| Long-term debt: | | |
| Principal value | 657,714 | 473,660 |
| Fair value adjustments for hedge instruments | 6,421 | 3,324 |
| Unamortized bond premium | 1,265 | 658 |
| | | |
| Total long-term debt | 665,400 | 477,642 |

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| | | |
|---|------------|------------|
| Other long-term obligations | 103,408 | 99,269 |
| Deferred income taxes | 27,000 | 26,770 |
| Minority stockholders' equity in consolidated entities (see Contingencies Note 13) | 3,722 | 3,874 |
| Stockholders' deficit: | | |
| Preferred stock, par value \$.01, 10,000,000 shares authorized, none issued | | |
| Common stock, par value \$.01, 150,000,000 shares authorized, 101,433,949 shares issued at December 31, 2006 and 103,733,981 shares issued at June 30, 2007 | 1,026 | 1,040 |
| Additional paid-in capital | 950,023 | 966,591 |
| Accumulated other comprehensive loss | (312,763) | (303,774) |
| Accumulated deficit | (660,153) | (579,857) |
| Less: cost of common stock held in treasury, 2,501,201 shares at December 31, 2006 and at June 30, 2007 | (85,197) | (85,197) |
| Less: common stock held in employee benefit and compensation trusts, 472,566 shares at December 31, 2006 and 469,045 shares at June 30, 2007. | (6,856) | (6,798) |
| Total stockholders' deficit | (113,920) | (7,995) |
| Total liabilities and stockholders' deficit | \$ 906,201 | \$ 787,947 |

See accompanying Notes to Consolidated Financial Statements

Table of Contents**PART I (CONT D)****GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS***(Dollars in thousands, except per share data)**(Unaudited)*

| | For the Three | | For the Six | |
|--|------------------|------------|------------------|------------|
| | Months Ended | | Months Ended | |
| | June 30, 2006 | 2007 | June 30, 2006 | 2007 |
| Net sales | \$ 223,314 | \$ 255,889 | \$ 397,506 | \$ 484,120 |
| Cost of sales | 163,402 | 161,943 | 288,145 | 313,892 |
| Gross profit | 59,912 | 93,946 | 109,361 | 170,228 |
| Research and development | 2,867 | 2,045 | 5,398 | 4,279 |
| Selling and administrative | 23,442 | 25,462 | 48,250 | 47,770 |
| Restructuring charges (credits), net | 2,877 | (138) | 5,823 | 746 |
| Impairment loss on long-lived assets | 637 | | 8,788 | |
| Antitrust investigations and related lawsuits and claims | 2,513 | | 2,513 | |
| Other (income) expense, net | (1,607) | (23,059) | (1,987) | (11,955) |
| Interest expense | 12,074 | 9,546 | 23,862 | 21,257 |
| Interest income | (126) | (258) | (252) | (1,224) |
| | 42,677 | 13,598 | 92,395 | 60,873 |
| Income from continuing operations before provision for income taxes and minority stockholders share of subsidiaries income | 17,235 | 80,348 | 16,966 | 109,355 |
| Provision for income taxes | 7,157 | 15,376 | 10,736 | 25,906 |
| Income from continuing operations before minority interest | 10,078 | 64,972 | 6,230 | 83,449 |
| Minority stockholders share of subsidiaries income | 39 | 2 | 42 | 35 |
| Income from continuing operations | 10,039 | 64,970 | 6,188 | 83,414 |
| Loss from discontinued operations, net of tax | (1,128) | (2,528) | (1,923) | (3,117) |
| Net income | \$ 8,911 | \$ 62,442 | \$ 4,265 | \$ 80,297 |
| Basic income (loss) per common share: | | | | |
| Income per share from continuing operations | 0.10 | 0.66 | 0.06 | 0.84 |
| Loss per share from discontinued operations | (0.01) | (0.03) | (0.02) | (0.03) |
| Net income per share | \$ 0.09 | \$ 0.63 | \$ 0.04 | \$ 0.81 |
| Weighted average common shares outstanding | 97,981 | 99,759 | 97,841 | 99,202 |
| Diluted earnings per common share: | | | | |
| Income per share from continuing operations | 0.10 | 0.57 | 0.06 | 0.75 |

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| | | | | |
|---|---------|---------|---------|---------|
| Loss per share from discontinued operations | (0.01) | (0.02) | (0.02) | (0.03) |
| Net income per share | \$ 0.09 | \$ 0.55 | \$ 0.04 | \$ 0.72 |
| Weighted average common shares outstanding | 112,177 | 116,549 | 98,416 | 114,508 |

See accompanying Notes to Consolidated Financial Statements

Table of Contents**PART I (CONT D)****GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS***(Dollars in thousands)**(Unaudited)*

| | For the Six | |
|---|---------------------|-------------|
| | Months Ended | |
| | June 30, | |
| | 2006 | 2007 |
| Cash flow from operating activities: | | |
| Net income | \$ 4,265 | \$ 80,297 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Loss from discontinued operations, net of tax | 1,923 | 3,117 |
| Depreciation and amortization | 20,492 | 16,202 |
| Deferred income taxes | 1,248 | 3,623 |
| Restructuring charges | 5,823 | 746 |
| Impairment loss on long-lived assets | 8,788 | |
| Other (credits) charges, net | 241 | (64) |
| Increase in working capital* | (9,193) | (20,764) |
| (Loss)/Gain on sale of assets | 960 | (23,662) |
| Post retirement obligation changes | (6,682) | (1,659) |
| Long-term assets and liabilities | (7,733) | (4,044) |
| Net cash provided by operating activities | 20,132 | 53,792 |
| Cash flow from investing activities: | | |
| Capital expenditures | (24,034) | (20,218) |
| Purchase of derivative instruments | (266) | |
| Proceeds from sale of assets | 336 | 24,663 |
| Payments for purchase price adjustments | | (2,794) |
| Payments for patents costs | (427) | (472) |
| Net cash (used in) provided by investing activities | (24,391) | 1,179 |
| Cash flow from financing activities: | | |
| Short-term debt borrowings | | 574 |
| Revolving Facility borrowings | 320,854 | 183,645 |
| Revolving Facility reductions | (316,688) | (183,000) |
| Long-term debt reductions | | (184,750) |
| Proceeds from exercise of stock options | | 12,331 |
| Net cash provided by (used in) financing activities | 4,166 | (171,200) |
| Net decrease in cash and cash equivalents | (93) | (116,229) |
| Effect of exchange rate changes on cash and cash equivalents | 558 | 186 |

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| | | |
|--|----------|-----------|
| Cash and cash equivalents at beginning of period | 5,968 | 149,517 |
| Cash and cash equivalents at end of period | \$ 6,433 | \$ 33,474 |

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

| | | |
|---|------------|-------------|
| (Increase) decrease in current assets: | | |
| Accounts and notes receivable | \$ 24,448 | \$ (6,699) |
| Effect of factoring on accounts receivable | 6,250 | 22,533 |
| Inventories | (17,088) | (7,116) |
| Prepaid expenses and other current assets | (2,683) | 918 |
| Payments for antitrust investigations and related lawsuits and claims | (9,955) | (5,380) |
| Restructuring payments | (4,083) | (4,469) |
| Decrease in accounts payable and accruals | (6,105) | (13,427) |
| Increase (decrease) in interest payable | 23 | (7,124) |
| Increase in working capital | \$ (9,193) | \$ (20,764) |

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) Interim Financial Presentation

These 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 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 and cash flows for the periods presented. These interim Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements, including the accompanying Notes, contained in our Annual Report on Form 10-K for the year ended December 31, 2006 (the **Annual Report**). The year-end Consolidated Balance Sheet was derived from audited Consolidated Financial Statements, but does not include all disclosures required annually by accounting principles generally accepted in the United States of America.

Certain amounts in the Consolidated Financial Statements for the three and six months ended June 30, 2006 have been reclassified to conform with current period presentation.

The results for the second quarter include expenses associated with our final purchase price adjustment related to the sale of our cathodes business in December of 2006. These expenses were for items identified in the second quarter that related to the final purchase price settlements recorded in the first quarter. This resulted in an 1) understatement of loss from discontinued operations in the first quarter of 2007 in the amount of \$3.8 million, \$2.5 million net of tax, and an 2) overstatement of loss from discontinued operations in the current quarter of the same amount. We have determined that the impact of this item was not material to the first or second quarter.

(2) New Accounting Standards

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*, (SFAS 159). This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS 159 are elective; however, the amendment to FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities with available-for-sale and trading securities. The fair value option established by SFAS 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. We are currently in the process of assessing the impact of the adoption of SFAS 159 on our consolidated results of operations and financial position.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, (SFAS 157). This Statement defines fair value, establishes a framework for measuring fair

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PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

value, and expands disclosures about fair value measurements. SFAS No. 157 requires disclosure of information that enables users of the financial statements to assess the inputs used to develop fair value measurements and, for recurring fair value measurements using significant unobservable inputs, the effects of the measurements on earnings for the period. This statement is effective for fiscal years beginning after November 15, 2007. We are currently in the process of assessing the impact of the adoption of SFAS No. 157 on our consolidated results of operations and financial position.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140*, (SFAS 155). This Statement (1) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (2) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133, (3) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; and (4) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of our first fiscal year that begins after September 15, 2006. The fair value election of SFAS 155 may also be applied upon adoption of SFAS 155 for hybrid financial instruments that had been bifurcated under paragraph 12 of SFAS 133, prior to the adoption of this Statement. We have adopted SFAS 155 as of January 1, 2007. The adoption of SFAS 155 did not have an impact on our consolidated results of operations or financial position, as we do not have any hybrid financial instruments.

In June 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*. FIN 48 clarifies the recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Under the guidelines of FIN 48, an entity should recognize a financial statement benefit for a tax position if it determines that it is more likely than not that the position will be sustained upon examination. We have adopted FIN 48 as of January 1, 2007. Additional information with respect to the adoption of this standard is set forth in Note 15 to the Consolidated Financial Statements.

In June 2006, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 06-03, *How Sales Tax Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (That is, Gross versus Net Presentation)* (EITF 06-3). This EITF Issue clarifies that the presentation of taxes collected from customers and remitted to governmental authorities on a gross (included in revenues and costs) or net (excluded from revenues) basis is an accounting policy decision that should be disclosed pursuant to Accounting Principles Board (APB) Opinion No. 22, *Disclosure of Accounting Policies*. We adopted EITF 06-3 as of January 1, 2007. Our accounting policy is to collect such taxes from customers and account for them on a net basis. The adoption of EITF 06 -3 did not have an impact on our consolidated results of operations or financial position.

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In the three months ended June 30, 2007 and 2006, we recognized \$1.4 million and \$0.7 million, respectively, in stock-based compensation expense. A majority of the expense, \$1.2 million and \$0.5 million respectively, was recorded as selling and administrative expenses in the Consolidated Statement of Operations, with the remaining expenses incurred as cost of sales and research and development.

In the six months ended June 30, 2007 and 2006, we recognized \$2.8 million and \$1.8 million, respectively, in stock-based compensation expense. A majority of the expense, \$2.5 million and \$1.5 million respectively, was recorded as selling and administrative expenses in the Consolidated Statement of Operations, with the remaining expenses incurred as cost of sales and research and development.

As of June 30, 2007, the total compensation cost related to non-vested restricted stock and stock options not yet recognized was \$5.8 million and will be recognized over the weighted average life of 2.19 years.

Restricted stock activity under the plans for the six months ended June 30, 2007 was as follows:

| | Number of Shares | Weighted- Average Grant Date Fair Value |
|--------------------------------|------------------------|--|
| Outstanding at January 1, 2007 | 1,630,725 | \$ 6.29 |
| Granted | 68,113 | 6.97 |
| Vested | (502,607) | 4.51 |
| Forfeited | (48,227) | 4.91 |
| Outstanding at June 30, 2007 | 1,148,004 | \$ 6.18 |

Stock option activity under the plans for the six months ended June 30, 2007 was as follows:

| | Number of Shares | Weighted- Average Grant Date Fair Value |
|--------------------------------|---------------------|--|
| Outstanding at January 1, 2007 | 9,424,864 | \$ 7.32 |
| Granted | 300,000 | 5.84 |
| Vested | | |
| Terminated | (1,779,644) | 11.10 |
| Exercised | (1,620,543) | 4.88 |
| Outstanding at June 30, 2007 | 6,324,677 | \$ 6.81 |

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Basic and diluted EPS are calculated based upon the provisions of SFAS No. 128, *Earnings Per Share*, and EITF No. 04-08, *Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effects on Diluted Earnings Per Share*, using the following data:

| | For the Three | | For the Six | |
|--|--|------------------|--------------|------------------|
| | Months Ended | | Months Ended | |
| | 2006 | June 30, 2007 | 2006 | June 30, 2007 |
| | <i>(Dollars in thousands, except share data)</i> | | | |
| Net income as reported | \$ 8,911 | \$ 62,442 | \$ 4,265 | \$ 80,297 |
| Interest on Debentures, net of tax benefit | 595 | 898 | | 1,795 |
| Amortization of Debentures issuance costs, net of tax benefit | 174 | 422 | | 845 |
| Net income as adjusted | \$ 9,680 | \$ 63,762 | \$ 4,265 | \$ 82,937 |
| Weighted average common shares outstanding for basic calculation | 97,980,835 | 99,759,078 | 97,841,775 | 99,202,210 |
| Add: Effect of stock options and restricted stock | 625,644 | 3,218,867 | 573,840 | 1,735,446 |
| Add: Effect of Debentures | 13,570,560 | 13,570,560 | | 13,570,560 |
| Weighted average common shares outstanding for diluted calculation | 112,177,039 | 116,548,505 | 98,415,615 | 114,508,216 |

Basic earnings per common share are calculated by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share are calculated by dividing net income 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, including those underlying the Debentures, had been issued.

The calculation of weighted average common shares outstanding for the diluted calculation excludes consideration of stock options covering 9,081,629 and 2,161,413 shares in the three months ended June 30, 2006 and 2007, respectively, and 9,451,763 and 3,873,521 shares in the six months ended June 30, 2006 and 2007, respectively, because the exercise of these options would not have been dilutive for those periods due to the fact that the exercise prices were greater than the weighted average market price of our common stock for each of those periods.

The calculation of weighted average common shares outstanding for the diluted calculation also excludes the 13,570,560 shares underlying the Debentures for the six months ended June 30, 2006, as the effect would have been anti-dilutive.

(5) Segment Reporting

Our businesses are reported in the following reportable segments:

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Graphite Electrode. Our graphite electrode segment manufactures and delivers high quality graphite electrodes and related services. Electrodes are key components of the conductive power systems used to produce steel and other non-ferrous metals.

Advanced Graphite Materials. Advanced graphite materials include primary and specialty products for transportation, semiconductor and other markets.

Other Businesses. Other businesses include natural graphite products, refractories and carbon electrodes.

We evaluate the performance of our segments based on segment operating income. Intersegment sales and transfers are not material. 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 sales.

The following tables summarize financial information concerning our reportable segments.

| | For the Three | | For the Six | |
|--|-------------------------------|-------------------|-------------------|-------------------|
| | Months Ended | | Months Ended | |
| | June 30, 2006 | 2007 | June 30, 2006 | 2007 |
| | <i>(Dollars in thousands)</i> | | | |
| Net sales to external customers: | | | | |
| Graphite electrode | \$ 173,326 | \$ 208,674 | \$ 302,116 | \$ 388,738 |
| Advanced graphite materials | 25,074 | 27,962 | 50,237 | 54,469 |
| Other businesses | 24,914 | 19,253 | 45,153 | 40,913 |
| Total net sales | \$ 223,314 | \$ 255,889 | \$ 397,506 | \$ 484,120 |
| Segment operating income (loss): | | | | |
| Graphite electrode | \$ 34,274 | \$ 62,204 | \$ 47,369 | \$ 109,881 |
| Advanced graphite materials | 3,298 | 5,596 | 5,404 | 8,882 |
| Other businesses | (7,483) | (1,223) | (11,671) | (1,330) |
| Total segment operating income | \$ 30,089 | \$ 66,577 | \$ 41,102 | \$ 117,433 |
| Reconciliation of segment operating income to income from continuing operations before provision for income taxes and minority stockholders' share of subsidiaries' income (loss): | | | | |
| Antitrust investigations and related lawsuits and claims | 2,513 | | 2,513 | |
| Other income, net | (1,607) | (23,059) | (1,987) | (11,995) |
| Interest expense | 12,074 | 9,546 | 23,862 | 21,257 |
| Interest income | (126) | (258) | (252) | (1,224) |
| | \$ 17,235 | \$ 80,348 | \$ 16,966 | \$ 109,355 |

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Income from continuing operations before provision for income taxes and minority
stockholders' share of subsidiaries' income

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PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(6) Restructuring Charges and Impairment Losses

At June 30, 2007, the outstanding balance of our restructuring reserve was \$4.3 million. The components of this balance at June 30, 2007 consisted primarily of:

Graphite Electrode Segment

\$1.2 million related to the rationalization of our graphite electrode facilities in France and the cessation of operations of our facility in Russia.

\$1.7 million related to severance costs for the closure of our graphite electrode manufacturing operations in Caserta, Italy.

\$0.7 million related to the closure of our graphite electrode machining and warehousing operations in Clarksville, Tennessee.

Other Businesses

\$0.7 million related to the shutdown of our carbon electrode production operations at our Columbia, Tennessee facility.

For the three months ended June 30, 2007, we recorded a net restructuring credit of \$0.1 million. For the six months ended June 30, 2007, we recorded a net restructuring charge of \$0.7 million.

The net credit of \$0.1 million for the three months ended June 30, 2007 was due primarily to favorable changes in estimates of \$0.7 million at our Columbia, Tennessee and Etoy, Switzerland facilities related to the timing and amounts of severance and related payments, offset by \$0.6 million of expense, comprised primarily of \$0.4 million of severance and related payments at our Columbia, Tennessee and Etoy, Switzerland facilities, and \$0.2 million related to the closure of our graphite electrode machining and warehousing operations in Clarksville, Tennessee.

The net charge of \$0.7 million for the six months ended June 30, 2007 was due to \$1.4 million of restructuring charges, offset by \$0.7 million of restructuring credits due to changes in estimates. The \$1.4 million of restructuring charges related primarily to \$0.6 million for the closure of our graphite electrode machining and warehousing operations in Clarksville, Tennessee, \$0.5 million and \$0.2 million related to severance and related payments at our Etoy, Switzerland and Columbia, Tennessee facilities, respectively, and \$0.1 million related to our graphite electrode facilities in Caserta, Italy and Vyazma, Russia. The changes in estimates of \$0.7 million were related to the timing and amounts of severance and related payments at our Switzerland, Columbia, Tennessee and former corporate headquarters in Wilmington, Delaware.

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PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table summarizes activity relating to the restructuring liability at June 30, 2007.

| | Severance and Related Costs | Plant Shutdown and Related Costs <i>(Dollars in thousands)</i> | Total |
|-----------------------------------|-----------------------------------|--|----------|
| Balance at January 1, 2007 | \$ 7,185 | \$ 689 | \$ 7,874 |
| Restructuring charges | 881 | 534 | 1,415 |
| Change in estimates | (461) | (208) | (669) |
| Payments and settlements | (3,870) | (558) | (4,428) |
| Currency adjustments | 60 | 14 | 74 |
| Balance at June 30, 2007 | \$ 3,795 | \$ 471 | \$ 4,266 |

In the first quarter of 2006, we abandoned long-lived fixed assets associated with costs capitalized for our enterprise resource planning system implementations due to an indefinite delay in the implementation of the remaining facilities. As a result, we recorded a \$6.6 million loss, in accordance with SFAS No. 144, *Accounting For the Impairment and Disposal of Long-Lived Assets*.

Also, in the first quarter of 2006, we announced our intention to sell certain long-lived assets from our Etoy, Switzerland and Caserta, Italy facilities. We recorded a \$1.4 million impairment loss in the 2006 first quarter to adjust the carrying value of the assets in Switzerland to the estimated fair value less estimated selling costs. In the third quarter of 2006, we sold the long-lived assets at our Etoy, Switzerland facility. In the second quarter of 2007, we sold the long-lived assets at our Caserta, Italy facility.

In the second quarter of 2006, we abandoned certain long-lived fixed assets associated with the accelerated closing of our carbon electrode facility in Columbia, Tennessee due to changes in our initial plan of restructuring the facility. As a result, we recorded a \$0.6 million impairment loss in accordance with SFAS No. 144.

Table of Contents**PART I (CONT D)****GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(7) Other (Income) Expense, Net**

The following table presents an analysis of other (income) expense, net:

| | For the Three | | For the Six | |
|--|-------------------------------|--------------------|--------------------------|--------------------|
| | Months Ended June 30, | | Months Ended June 30, | |
| | 2006 | 2007 | 2006 | 2007 |
| | <i>(Dollars in thousands)</i> | | | |
| Currency (gains) losses | \$ (2,147) | \$ (1,798) | \$ (4,533) | \$ (71) |
| Loss on extinguishment of debt | | 2,765 | | 10,288 |
| Brazil sales tax provision | (1,465) | | (1,465) | |
| Legal, environmental and other related costs | 1,828 | 291 | 2,802 | 1,092 |
| Loss (gain) on sale of assets | (281) | (23,893) | 124 | (23,187) |
| Bank and other financing fees | 420 | 493 | 778 | 1,159 |
| Loss on the sale of accounts receivable | 230 | 325 | 405 | 475 |
| Other | (192) | (1,242) | (98) | (1,711) |
| Total other (income) expense, net | \$ (1,607) | \$ (23,059) | \$ (1,987) | \$ (11,955) |

We have non-dollar-denominated intercompany loans between our GrafTech Finance, Inc. subsidiary (Finco) and some of our foreign subsidiaries. At December 31, 2006 and June 30, 2007, the aggregate principal amount of these loans was \$450.7 million and \$460.9 million, respectively (based on currency exchange rates in effect at such dates). These loans are subject to remeasurement gains and losses due to changes in currency exchange rates. A portion of these loans are deemed to be essentially permanent and, as a result, remeasurement gains and losses on these loans are recorded in accumulated other comprehensive loss in the stockholders' deficit section of the Consolidated Balance Sheets. The balance of these loans is 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. In the six months ended June 30, 2006, we had a net total of \$4.5 million of currency gains, including \$6.3 million of exchange gains due to the remeasurement of intercompany loans and translation of financial statements of foreign subsidiaries which use the dollar as their functional currency. In the six months ended June 30, 2007, we had a net total of \$0.1 million of currency gains, including \$1.5 million of exchange gains due to the remeasurement of intercompany loans and translation of financial statements of foreign subsidiaries which use the dollar as their functional currency.

In connection with the redemption of \$50.0 million of the outstanding principal amount of the Senior Notes during the three months ended June 30, 2007, we incurred a \$2.8 million loss on the extinguishment of debt, which includes \$2.6 million related to the call premium and \$0.2 million of charges for the accelerated amortization of the debt issuance fees, terminated interest rate swaps and the premium related to the Senior Notes. For the six months ended June 30, 2007, we redeemed a total of \$185.0 million of the outstanding principal of the Senior Notes. We incurred a \$10.3 million loss on the extinguishment of debt, \$9.5 million of which related to the call premium and \$0.8 million of charges for the accelerated amortization of the debt issuance fees, terminated interest rate swaps and the premium related to the Senior Notes.

Table of Contents**PART I (CONT D)****GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

In the three months ended June 30, 2007, we sold land and certain assets related to our former graphite electrode manufacturing facility in Caserta, Italy. The gain recognized on this sale was \$23.7 million.

(8) Benefit Plans

The components of our consolidated net pension and postretirement costs (benefits) are set forth in the following tables:

| | Pension Benefits | | | |
|---------------------------------------|-------------------------------|-------------|---------------------|-------------|
| | For the Three | | For the Six | |
| | Months Ended | | Months Ended | |
| | June 30, | | June 30, | |
| | 2006 | 2007 | 2006 | 2007 |
| | <i>(Dollars in thousands)</i> | | | |
| Service cost | \$ 295 | \$ 245 | \$ 587 | \$ 488 |
| Interest cost | 2,876 | 2,857 | 5,733 | 5,684 |
| Expected return on plan assets | (2,983) | (3,112) | (5,947) | (6,194) |
| Amortization of transition obligation | (23) | (22) | (47) | (43) |
| Amortization of prior service cost | 23 | 30 | 47 | 60 |
| Amortization of unrecognized loss | 709 | 579 | 1,416 | 1,155 |
| Settlements | | 102 | | 102 |
| Net Cost | \$ 897 | \$ 679 | \$ 1,789 | \$ 1,252 |

| | Post Retirement Benefits | | | |
|---------------------------------------|---------------------------------|-------------|---------------------|-------------|
| | For the Three | | For the Six | |
| | Months Ended | | Months Ended | |
| | June 30, | | June 30, | |
| | 2006 | 2007 | 2006 | 2007 |
| | <i>(Dollars in thousands)</i> | | | |
| Service cost | \$ 101 | \$ 125 | \$ 204 | \$ 247 |
| Interest cost | 503 | 210 | 1,004 | 418 |
| Amortization of prior service benefit | (5,279) | (2,838) | (10,557) | (5,670) |
| Amortization of unrecognized loss | 1,333 | 1,126 | 2,664 | 2,246 |
| Net benefit | \$ (3,342) | \$ (1,377) | \$ (6,685) | \$ (2,759) |

Table of Contents**PART I (CONT D)****GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(9) Long-Term Debt and Liquidity**

The following table presents our long-term debt:

| | At December 31, 2006 | At June 30, 2007 |
|--|-------------------------------|---------------------|
| | <i>(Dollars in thousands)</i> | |
| Revolving Facility | \$ | \$ |
| Senior Notes: | | |
| Senior Notes due 2012 | 434,631 | 249,623 |
| Fair value adjustments for terminated hedge instruments* | 6,421 | 3,324 |
| Unamortized bond premium | 1,265 | 658 |
| Total Senior Notes | 442,317 | 253,605 |
| Debentures | 222,233 | 222,567 |
| Other debt | 850 | 1,470 |
| Total | \$ 665,400 | \$ 477,642 |

* Fair value adjustments for terminated hedge instruments, originally accounted for as fair value hedges, will be amortized as a credit to interest expense over the remaining term of the Senior Notes.

(10) Inventories

Inventories are comprised of the following:

| | At December 31, 2006 | At June 30, 2007 |
|---------------------------|-------------------------------|---------------------|
| | <i>(Dollars in thousands)</i> | |
| Raw material and supplies | \$ 79,277 | \$ 68,318 |
| Work in process | 123,162 | 128,797 |
| Finished goods | 41,039 | 57,437 |
| | 243,478 | 254,552 |
| Reserves | (4,349) | (2,794) |
| Total Inventories | \$ 239,129 | \$ 251,758 |

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GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(11) Interest Expense

Interest expense consists of the following:

| | For the Three | | For the Six | |
|---|-------------------------------|----------|--------------|-----------|
| | Months Ended | | Months Ended | |
| | June 30, | | June 30, | |
| | 2006 | 2007 | 2006 | 2007 |
| | <i>(Dollars in thousands)</i> | | | |
| Interest incurred on debt | \$ 11,045 | \$ 8,693 | \$ 21,860 | \$ 19,442 |
| Amortization of fair value adjustments for terminated hedge instruments | (243) | (155) | (482) | (358) |
| Amortization of premium on Senior Notes | (53) | (31) | (104) | (69) |
| Amortization of discount on Debentures | 162 | 168 | 323 | 334 |
| Interest on DOJ antitrust fine | 46 | | 130 | 5 |
| Amortization of debt issuance costs | 916 | 809 | 1,828 | 1,684 |
| Interest incurred on other items | 201 | 62 | 307 | 219 |
| Total interest expense | \$ 12,074 | \$ 9,546 | \$ 23,862 | \$ 21,257 |

(12) Comprehensive Income (Loss)

Comprehensive income (loss), net of tax, consists of the following:

| | For the Three | | For the Six | |
|---|-------------------------------|-----------|--------------|-----------|
| | Months Ended | | Months Ended | |
| | June 30, | | June 30, | |
| | 2006 | 2007 | 2006 | 2007 |
| | <i>(Dollars in thousands)</i> | | | |
| Net income | \$ 8,911 | \$ 62,442 | \$ 4,265 | \$ 80,297 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments, net of tax | (1,720) | 5,137 | 7,902 | 7,737 |
| Amortization of prior service costs and unrecognized gains and losses | | 977 | | 2,252 |
| Total comprehensive income | \$ 7,191 | \$ 68,556 | \$ 12,167 | \$ 90,286 |

(13) Contingencies

Antitrust Investigations

We were previously subject to certain antitrust investigations as described in the Annual Report. At December 31, 2006, \$5.4 million remained in the reserve for liabilities and expenses in connection with these investigations representing the last scheduled installment of the fine imposed by the United States Department of Justice, which was paid in January 2007.

Other Matters and Proceedings Against Us

We are involved in various other 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

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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.

Environmental Matters

During 2006, we increased our reserve for environmentally related activities to be performed in connection with the closure and sale of our Caserta, Italy facility by \$1.7 million. The majority of this increase was incurred during the three months ended June 30, 2006. The increase in the reserve relates primarily to activities for closing the on-site solid waste landfill earlier than originally anticipated. At December 31, 2006, our accrual balance for these activities at our Caserta, Italy location was \$3.1 million. In the second quarter of 2007, we sold our Caserta, Italy facility. At the time of the sale, the environmental accrual at Caserta was \$2.4 million. In connection with this sale, we agreed to complete certain activities for the remediation of portions of the land and to complete the closure of the landfill. Approximately \$1.5 million of the purchase price has been placed in escrow as security for the completion of these activities. The sale agreement provides that, upon completion of certain milestones in the remediation and landfill closure activities, portions of the escrowed amounts shall be paid to us.

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 amounted to \$0.9 million at December 31, 2006 and at June 30, 2007. The following table presents the activity in this accrual for the six months ended June 30, 2007:

| | <i>(Dollars in Thousands)</i> | |
|-----------------------------------|-------------------------------|-------|
| Balance at January 1, 2007 | \$ | 920 |
| Product warranty charges | | 474 |
| Payments and settlements | | (544) |
| Balance at June 30, 2007 | \$ | 850 |

(14) Financial Information About the Issuers and Guarantors of Our Debt Securities and Subsidiaries Whose Securities Secure the Senior Notes and Related Guarantees

On February 15, 2002, GrafTech Finance (**Finco**), a direct subsidiary of GTI (the **Parent**), issued \$400 million aggregate principal amount of Senior Notes and, on May 6, 2002, \$150 million aggregate principal amount of additional Senior Notes. All of the Senior Notes have been issued under a single Indenture and constitute a single class of debt securities. The Senior Notes mature on February 15, 2012. The Senior Notes have been guaranteed on a senior basis by the Parent and the following wholly-owned direct and indirect subsidiaries of the Parent: GrafTech Global, UCAR Carbon, UCAR International Trading Inc., and UCAR Carbon

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GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Technology LLC. The Parent, Finco and these subsidiaries together hold a substantial majority of our U.S. assets.

On January 22, 2004, the Parent issued \$225 million aggregate principal amount of Debentures. The guarantors of the Debentures are the same as the guarantors of the Senior Notes, except for Parent (which is the issuer of the Debentures but a guarantor of the Senior Notes) and Finco (which is a guarantor of the Debentures but the issuer of the Senior Notes). The Parent and Finco are both obligors on the Senior Notes and the Debentures, although in different capacities.

The guarantors of the Senior Notes and the Debentures, solely in their respective capacities as such, are collectively called the **U.S. Guarantors**. Our other subsidiaries, which are not guarantors of either the Senior Notes or the Debentures, are called the **Non-Guarantors**.

All of the guarantees are unsecured, except that the guarantee of the Senior Notes by UCAR Carbon has been secured by a junior pledge of all of the shares of capital stock (constituting 97.5% of the outstanding shares of capital stock) of AET held by UCAR Carbon (called the **AET Pledged Stock**), subject to the limitation that in no event will the value of the pledged portion of the AET Pledged Stock exceed 19.99% of the principal amount of the then outstanding Senior Notes. All of the guarantees are full, unconditional and joint and several. Finco and each of the other U.S. Guarantors (other than the Parent) 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. All of the guarantees of the Debentures continue until the Debentures have been paid in full, and payment under such guarantees could be required immediately upon the occurrence of an event of default under the Debentures. If a guarantor makes a payment under its guarantee of the Senior Notes or the Debentures, it would have the right under certain circumstances to seek contribution from the other guarantors of the Senior Notes or the Debentures, respectively.

Provisions in the Revolving Facility restrict the payment of dividends by our subsidiaries to the Parent. At June 30, 2007, retained earnings of our subsidiaries subject to such restrictions were approximately \$1,028 million. Investments in subsidiaries are recorded on the equity basis.

The following tables set forth condensed consolidating balance sheets at December 31, 2006 and June 30, 2007, condensed consolidating statements of operations for the three and six months ended June 30, 2006 and three and six months ended June 30, 2007 as well as condensed consolidating statements of cash flows for the six months ended June 30, 2006 and 2007, respectively, of the Parent, Finco, all other U.S. Guarantors and the Non-Guarantors.

During the second quarter of 2007, the Company has revised the presentation of the guarantor financial statements to reflect the equity (deficit) in earnings of all subsidiaries in the Parent condensed consolidating statement of operations. In addition, the Company reclassified the investment in affiliates from the payable to equity of investees for consistency with the presentation in the condensed consolidating statement of operations.

Table of Contents**PART I (CONT D)****GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Condensed Consolidating Balance Sheet****at December 31, 2006**

| | Parent (Issuer of Debentures and Guarantor of Senior Notes) | Finco (Issuer of Senior Notes and Guarantor of Debentures) | All Other U.S. Guarantors | Non- Guarantors | Consolidation/ Eliminations | Consolidated |
|--|---|--|---------------------------------|--------------------|--------------------------------|--------------|
| | <i>(Dollars in thousands)</i> | | | | | |
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 151 | \$ 125,161 | \$ | \$ 24,335 | \$ (130) | \$ 149,517 |
| Intercompany loans | 67,402 | 190,976 | | 328,602 | (586,980) | |
| Intercompany accounts receivable | | 12,071 | 38,065 | 17,939 | (68,075) | |
| Accounts receivable third party | | 130 | 23,376 | 143,022 | | 166,528 |
| Accounts and notes receivable, net | 67,402 | 203,177 | 61,441 | 489,563 | (655,055) | 166,528 |
| Inventories | | | 51,220 | 187,948 | (39) | 239,129 |
| Prepaid expenses and other current assets | | 16,430 | 1,444 | 18,417 | (22,220) | 14,071 |
| Total current assets | 67,553 | 344,768 | 114,105 | 720,263 | (677,444) | 569,245 |
| Property, plant and equipment, net | | | 43,567 | 250,834 | (4,648) | 289,753 |
| Deferred income taxes | | | 9,100 | 6,326 | (9,100) | 6,326 |
| Intercompany loans | | 542,973 | | | (542,973) | |
| Investments in affiliates | 40,088 | | 127,257 | | (167,345) | |
| Goodwill | | | | 9,822 | | 9,822 |
| Other assets | 4,288 | 14,229 | 2,540 | 8,196 | | 29,253 |
| Assets held for sale | | | | 1,802 | | 1,802 |
| Total assets | \$ 111,929 | \$ 901,970 | \$ 296,569 | \$ 997,243 | \$ (1,401,510) | \$ 906,201 |
| LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT) | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | \$ | \$ | \$ 7,791 | \$ 54,303 | \$ | \$ 62,094 |
| Interest payable | 1,676 | 17,195 | | 1 | | 18,872 |
| Intercompany loans | | 330,540 | 242,132 | 82,487 | (655,159) | |

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| | | | | | | |
|--|------------|------------|------------|------------|----------------|------------|
| Third party loans | | | | 458 | | 458 |
| Short-term debt | | 330,540 | 242,132 | 82,945 | (655,159) | 458 |
| Accrued income and other taxes | 1,939 | | 27,309 | 34,065 | (22,214) | 41,099 |
| Other accrued liabilities | | 184 | 30,160 | 67,724 | | 98,068 |
| Total current liabilities | 3,615 | 347,919 | 307,392 | 239,038 | (677,373) | 220,591 |
| Long-term debt | 222,234 | 442,317 | | 849 | | 665,400 |
| Intercompany loans | | | | 542,972 | (542,972) | |
| Other long-term obligations | | | 56,101 | 47,307 | | 103,408 |
| Payable to equity of investees | | | | | | |
| Deferred income taxes | | | | 36,098 | (9,098) | 27,000 |
| Minority stockholders' equity in consolidated entities | | | | 3,722 | | 3,722 |
| Stockholders' equity (deficit) | (113,920) | 111,734 | (66,924) | 127,257 | (172,067) | (113,920) |
| Total liabilities and stockholders' deficit | \$ 111,929 | \$ 901,970 | \$ 296,569 | \$ 997,243 | \$ (1,401,510) | \$ 906,201 |

Table of Contents**PART I (CONT D)****GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Condensed Consolidating Balance Sheet****at June 30, 2007**

| | Parent (Issuer of Debentures and Guarantor of Senior Notes) | Finco (Issuer of Senior Notes and Guarantor of Debentures) | All Other U.S. Guarantors | Non-Guarantors | Consolidation/ Eliminations | Consolidated |
|---|--|---|--------------------------------------|-----------------------|--|---------------------|
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 180 | \$ 8,804 | \$ | \$ 24,652 | \$ (162) | \$ 33,474 |
| Intercompany loans | 83,426 | 178,221 | | 407,122 | (668,769) | |
| Intercompany accounts receivable | | 7,766 | 40,066 | 43,931 | (91,763) | |
| Accounts receivable third party | | | 27,025 | 126,208 | | 153,233 |
| Accounts and notes receivable, net | 83,426 | 185,987 | 67,091 | 577,261 | (760,532) | 153,233 |
| Inventories | | | 42,113 | 209,663 | (18) | 251,758 |
| Prepaid expenses and other current assets | | 22,738 | 1,477 | 5,337 | (22,660) | 6,892 |
| Assets held for sale | | | | 2,677 | | 2,677 |
| Total current assets | 83,606 | 217,529 | 110,681 | 819,590 | (783,372) | 448,034 |
| Property, plant and equipment, net | | | 45,299 | 256,746 | (4,507) | 297,538 |
| Deferred income taxes | | | 13,322 | 1,242 | (8,172) | 6,392 |
| Intercompany loans | | 553,117 | | | (553,117) | |
| Investments in affiliates | 130,307 | | 230,089 | | (360,396) | |
| Goodwill | | | | 9,817 | | 9,817 |
| Other assets | 3,752 | 8,997 | 2,932 | 9,070 | | 24,751 |
| Assets held for sale | | | | 1,415 | | 1,415 |
| Total assets | \$ 217,665 | \$ 779,643 | \$ 402,323 | \$ 1,097,880 | \$ (1,709,564) | \$ 787,947 |

LIABILITIES AND STOCKHOLDERS**EQUITY (DEFICIT)****Current liabilities:**

| | | | | | | |
|--------------------|-------|---------|----------|-----------|-----------|-----------|
| Accounts payable | \$ | \$ | \$ 5,034 | \$ 56,665 | \$ (161) | \$ 61,538 |
| Interest Payable | 1,676 | 10,062 | | 10 | | 11,748 |
| Intercompany loans | | 412,434 | 265,192 | 82,976 | (760,602) | |
| Third party loans | | | | 189 | | 189 |

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| | | | | | | |
|--|------------|------------|------------|--------------|----------------|------------|
| Short-term debt | | 412,434 | 265,192 | 83,165 | (760,602) | 189 |
| Accrued income and other taxes | 1,417 | | 31,500 | 28,426 | (22,650) | 38,693 |
| Other accrued liabilities | | | 19,590 | 56,234 | | 75,824 |
| Liabilities of assets held for sale | | | | 395 | | 395 |
| Total current liabilities | 3,093 | 422,496 | 321,316 | 224,895 | (783,413) | 188,387 |
| Long-term debt | 222,567 | 253,605 | | 1,470 | | 477,642 |
| Intercompany loans | | | | 553,118 | (553,118) | |
| Other long-term obligations | | | 49,779 | 49,490 | | 99,269 |
| Payable to equity of investees | | | | | | |
| Deferred income taxes | | | | 34,944 | (8,174) | 26,770 |
| Minority stockholders' equity in consolidated entities | | | | 3,874 | | 3,874 |
| Stockholders' equity (deficit) | (7,995) | 103,542 | 31,228 | 230,089 | (364,859) | (7,995) |
| Total liabilities and stockholders' deficit | \$ 217,665 | \$ 779,643 | \$ 402,323 | \$ 1,097,880 | \$ (1,709,564) | \$ 787,947 |

Table of Contents**PART I (CONT D)****GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Condensed Consolidating Statements of Operations****for the Three Months Ended June 30, 2006**

| | Parent (Issuer of Debentures and Guarantor of Senior Notes) | Finco (Issuer of Senior Notes and Guarantor of Debentures) | All Other U.S. Guarantors <i>(Dollars in thousands)</i> | Non- Guarantors | Consolidation/ Eliminations | Consolidated |
|--|--|--|--|--------------------|--------------------------------|--------------|
| Net sales | \$ | \$ | \$ 70,377 | \$ 200,176 | \$ (47,239) | \$ 223,314 |
| Cost of sales | | (773) | 59,984 | 145,797 | (41,606) | 163,402 |
| Gross profit | | 773 | 10,393 | 54,379 | (5,633) | 59,912 |
| Research and development | | | 1,605 | 1,262 | | 2,867 |
| Selling and administrative | | (30) | 11,612 | 20,470 | (8,610) | 23,442 |
| Restructuring charges | | | 1,532 | 1,345 | | 2,877 |
| Impairment loss on long-lived assets | | | | 637 | | 637 |
| Antitrust investigations and related lawsuits and Claims | | | 2,513 | | | 2,513 |
| Other (income) expense, net | 17 | (11,910) | 2,359 | (2,254) | 10,181 | (1,607) |
| Interest expense | 1,222 | 14,104 | 2,568 | 4,372 | (10,192) | 12,074 |
| Interest Income | | (3) | | (123) | | (126) |
| Income (loss) from continuing operations before provision for (benefit from) income taxes and minority stockholders share of income (loss) | (1,239) | (1,388) | (11,796) | 28,670 | 2,988 | 17,235 |
| Provision for (benefit from) income taxes | (9) | 201 | 1,966 | 5,010 | (11) | 7,157 |
| Minority stockholders share of income (loss) | | | | 39 | | 39 |
| Income from continuing operations | (1,230) | (1,589) | (13,762) | 23,621 | 2,999 | 10,039 |
| Loss from discontinued operations, net of tax | | | | (1,128) | | (1,128) |
| Deficit (equity) in earnings of subsidiaries | (10,141) | | (22,493) | | 32,634 | |
| Net income (loss) | \$ 8,911 | \$ (1,589) | \$ 8,731 | \$ 22,493 | \$ (29,635) | \$ 8,911 |

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PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Condensed Consolidating Statements of Operations

for the Three Months ended June 30, 2007

| | Parent (Issuer of Debentures and Guarantor of Senior Notes) | Finco (Issuer of Senior Notes and Guarantor of Debentures) | All Other U.S. Guarantors | Non- Guarantors | Consolidation/ Eliminations | Consolidated |
|---|---|---|---------------------------------|--------------------|--------------------------------|--------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| | | | <i>(Dollars in thousands)</i> | | | |
| Net sales | | | 67,811 | 230,564 | (42,486) | 255,889 |
| Cost of sales | | | 49,470 | 146,785 | (34,312) | 161,943 |
| Gross profit | | | 18,341 | 83,779 | (8,174) | 93,946 |
| Research and development | | | 1,549 | 496 | | 2,045 |
| Selling, administrative and other expenses | | | 15,603 | 20,078 | (10,219) | 25,462 |
| Restructuring charges | | | 196 | (334) | | (138) |
| Impairment loss on long-lived and other assets | | | | | | |
| Antitrust investigations and related lawsuits | | | | | | |
| Other (income) expense, net | | (9,737) | (4,267) | (25,918) | 16,863 | (23,059) |
| Interest expense | 919 | 13,259 | 2,466 | 9,735 | (16,833) | 9,546 |
| Interest income | | (1) | (17) | (240) | | (258) |
| Income (loss) from continuing operations before provision for (benefit from) income taxes and minority stockholders' share of income (loss) | (919) | (3,521) | 2,811 | 79,962 | 2,015 | 80,348 |
| Provision for (benefit from) income taxes | 1,753 | (1,661) | 4,108 | 11,249 | (73) | 15,376 |
| Income (loss) from continuing operations | (2,672) | (1,860) | (1,297) | 68,713 | 2,088 | 64,972 |
| Minority stockholders' share of income (loss) | | | | 2 | | 2 |
| Income (loss) from continuing operations | (2,672) | (1,860) | (1,297) | 68,711 | 2,088 | 64,970 |
| Loss from discontinued operations, net of tax | | | | (2,528) | | (2,528) |
| Equity (deficit) in earnings of subsidiaries | 65,114 | | 68,811 | | (133,925) | |
| Net income (loss) | \$ 62,442 | \$ (1,860) | \$ 67,514 | \$ 66,183 | \$ (131,837) | \$ 62,442 |

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PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Condensed Consolidating Statements of Operations

for the Six Months ended June 30, 2007

| | Parent (Issuer of Debentures and Guarantor of Senior Notes) | Finco (Issuer of Senior Notes and Guarantor of Debentures) | All Other U.S. Guarantors | Non- U.S. Guarantors | Consolidation/ Eliminations | Consolidated |
|--|---|--|---------------------------------|----------------------------|--------------------------------|--------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| | <i>(Dollars in thousands)</i> | | | | | |
| Net sales | \$ | \$ | \$ 126,629 | \$ 433,040 | \$ (75,549) | \$ 484,120 |
| Cost of sales | | | 92,090 | 282,105 | (60,303) | 313,892 |
| Gross profit | | | 34,539 | 150,935 | (15,246) | 170,228 |
| Research and development | | | 3,261 | 1,018 | | 4,279 |
| Selling, administrative and other expenses | | | 29,159 | 38,300 | (19,689) | 47,770 |
| Restructuring charges | | | 726 | 20 | | 746 |
| Impairment loss on long-lived and other assets | | | | | | |
| Antitrust investigations and related lawsuits and claims | | | | | | |
| Other (income) expense, net | | | (12,464) | (2,759) | 33,527 | (11,955) |
| Interest expense | 1,852 | 28,231 | 4,968 | 19,728 | (33,522) | 21,257 |
| Interest income | | (711) | (17) | (496) | | (1,224) |
| | 1,852 | 15,056 | 35,338 | 28,311 | (19,684) | 60,873 |
| Income (loss) from continuing operations before provision for (benefit from) income taxes and minority stockholders share of income (loss) | (1,852) | (15,056) | (799) | 122,624 | 4,438 | 109,355 |
| Provision for (benefit from) income taxes | (927) | (5,675) | 12,889 | 19,566 | 53 | 25,906 |
| Income (loss) from continuing operations before minority interest | (925) | (9,381) | (13,688) | 103,058 | 4,385 | 83,449 |
| Minority stockholders share of income (loss) | | | | 35 | | 35 |
| Income (loss) from continuing operations | (925) | (9,381) | (13,688) | 103,023 | 4,385 | 83,414 |
| Loss from discontinued operations, net of tax | | | (3,117) | | | (3,117) |
| Equity (deficit) in earnings of subsidiaries | 81,222 | | 103,024 | | (184,246) | |
| Net income (loss) | \$ 80,297 | \$ (9,381) | \$ 86,219 | 103,023 | \$ (179,861) | \$ 80,297 |

Table of Contents**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, 2006**

| | Parent (Issuer of Debentures and Guarantor of Senior Notes) | Finco (Issuer of Senior Notes and Guarantor of Debentures) | All Other U.S. Guarantors | Non- Guarantors | Consolidation/ Eliminations | Consolidated |
|--|---|---|---------------------------------|--------------------|--------------------------------|--------------|
| | <i>(Dollars in thousands)</i> | | | | | |
| Cash flow from operating activities: | | | | | | |
| Net income | \$ 4,265 | \$ (5,038) | \$ 6,558 | \$ 36,749 | \$ (38,269) | \$ 4,265 |
| Adjustment to reconcile net income to net cash used in operating activities: | | | | | | |
| Loss from discontinued operations, net of tax | | | | 1,923 | | 1,923 |
| Depreciation and amortization | | | 2,133 | 18,359 | | 20,492 |
| Deferred income taxes | | 394 | 1,027 | (175) | 2 | 1,248 |
| Restructuring charges | 19 | | 3,155 | 2,649 | | 5,823 |
| Impairment loss on long-lived assets | | | 7,378 | 1,410 | | 8,788 |
| Other charges (credits), net | (3,290) | 7,123 | (28,906) | (9,947) | 36,221 | 1,201 |
| (Increase) decrease in working capital | (19) | (14) | (3,210) | (7,988) | 2,038 | (9,193) |
| Post retirement obligation changes | | | (5,977) | (705) | | (6,682) |
| Long-term assets and liabilities | | | (5,485) | (2,248) | | (7,733) |
| Net cash (used in) provided by operating Activities | 975 | 2,465 | (23,327) | 40,027 | (8) | 20,132 |
| Cash flow from investing activities: | | | | | | |
| Intercompany receivable/payable | | (1,663) | (11,256) | 14,646 | (1,727) | |
| Intercompany debt, net | (735) | (3,288) | 39,731 | (37,367) | 1,659 | |
| Capital expenditures | | | (5,040) | (18,994) | | (24,034) |
| Sale (purchase) of derivative instruments | | | | (266) | | (266) |
| Proceeds from sale of assets | | | 19 | 317 | | 336 |
| Payments for patents costs | | | (163) | (264) | | (427) |
| Termination of interest rate swaps | | | | | | |
| Net cash (used in) provided by investing Activities | (735) | (4,951) | 23,291 | (41,928) | (68) | (24,391) |
| Cash flow from financing activities: | | | | | | |
| Short-term debt borrowings (reductions) | | | | | | |
| Revolving Facility borrowings | (212) | 320,642 | | 424 | | 320,854 |
| Revolving Facility reductions | | (316,642) | | (46) | | (316,688) |
| Financing costs | | | | | | |

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| | | | | | | |
|--|--------|----------|------|----------|----------|----------|
| Net cash (used in) provided by financing Activities | (212) | 4,000 | | 378 | | 4,166 |
| Net increase (decrease) in cash and cash equivalents | 28 | 1,514 | (36) | (1,523) | (76) | (93) |
| Effect of exchange rate changes on cash and cash equivalents | | | | 558 | | 558 |
| Cash and cash equivalents at beginning of period | 143 | | 36 | 5,877 | (88) | 5,968 |
| Cash and cash equivalents at end of period | \$ 171 | \$ 1,514 | \$ | \$ 4,912 | \$ (164) | \$ 6,433 |

Table of Contents**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, 2007**

| | Parent (Issuer of Debentures and Guarantor of Senior Notes) | Finco (Issuer of Senior Notes and Guarantor of Debentures) | All Other U.S. Guarantors | Non- Guarantors | Consolidation/ Eliminations | Consolidated |
|---|--|---|--|----------------------------|--|---------------------|
| | <i>(Dollars in thousands)</i> | | | | | |
| Cash flow from operating activities: | | | | | | |
| Net income | \$ 80,297 | \$ (9,381) | \$ 86,219 | \$ 103,023 | \$ (179,861) | \$ 80,297 |
| Adjustment to reconcile net income to net cash used in operating activities: | | | | | | |
| Loss from discontinued operations, net of tax | | | | 3,117 | | 3,117 |
| Depreciation and amortization | | | 2,303 | 13,899 | | 16,202 |
| Deferred income taxes | (360) | 557 | 3,482 | 1,977 | (2,033) | 3,623 |
| Restructuring charges | | | 726 | 20 | | 746 |
| Impairment loss on long-lived assets | | | | | | |
| Gain on sale of assets | | | (141) | (23,968) | 447 | (23,662) |
| Other (credits) charges, net | 109,058 | (183,457) | (103,179) | (3,290) | 180,804 | (64) |
| Increase in working capital | (522) | (13,531) | (2,443) | (1,897) | (2,371) | (20,764) |
| Post retirement obligation changes | | | (3,190) | 1,531 | | (1,659) |
| Long-term assets and liabilities | | | (1,335) | (2,709) | | (4,044) |
| Net cash provided by operating activities | 188,473 | (205,812) | (17,558) | 91,703 | (3,014) | 53,792 |
| Cash flow from investing activities: | | | | | | |
| Intercompany receivable/payable | | 7,678 | 23,071 | (28,024) | (2,725) | |
| Intercompany debt, net | (16,025) | 81,132 | (2,014) | (65,853) | 2,760 | |
| Capital expenditures | | | (4,267) | (15,951) | | (20,218) |
| Proceeds from sale of assets | | | | (2,794) | | (2,794) |
| Payments for purchase price adjustments | | | (102) | (370) | | (472) |
| Payments for patents costs | | | 57 | 21,659 | 2,947 | 24,663 |
| Net cash (used in) provided by investing activities | (16,025) | 88,810 | 16,745 | (91,333) | 2,982 | 1,179 |
| Cash flow from financing activities: | | | | | | |
| Short-term debt borrowings | | | 813 | (239) | | 574 |
| Revolving Facility borrowings | | 183,645 | | | | 183,645 |

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| | | | | | | |
|--|-----------|-----------|-----|-----------|----------|-----------|
| Revolving Facility reductions | | (183,000) | | | | (183,000) |
| Long-term debt reductions | (184,750) | | | | | (184,750) |
| Proceeds from exercise of stock options | 12,331 | | | | | 12,331 |
| Net cash provided by (used in) financing activities | (172,419) | 645 | 813 | (239) | | (171,200) |
| Net decrease in cash and cash equivalents | 29 | (116,357) | | 131 | (32) | (116,229) |
| Effect of exchange rate changes on cash and cash equivalents | | | | 186 | | 186 |
| Cash and cash equivalents at beginning of period | 151 | 125,161 | | 24,335 | (130) | 149,517 |
| Cash and cash equivalents at end of period | \$ 180 | \$ 8,804 | \$ | \$ 24,652 | \$ (162) | \$ 33,474 |

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PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Unsecured intercompany term notes in an aggregate principal amount, at June 30, 2007, equal to \$553.1 million (based on currency exchange rates in effect at June 30, 2007), and guarantees of those unsecured intercompany term notes, issued to GrafTech Finance by certain of our foreign subsidiaries have been pledged by GrafTech Finance to secure the Senior Notes, subject to the limitation that at no time will the combined value of the pledged portion of any foreign subsidiary's unsecured intercompany term note and unsecured guarantee of unsecured intercompany term notes issued by other foreign subsidiaries exceed 19.99% of the principal amount of the then outstanding Senior Notes. As a result of this limitation, the principal amount of unsecured intercompany term notes pledged to secure the Senior Notes at June 30, 2007 equals \$180.9 million (based on currency exchange rates in effect at June 30, 2007), or about 72% of the principal amount of the outstanding Senior Notes. The remaining unsecured intercompany term notes held by GrafTech Finance in an aggregate principal amount at June 30, 2007 of \$372.2 million (based on currency exchange rates in effect at June 30, 2007) and any pledged unsecured intercompany term notes that cease to be pledged due to a reduction in the principal amount of the then outstanding Senior Notes due to redemption, repurchase or other events, will not be subject to any pledge and will be available to satisfy the claims of creditors (including the lenders under the Revolving Facility, the holders of the Senior Notes and, pursuant to the subsidiary guarantee by GrafTech Finance of the Debentures, the holders of the Debentures) as their interests may appear. The Senior Notes prohibit the pledge of these unsecured intercompany term notes or related guarantees to secure any other debt or obligation.

(15) Income Taxes

Provision for income taxes was a charge of \$15.4 million and \$25.9 million for the three and six months ended June 30, 2007, respectively. The provision for income taxes was a charge of \$7.1 million and \$10.7 million for the three and six months ended June 30, 2006, respectively. The increase in the provision for income taxes was the result of higher overall profitability.

The actual income tax rates were approximately 19.2% and 23.7% for the three and six months ended June 30, 2007, respectively. The actual income tax rates were approximately 41.5% and 63.3% for the three and six months ended June 30, 2006. The variance from the statutory rate can be attributed to: (1) a lower combined income tax rates and/or tax incentives in the foreign jurisdictions in which the company operates and (2) the ongoing full valuation allowance position in the U.S. which effectively recognizes no benefit for the losses incurred there.

We adopted FIN 48 on January 1, 2007, which requires financial statement benefits to be recognized for positions taken for tax return purposes when it is more likely than not that the position will be sustained. For additional information regarding FIN 48 refer to New Accounting Standards in Note 2.

The adoption of FIN 48 results in no net effect to the opening balance of retained earnings as of January 1, 2007.

As of January 1, 2007, we had unrecognized tax benefits of \$5.2 million, principally related to foreign tax uncertainties, of which \$5.2 million would have a favorable impact on our effective tax rate, if recognized. We have elected to report interest and penalties related to uncertain income tax positions as income tax expense. As of January 1, 2007, accrued interest and penalties were \$0.9 million.

In the United States, years 2003 and forward are open to examination. During the first quarter, the IRS commenced an audit of the 2004 year. Generally, for the foreign countries in which we file tax returns, years beginning in 2003 or after are still open to examination by foreign taxing authorities; however, there are four countries for which the years 2002 or after are still open to tax examination. In the second quarter we paid \$0.6 million of tax and related interest and penalty for the audit conducted by Revenue Canada for 2002 through 2005.

As a result of the expiration of statutes of limitation it is expected that the amount of unrecognized tax benefits related to the treatment of certain expenditures could decrease by \$1.1 million in the next twelve months with an associated reduction of \$0.7 million of penalties and accrued interest.

Table of Contents**PART I (CONT D)****GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(16) Discontinued Operations**

On December 5, 2006, we completed the sale of our 70% equity interest in Carbone Savoie and other assets used in and liabilities related to our former cathode business to Alcan France, for approximately \$135.0 million less certain price adjustments and the purchaser's assumption of liabilities. As a result of this sale, under SFAS No. 144, the cathode business is reflected as a discontinued operation. We have reflected prior period results of the cathode business as a discontinued operation on the Consolidated Statements of Operations. Interest expense was allocated to discontinued operations based on the ratio of fixed assets included in the sale over total consolidated fixed assets in accordance with EITF 87-24, *Allocation of Interest to Discontinued Operations*.

The following table sets forth the results of the discontinued operation.

| | Three Months Ended June 30, | Six Months Ended June 30, |
|--|--|--------------------------------------|
| | 2006 | 2006 |
| | <i>(Dollars in thousands)</i> | |
| Net sales | \$ 31,453 | \$ 65,849 |
| Cost of sales | 26,635 | 55,857 |
| Gross profit | 4,818 | 9,992 |
| Operating expenses | 2,499 | 5,827 |
| Other (income) expense, net | 876 | 980 |
| Interest expense | 2,457 | 4,898 |
| Interest income | (13) | (26) |
| Loss before provision for income taxes | (1,001) | (1,687) |
| Provision for income taxes | 391 | 299 |
| Less: Minority stockholders share of (income) loss | (264) | (63) |

Table of Contents**PART I (CONT D)****GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

| | | |
|-----------------------------------|------------|------------|
| Loss from discontinued operations | \$ (1,128) | \$ (1,923) |
| Basic loss per common share | \$ (0.01) | \$ (0.02) |
| Diluted loss per common share | \$ (0.01) | \$ (0.02) |

In the first quarter of 2007, we recorded a \$0.6 million charge, net of tax of \$0.3 million, related to purchase price adjustments stated in the contract and other transaction related items. In the second quarter of 2007, we recorded a \$2.5 million charge, net of tax of \$1.3 million, for similar items, as discussed in Note 1.

(17) Subsequent Events

On July 4, 2007, we completed the sale of our subsidiary located in Vyazma, Russia, for approximately \$8.0 million. As of June 30, 2007 we have classified the assets and liabilities as held for sale in the Consolidated Balance Sheet in accordance with SFAS No. 144. The assets held for sale consisted primarily of accounts receivable and property, plant, and equipment while the liabilities consisted of general accruals and employee related obligations. As of June 30, 2007, we had received \$2.9 million of the purchase price as a deposit. In connection with the sale, we entered into agreements to lease certain portions of the Vyazma, Russia facility for offices, warehousing, and machining operations.

On July 11, 2007, we and certain of our subsidiaries requested U.S. National Association, as Trustee, to redeem \$50.0 million of the outstanding principal amount of the 10 1/4% Senior Notes due 2012, at 105.125% of the principal amount, plus accrued interest. This redemption is expected to occur in August 2007. After this redemption, \$200 million in principal amount of the Senior Notes remains outstanding. In connection with this redemption we expect to incur a \$2.7 million loss on the extinguishment of debt, which includes \$2.6 million related to the call premium and \$0.1 million of charges for accelerated amortization of the debt issuance fees, terminated interest rate swaps and the premium related to the Notes.

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PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

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

Important Terms. We use various terms to simplify the presentation of information in this Report. These terms, which definitions are incorporated herein by reference, are defined in the Annual Report.

Presentation of Financial, Market and Legal Data. We present our financial information on a consolidated basis. As a result, the financial information for AET and other non-wholly owned subsidiaries is consolidated on each line of the Consolidated Financial Statements and the equity of the other owners in those subsidiaries is reflected on the lines entitled minority stockholders equity in consolidated entities and minority stockholders share of income.

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: expected future or targeted operational and financial performance in the future; growth rates and future production and sales of products that incorporate or that are produced using our products; changes in production capacity in our operations and our customers operations; growth rates for, future prices and sales of, and demand for our products and our customers products; costs of materials and production, including anticipated increases therein; productivity, business process and operational initiatives, and their impact on us; our position in markets we serve; employment and contributions of key personnel; employee relations and collective bargaining agreements covering many of our operations; tax rates; capital expenditures and their impact on us; nature and timing of restructuring charges and payments; future operational and financial performance; strategic plans and business projects; regional and global economic and industry market

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PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

conditions, changes in such conditions and the impact thereof; 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; consulting projects; potential offerings, sales and other actions regarding debt or equity securities of us or our subsidiaries; and future asset sales, 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**, **should**, **goal**, **continue 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 steel in electric arc furnaces (EAF), increases in overall EAF steel production capacity, increases in, 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;

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

the possibility that increases in graphite electrode manufacturing capacity, competitive pressures, specific consumption rates, 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 electrode business;

the possibility that, for all of our product lines, capital improvement and expansion in our customers' operations and increases in demand for their products may not occur or may not occur at the rates that we anticipate;

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 prices due to changes in product mix, changes in currency exchange rates, changes in competitive market conditions or other factors;

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PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

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

the possibility that increases in prices for our raw materials and the magnitude of such increases, global events that influence energy pricing and availability, increases in our energy needs, or other developments may adversely impact or offset our productivity and cost containment initiatives;

the possibility that increases in 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 or to renew or extend our collective bargaining or similar agreements on reasonable terms as they expire or to do so without a work stoppage or strike;

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

the possibility of delays in or failure to achieve widespread commercialization of fuel cells which use our natural graphite-based products or that manufacturers of fuel cells may obtain those products from other sources;

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 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 we may be unable to protect our intellectual property or may infringe the intellectual property rights of others resulting in damages or limitations on our ability 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:

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GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

the possibility that our provision for income taxes and effective income tax rate or cash tax rate may fluctuate significantly due to changes in applicable tax rates, changes in the sources of our income, changes in tax planning, new or changing interpretations in applicable regulations, profitability, estimates of future ability to use foreign tax credits, tax laws, and other factors;

the possibility of changes in interest or currency exchange rates, in competitive conditions, or in inflation;

the possibility that our long-term obligations could limit our financial resources and ability to compete and may make us more vulnerable to adverse economic events;

the possibility that our outlook could be significantly impacted by, among other things, changes in interest rates by the U.S. Federal Reserve Board or other central banks, changes in fiscal policies by the U.S. and other governments, developments in the Middle East, North Korea, and other areas of concern, the occurrence of further terrorist acts and developments (including increases in security, insurance, data back-up, energy and transportation and other costs, transportation delays and continuing or increased economic uncertainty and weakness) resulting from terrorist acts and the war on terrorism;

the possibility that interruption in our major raw material, energy or utility supplies due to, among other things, natural 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 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 the timing and amount of expenditures that we anticipate in connection with our restructuring and plant closing activities may vary significantly from our expectations;

the possibility that we may not achieve increases in the amount or speed of cash generated through operations;

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 organizational and work process redesign, changes in our information systems, or other system changes, including operating efficiencies, production cost savings and improved operational performance, including leveraging infrastructure for greater productivity and

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GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

contributions to our continued growth, may be delayed, may not occur or may result in unanticipated disruption;

the possibility that our disclosure or internal controls may become inadequate because of changes in conditions or personnel, that the degree of compliance with our policies and procedures related to those controls may deteriorate or that those controls may not operate effectively and may not prevent or detect misstatements or errors;

the possibility that delays may occur in the financial statement closing process due to a change in our internal control environment or personnel;

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

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 circumstances described above could also have a material adverse effect on our business, financial condition, results of operations, cash flows or the market price of our common stock, the Senior Notes or the Debentures.

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.

For a more complete discussion of these and other factors, see **Risk Factors** in the Annual Report.

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PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial

Condition and Results of Operations

Global Economic Conditions

We are impacted in varying degrees, both positively and negatively, by fluctuations in global, regional and country economic conditions.

Graphite electrode demand is primarily linked with the global production of steel in an electric arc furnace (EAF) and, to a lesser extent, with the total production of steel and certain other metals. During the three and six months ended June 30, 2007, global steel production and operating rates, excluding China, increased by 5.0% and 6.2%, respectively, compared to the same periods last year. China's steel production grew by 15.1% and 18.4%, respectively, during the three and six months ended June 30, 2007, contributing to global steel production increases of 8.5% and 10.2% respectively.

Steel production in China and Russia via blast furnace is approximately 87% and 82%, respectively. However, these two countries are expected to provide some of the highest EAF capacity growth in 2007, due to new startups.

Overall, EAF steel production capacity continues to expand. During the three and six months ended June 30, 2007, EAF steel production increased approximately 3.1% and 3.5% respectively, compared to the three and six months ended June 30, 2006, due to new EAF start-ups and strong melt rates. We estimate that total EAF production will increase 2-3% during 2007. However, graphite electrode demand is expected to increase by approximately 1% due to continual improvements in specific consumption.

In 2007, we believe that the overall demand for advanced graphite materials will remain at a high level, resulting from continued strength in the energy markets and defense and transportation industries. The continued overall strength of the economy in the markets served has kept the demand high for our core products which are used in the industrial and chemical sectors. As a result of this high demand and decrease of approximately 5% in our advanced graphite materials capacity as a result of the December 2006 sale of our cathode business, we continue to anticipate operating at full capacity in 2007.

Outlook

In 2007, we expect:

Total company net sales to increase 14 to 15 percent

Net sales of graphite electrodes to increase approximately 20 percent

Net interest expense to be about \$37 to \$39 million

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GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

The effective book tax rate to be approximately 26 to 28 percent

Capital expenditures to be approximately \$50 million

Depreciation expense of approximately \$33 million; and

Cash flow from operations to be about \$95 to 100 million.

Our outlook could be significantly impacted by, among other things, factors described under Preliminary Notes Forward Looking Statements and Risk Factors in this Report. For a more complete discussion of these and other factors, see Risk Factors in the Annual Report.

Results of Operations

Three Months Ended June 30, 2007 as Compared to Three Months Ended June 30, 2006.

Consolidated. Net sales of \$255.9 million in the three months ended June 30, 2007 represented a \$32.6 million or 14.6% increase from net sales of \$223.3 million in the three months ended June 30, 2006. Net sales of graphite electrodes increased \$35.4 million, or 20.4%, primarily due to favorable price increases, offset slightly by an unfavorable product mix in the three months ended June 30, 2007 compared to the three months ended June 30, 2006. Advanced graphite materials net sales increased \$2.9 million, or 11.6%, due to favorable prices and currency impacts in the three months ended June 30, 2007 compared to the three months ended June 30, 2006, offset slightly by decreased volumes. Net sales of our other businesses decreased \$5.7 million, or 22.5%, in the three months ended June 30, 2007 compared to the three months ended June 30, 2006, caused primarily by \$2.8 million of lower sales volumes of carbon electrodes due to the planned exit of this business, and a \$2.6 million decrease in our refractories sales, caused by lower volumes and unfavorable pricing.

Cost of sales of \$161.9 million in the three months ended June 30, 2007 represented a \$1.5 million, or 0.9%, decrease from cost of sales of \$163.4 million in the three months ended June 30, 2006. Cost of sales decreased primarily due to decreased volumes and a favorable product mix for our advanced graphite materials. Further, certain one time charges from the three months ended June 30, 2006 related to inventory reserves for our carbon electrodes business did not recur in the three months ended June 30, 2007.

Gross profit of \$93.9 million in the three months ended June 30, 2007 represented a \$34.0 million, or 56.8%, increase from gross profit of \$59.9 million in the three months ended June 30, 2006. Gross margin increased to 36.7% of net sales.

Research and development expenses decreased \$0.9 million, or 31.0%, from \$2.9 million in the three months ended June 30, 2006 to \$2.0 million in the three months ended June 30, 2007, due to salary reductions related to administrative and support for our research and development function.

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Selling and administrative expenses increased \$2.1 million, or 9.0%, from \$23.4 million in the three months ended June 30, 2006 to \$25.5 million in the three months ended June 30, 2007. This increase was primarily due to increased administration and overhead costs of \$3.1 million, which was caused primarily by increased incentive compensation plan charges and other employee benefit related costs. This increase was offset by decreased selling expenses of \$1.0 million which was driven by decreased salaries related to administrative and support of our overhead departments as well as decreased travel expenses as a result of our global cost cutting initiatives.

Other (income) expense, net was income of \$23.1 million in the three months ended June 30, 2007 compared to income of \$1.6 million in three months ended June 30, 2006. The increase was caused primarily by an increase in gains on the sale of assets of \$23.6 million, driven by the sale of our Caserta, Italy facility during the three months ended June 30, 2007. This increase was offset by a \$2.8 million loss on the extinguishment of debt as a result of the \$50.0 million redemption of the Senior Notes which occurred during the three months ended June 30, 2007. Further, we recorded a \$1.5 million credit during the three months ended June 30, 2006 related to our Brazilian sales tax provision which did not recur in the three months ended June 30, 2007.

In the three months ended June 30, 2007 and June 30, 2006 restructuring charges were a credit of \$0.1 million, and a charge of \$2.9 million respectively. The following table summarizes activity relating to the accrued expense in connection with the restructuring charges. The restructuring accrual is included in other accrued liabilities and other long-term obligations on the Consolidated Balance Sheets.

| | Severance and Related Costs | Plant Shutdown and Related Costs | Total |
|---|--|---|--------------|
| | <i>(Dollars in thousands)</i> | | |
| Balance at January 1, 2007 | \$ 7,185 | \$ 689 | \$ 7,874 |
| Restructuring charges | 881 | 534 | 1,415 |
| Change in estimates | (461) | (208) | (669) |
| Payments and settlements | (3,870) | (558) | (4,428) |
| Effect of change in currency exchange rates | 60 | 14 | 74 |
| Balance at June 30, 2007 | \$ 3,795 | \$ 471 | \$ 4,266 |

At June 30, 2007, the outstanding balance of our restructuring reserve was \$4.3 million. We expect the majority of the remaining payments to be paid by the end of 2007. The balance at June 30, 2007 consisted primarily of the following:

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\$1.2 million related to the rationalization of our graphite electrode facilities in France and the cessation of operations of our facility in Russia.

\$1.7 million related to severance costs for the closure of our graphite electrode manufacturing operations in Caserta, Italy.

\$0.7 million related to the closure of our graphite electrode machining and warehousing operations in Clarksville, Tennessee.

Other Businesses

\$0.7 million related to the shutdown of our carbon electrode production operations at our Columbia, Tennessee facility.

The following table presents an analysis of interest expense:

| | For the Three Months Ended June 30, 2006 2007 | |
|---|---|--------------|
| | <i>(Dollars in thousands)</i> | |
| Interest incurred on debt | \$11,045 | \$ 8,693 |
| Amortization of fair value adjustments for terminated hedge instruments | (243) | (155) |
| Amortization of premium on Senior Notes | (53) | (31) |
| Amortization of discount on Debentures | 162 | 168 |
| Interest on DOJ antitrust fine | 46 | |
| Amortization of debt issuance costs | 916 | 809 |
| Interest incurred on other items | 201 | 62 |
| Total interest expense | \$12,074 | \$ 9,546 |

Average total debt outstanding was \$531.4 million in the three months ended June 30, 2007 as compared to \$748.1 million in the three months ended June 30, 2006. The average annual interest rate was 6.4% in the three months ended June 30, 2007 as compared to 7.0% in the three months ended June 30, 2006.

Provision for income taxes was a charge of \$15.4 million in the three months ended June 30, 2007 and \$7.2 million in the three months ended June 30, 2006. The actual income tax rate was approximately 19.1% in the three months ended June 30, 2007 as compared to approximately 41.5% in the three months ended June 30, 2006. The increase in the provision for income taxes was the result of higher overall profitability. The decrease in the actual tax rate was due to the mix of income in lower tax jurisdictions.

The loss from discontinued operations was \$2.5 million for the three months ended June 30, 2007 and \$1.1 million for the three months ended June 30, 2006. As discussed further in footnote 1 in the notes to the consolidated financial statements, the loss recorded for the three months ended June 30, 2007 related to expenses for the final purchase price settlement recorded in the first quarter.

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As a result of the matters described above, net income was \$63.6 million in the three months ended June 30, 2007 as compared to \$8.9 million in the three months ended June 30, 2006.

Segment net sales. The following table represents our net sales by segment for the three months ended June 30, 2007 and 2006:

| | For the Three Months Ended June 30, 2006 2007 (Dollars in thousands) | |
|-----------------------------|--|----------------|
| | 2006 | 2007 |
| Graphite electrode | \$ 173,326 | \$ 208,674 |
| Advanced graphite materials | 25,074 | 27,962 |
| Other businesses | 24,914 | 19,253 |
| Total net sales | \$ 223,314 | \$ 255,889 |

Our analysis of the percentage change in net sales for graphite electrode and advanced graphite materials is set forth in the following table:

| | Volume | Price | Mix | Currency | Net Change |
|-----------------------------|---------------|--------------|------------|-----------------|-----------------------|
| Graphite electrode | (1)% | 20% | (2)% | 3% | 20% |
| Advanced graphite materials | (2)% | 11% | % | 3% | 12% |

Net sales for the graphite electrode segment increased primarily due to increased sales prices, coupled with favorable currency fluctuations, driven primarily by changes in the Euro. These increases were offset slightly by an unfavorable product mix in the three months ended June 30, 2007 compared to the three months ended June 30, 2006, as well as a slight decrease in volume due to the timing of product shipments. Advanced graphite materials net sales increased based on favorable price increases and currency impacts during the three months ended June 30, 2007 as compared to the three months ended June 30, 2006. These increases were offset slightly by an unfavorable change in volumes.

Net sales for our other businesses decreased to \$19.3 million for the three months ended June 30, 2007, as compared to \$24.9 million for the three months ended June 30, 2006, primarily due to decreased sales volumes of carbon electrodes due to the planned exiting of this business, resulting in a \$2.8 million reduction in sales. Sales for refractories and natural graphite products decreased \$2.6 million and \$0.2 million, respectively, due to lower volumes.

Segment operating income. 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 three months ended June 30, 2006 and 2007:

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| | For the Three Months Ended June 30, | |
|------------------------------------|--|---------------|
| | 2006 | 2007 |
| | <i>(Dollars in thousands)</i> | |
| Graphite electrode | \$ 34,274 | \$ 62,204 |
| Advanced graphite materials | 3,298 | 5,596 |
| Other businesses | (7,483) | (1,223) |
| Total segment operating income | \$ 30,089 | \$ 66,577 |

Our analysis of the percentage change in segment operating costs and expenses, including restructuring and impairment charges for graphite electrode and advanced graphite materials is set forth in the following table:

| | Operating Expenses | | |
|-----------------------------|--|-------------|---------------|
| | For the Three Months Ended June 30, | | |
| | <i>(Percentage of sales)</i> | | |
| | 2006 | 2007 | Change |
| Graphite electrode | 80% | 70% | (10)% |
| Advanced graphite materials | 87% | 80% | (7)% |

Segment operating costs and expenses as a percentage of sales for graphite electrodes decreased 10% points to 70% in the three months ended June 30, 2007. However, total segment operating costs and expenses increased \$7.4 million for the three months ended June 30, 2007 compared to the three months ended June 30, 2006. This increase was due to higher raw material and product costs of \$6.7 million, primarily related to price increases in coke, an unfavorable currency impact of \$3.4 million primarily related to the strengthening euro, and higher other corporate expenses of \$2.0 million. These increases were offset by a \$1.6 million decrease in restructuring charges, a \$0.1 million decrease in research and development costs, and a \$0.5 million decrease in selling and administrative costs, due primarily to a global initiative to reduce overhead costs. The decrease in restructuring charges was mainly due to \$1.5 million of restructuring charges incurred during the three months ended June 30, 2006 related to our Italian, French, and Russian graphite electrode operations that did not recur during the three months ended June 30, 2007, coupled with a \$0.1 million credit for the three months ended June 30, 2007 due to favorable changes in estimates.

Segment operating costs and expenses as a percentage of sales for advanced graphite materials decreased 7% points to 80% in the three months ended June 30, 2007. Total segment operating costs and expenses of \$22.4 million for the three months ended June 30, 2007 increased slightly compared to \$21.8 million for the three months ended June 30, 2006. This increase was caused by a \$0.4 million increase in selling and administrative expenses, and an increase in allocated corporate expenses of \$0.2 million.

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Segment operating costs and expenses for other business decreased \$11.9 million. This decrease was due to a \$10.4 million improvement in operating costs and expenses related to the carbon electrode business caused by lower volumes and inventory reserves established during the three months ended June 30, 2006 associated with the accelerated closure of this business of \$3.8 million and a \$1.2 million inventory adjustment that did not recur in the three months ended June 30, 2007. Selling and administrative expenses also decreased due to lower spending plans due to the planned exit of this business. Operating costs and expenses for our natural graphite products also decreased due to lower research and development and selling and administrative costs of \$1.2 million, offset by increased production and operation costs of \$0.6 million. Finally, operating expenses for refractories decreased \$0.9 million, due to lower volumes in the three months ended June 30, 2007 compared to the three months ended June 30, 2006 due to the timing of production.

Six Months Ended June 30, 2007 as Compared to Six Months Ended June 30, 2006.

Consolidated. Net sales of \$484.1 million in the six months ended June 30, 2007 represented an \$86.6 million or 21.8% increase from net sales of \$397.5 million in the six months ended June 30, 2006. Net sales of graphite electrodes increased \$86.6 million, or 28.7%, primarily due to favorable price and volume increases, coupled with a favorable currency impact due primarily to changes in the Euro, offset slightly by an unfavorable product mix in the six months ended June 30, 2007 compared to the six months ended June 30, 2006. Advanced graphite materials net sales increased \$4.2 million, or 8.4%, due to favorable currency impacts and prices in the six months ended June 30, 2007 compared to the six months ended June 30, 2006, offset slightly by decreased volumes. Net sales of our other business decreased \$4.2 million, or 9.4%, in the six months ended June 30, 2007 compared to the six months ended June 30, 2006.

Cost of sales of \$313.9 million in the six months ended June 30, 2007 represented a \$25.8 million, or 9.0%, increase from cost of sales of \$288.1 million in the six months ended June 30, 2006. Cost of sales increased primarily due to higher volumes and raw material and operating costs, particularly in our graphite electrode segment. Further, certain one time charges from the six months ended June 30, 2006 related to inventory reserves for our carbon electrodes business did not recur in the six months ended June 30, 2007.

Gross profit of \$170.2 million in the six months ended June 30, 2007 represented a \$60.8 million, or 55.6%, increase from gross profit of \$109.4 million in the six months ended June 30, 2006. Gross margin increased to 35.2% of net sales.

Research and development expenses decreased \$1.1 million, or 20.4%, from \$5.4 million in the six months ended June 30, 2006 to \$4.3 million in the six months ended June 30, 2007 due to salary reductions related to administrative and support for our research and development function.

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Selling and administrative expenses decreased \$0.5 million, or 1.0%, from \$48.3 million in the six months ended June 30, 2006 to \$47.8 million in the six months ended June 30, 2007. This decrease was caused by lower selling expenses of \$1.7 million, due primarily to decreased salaries related to administrative and support of our overhead departments as well as decreased travel expenses as a result of our global cost cutting initiatives in the six months ended June 30, 2007 as compared to the six months ended June 30, 2006. This decrease was partially offset by a \$1.2 million increase in administrative and overhead costs caused in part by increased incentive compensation plan charges and other employee benefit related costs.

Other (income) expense, net represented income of \$12.0 million in the six months ended June 30, 2007 compared to income of \$2.0 million in the six months ended June 30, 2006. The increase was caused primarily by a \$23.3 million increase in the gain on the sales of assets, which relates primarily to the sale of our Caserta, Italy facility, and a \$1.7 million decrease in legal and environmental expenses, offset by a \$10.3 million loss incurred on the extinguishment of debt, and a \$4.5 million decrease in currency gains. Finally, the \$1.5 million credit from the Brazil sales tax provision in the six months ended June 30, 2006 did not recur in the six months ended June 30, 2007.

The following table presents an analysis of interest expense:

| | For the Six Months Ended | |
|---|---------------------------------|---------------|
| | June 30, | |
| | 2006 | 2007 |
| | <i>(Dollars in thousands)</i> | |
| Interest incurred on debt | \$ 21,860 | \$ 19,442 |
| Amortization of fair value adjustments for terminated hedge instruments | (482) | (358) |
| Amortization of premium on Senior Notes | (104) | (69) |
| Amortization of discount on Debentures | 323 | 334 |
| Interest on DOJ antitrust fine | 130 | 5 |
| Amortization of debt issuance costs | 1,828 | 1,684 |
| Interest incurred on other items | 307 | 219 |
| Total interest expense | \$ 23,862 | \$ 21,257 |

Average total debt outstanding was \$568.9 million in the six months ended June 30, 2007 as compared to \$743.7 million in the six months ended June 30, 2006. The average annual interest rate was 6.7% in the three months ended June 30, 2007 as compared to 7.1% in the six months ended June 30, 2006.

Provision for income taxes was a charge of \$25.9 million in the six months ended June 30, 2007 and \$10.7 million in the six months ended June 30, 2006. The actual income tax rate was approximately 23.7% in the six months ended June 30, 2007 as compared to approximately 63.3% in the six months ended June 30, 2006. The increase in the provision for income taxes was the result of higher profitability. The decrease in the actual tax rate was due to the mix of income in lower tax jurisdictions.

The loss from discontinued operations was \$3.1 million for the six months ended June 30, 2007 and \$1.9 million for the six months ended June 30, 2006. As discussed further in footnote 1 in the notes to the consolidated financial statements, the loss recorded for the three months ended June 30, 2007 related to expenses for the final purchase price settlement recorded in the first quarter.

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As a result of the matters described above, net income was \$81.4 million in the six months ended June 30, 2007 as compared to \$4.3 million in the six months ended June 30, 2006.

Segment net sales. The following table represents our net sales by segment for the six months ended June 30, 2007 and 2006:

| | For the Six Months Ended June 30, | |
|-----------------------------|--|----------------|
| | 2006 | 2007 |
| | <i>(Dollars in thousands)</i> | |
| Graphite electrode | \$ 302,116 | \$ 388,738 |
| Advanced graphite materials | 50,237 | 54,469 |
| Other businesses | 45,153 | 40,913 |
| Total net sales | \$ 397,506 | \$ 484,120 |

Our analysis of the percentage change in net sales for graphite electrode and advanced graphite materials is set forth in the following table:

| | Volume | Price | Mix | Currency | Net Change |
|-----------------------------|---------------|--------------|------------|-----------------|-------------------|
| Graphite electrode | 8% | 19% | (2)% | 4% | 29% |
| Advanced graphite materials | (5)% | 10% | % | 3% | 8% |

Net sales for the graphite electrode segment increased primarily due to increased volumes, coupled with favorable price increases and currency fluctuations. These increases were offset slightly by an unfavorable product mix in the six months ended June 30, 2007 compared to the six months ended June 30, 2006. Advanced graphite materials net sales increased based on favorable price increases and currency impacts during the six months ended June 30, 2007 as compared to the six months ended June 30, 2006. These increases were offset slightly by an unfavorable change in volume.

Net sales for our other businesses decreased to \$40.9 million for the six months ended June 30, 2007, as compared to \$45.2 million for the six months ended June 30, 2006, primarily related to decreases in sales of carbon electrodes due to the planned exiting of this business and natural graphite products, offset partially by increased sales volumes of refractory products. Note that the volume increases for refractories was driven primarily by higher volumes in the first quarter of 2007 compared to the first quarter of 2006.

Segment operating income. 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, 2006 and 2007:

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| | For the Six Months Ended June 30, | |
|------------------------------------|--|----------------|
| | 2006 | 2007 |
| | <i>(Dollars in thousands)</i> | |
| Graphite electrode | \$ 47,369 | \$ 109,881 |
| Advanced graphite materials | 5,404 | 8,882 |
| Other businesses | (11,671) | (1,330) |
| Total segment operating income | \$ 41,102 | \$ 117,433 |

Our analysis of the percentage change in segment operating costs and expenses, including restructuring and impairment charges for graphite electrode and advanced graphite materials is set forth in the following table:

| | Operating Expenses | | |
|-----------------------------|--|-------------|---------------|
| | For the Six Months Ended June 30, | | |
| | <i>(Percentage of sales)</i> | | |
| | 2006 | 2007 | Change |
| Graphite electrode | 84% | 72% | (12)% |
| Advanced graphite materials | 89% | 84% | (5)% |

Segment operating costs and expenses as a percentage of sales for graphite electrodes decreased 12% points to 72% in the six months ended June 30, 2007. However, total segment operating costs and expenses increased \$24.1 million for the six months ended June 30, 2007 compared to the six months ended June 30, 2006. This increase was due to higher raw material and product costs, primarily related to coke, of \$15.4 million, and the impact of currency exchange rate changes of \$5.4 million. Volume increases increased total operating costs and expenses an additional \$8.7 million offset by decreased selling and administrative costs of \$2.0 million, due primarily to a global initiative to reduce administrative costs. Impairment costs decreased \$5.9 million, due to the impairment charge related to the JD Edwards software during the six months ended June 30, 2006. There was no impairment charge during the six months ended June 30, 2007. Restructuring charges also decreased \$3.3 million for the six months ended June 30, 2007 compared to the six months ended June 30, 2006. This was primarily due to \$2.1 million of restructuring charges incurred during the six months ended June 30, 2006 related to the restructuring of our manufacturing facility in France which did not reoccur in the six months ended June 30, 2007.

Segment operating costs and expenses as a percentage of sales for advanced graphite materials decreased 5% points to 84% in the six months ended June 30, 2007. Total segment operating costs and expenses of \$45.6 million in the six months ended June 30, 2007 increased \$0.8 million from \$44.8 million for the six months ended June 30, 2006. The fluctuation was due primarily to higher operating costs and expenses of \$2.3 million, including the impact of changes in the Euro, which increased costs \$1.3 million. These increases were offset by a \$1.4 million decrease in restructuring and impairment charges.

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Segment operating costs and expenses for other businesses decreased \$14.6 million. This decrease was due to a \$16.9 million improvement in operating costs and expenses related to carbon electrodes caused by lower production costs, mainly due to the establishment of inventory reserves during the six months ended June 30, 2006 due to the accelerated closure of this business and other inventory adjustments that did not recur during the six months ended June 30, 2007. Selling and administrative expenses also decreased due to lower spending plans as the result of the planned exit of this business. Operating costs and expenses for our natural graphite products also decreased due to lower variable costs associated with decreased volumes. These decreases were offset by an increase in operating costs and expenses for refractories for the six months ended June 30, 2007 compared to the six months ended June 30, 2006 driven by production costs as a result of increased volumes.

Effects of Changes in Currency Exchange Rates

We incur costs in dollars and the currency of each of the five non-U.S. countries in which we have a manufacturing facility, and we sell our products in multiple currencies. In general, our results of operations, cash flows and financial condition are affected by changes in currency exchange rates affecting these currencies relative to the dollar and, to a limited extent, each other.

Many of the non-U.S. countries in which we have a manufacturing facility have been subject to significant economic 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. We cannot assure you that we would be able to mitigate any adverse effects of such changes.

During the six months ended June 30, 2007, the average exchange rate of the Brazilian real and the euro increased about 8.2% and 8.8%, respectively, when compared to the average exchange rate for the same period in 2006. During the six months ended June 30, 2007, the average exchange rate for the Mexican Peso and South African rand decreased about 1.4% and 12.8%, respectively, when compared to the average rate for the six months ended June 30, 2006.

In the case of net sales of graphite electrodes, the impact of these events was an increase of about \$11.4 million in the six months ended June 30, 2007 as compared to the same period in 2006. In the case of cost of sales of graphite electrodes, the impact of these events was a increase of about \$5.4 million in the six months ended June 30, 2007 as compared to the same period in 2006.

We have non-dollar denominated intercompany loans between Finco and some of our foreign subsidiaries. At June 30, 2007, the aggregate principal amount of these loans was \$460.9 million. These loans are subject to remeasurement gains and losses due to changes in currency exchange rates. A portion of these loans are deemed to be essentially permanent and, as a result, remeasurement gains and losses on these loans are recorded in accumulated other comprehensive loss in the stockholders' deficit section of the Consolidated Balance Sheets. The

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balance of these loans is 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. For the six months ended June 30, 2007, we had a net total of \$0.1 million in currency gains, including \$1.5 million of exchange gains due to the remeasurement of intercompany loans and translation of financial statements of foreign subsidiaries which use the dollar as their functional currency. In the six months ended June 30, 2006, we had a net total of \$4.5 million in currency gains, including \$6.3 million of exchange gains due to the remeasurement of intercompany loans and translation of financial statements of foreign subsidiaries which use the dollar as their functional currency. To manage certain exposures to specific financial market risks caused by changes in currency exchange rates, we use various financial instruments as described under Item 3 Qualitative and Quantitative Disclosures about Market Risk.

Liquidity and Capital Resources

Our sources of funds have consisted principally of invested capital, cash flow from operations and debt and equity financings. Our uses of those funds (other than for operations) have consisted principally of capital expenditures, payment of fines, liabilities and expenses in connection with antitrust investigations, lawsuits and claims, payment of restructuring costs, pension and post-retirement contributions, debt reduction payments and other obligations.

At June 30, 2007, we had total long term debt of \$477.6 million, cash and cash equivalents of \$33.5 million and a stockholders' deficit of \$8.0 million.

As part of our cash management activities, we periodically factor or discount (by selling) certain accounts receivable to third parties. For the six months ended June 30, 2007, certain subsidiaries sold receivables at a cost lower than the cost to borrow a comparable amount for a comparable period under the Revolving Facility. Proceeds of the sale of receivables were used to reduce debt. If we had not sold receivables, our accounts receivable would have been about \$0.8 million higher at December 31, 2006 and about \$23.4 million higher at June 30, 2007. All receivables sold during 2006 and the six months ended June 30, 2007 were sold without recourse, and no amount of accounts receivable sold remained on the Consolidated Balance Sheet at December 31, 2006 and June 30, 2007.

We use cash and cash equivalents, funds available under the Revolving Facility, (subject to continued compliance with the financial covenants and representations under the Revolving Facility), as well as cash flow from operations as our primary sources of liquidity. The Revolving Facilities provide for maximum borrowings of up to \$215 million. At June 30, 2007, \$200.5 million was available (after consideration of outstanding letters of credit of \$14.5 million. At June 30, 2007, there were no outstanding, revolving or swingline loans.).

We believe that our business strategies will continue to improve the amount and speed of cash generated from operations under current economic conditions. Improvements in cash flow from operations resulting from these strategies are being partially offset by associated cash

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implementation costs while they are being implemented. We also believe that our improvements in cash flow from operations should allow us to continue to reduce our debt and other obligations over the long term.

At June 30, 2007, we were in compliance with all financial and other covenants contained in the Senior Notes, the Debentures and the Revolving Facility, as applicable. Based on expected operating results and expected cash flows, we expect to be in compliance with these covenants for the next twelve months. 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 or amendment on acceptable terms or at all.

At June 30, 2007, the Revolving Facility had an effective interest rate of 6.9%, our \$249.6 million principal amount of Senior Notes had a fixed rate of 10.25% and our \$225.0 million principal amount of Debentures had a fixed coupon rate of 1.625%. Also at June 30, 2007, 0.4% (or \$1.7 million) of our total debt consists of variable rate obligations. We estimate that we will have interest expense of approximately \$37.0 to \$39.0 million for 2007.

At December 31, 2006, the Revolving Facility had an effective interest rate of 7.6%, our \$434.6 million principal amount of Senior Notes had a fixed rate of 10.25% and our \$225.0 million principal amount of Debentures had a fixed rate of 1.625%.

We may in the future implement interest rate management initiatives to seek to minimize interest expense and optimize the risk in our portfolio of fixed and variable interest rate obligations as described under **Item 3 Quantitative and Qualitative Disclosures about Market Risk** in this Report.

Cash Flow and Plans to Manage Liquidity. As a result of our leverage and other obligations, our business strategies include efforts to enhance our capital structure by further reducing our gross obligations. Accordingly, we have placed the highest priority on accelerating the amount and speed of cash generated every day. Our efforts include leveraging our unique global manufacturing network by driving higher utilization rates and more productivity from our existing assets, accelerating commercialization initiatives across all of our businesses and realizing other global efficiencies. We also continue to evaluate other opportunities to reduce our obligations, including the obligations associated with our U.S. defined benefit plan, which was frozen in 2003.

Typically, our cash flow from operations fluctuates significantly between quarters due to various factors. These factors include customer order patterns, fluctuations in working capital requirements, and other factors.

We expect cash flow from operations to be positively impacted by the completion of our payments for fines and penalties related to the antitrust and related lawsuits in the first quarter, reduced interest expense related to our reduced Senior Note obligations and decreases in cash outlay for planned overhead cost reductions. We expect our cash flow from operations to be

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PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

negatively impacted by higher raw material prices, higher accounts receivable balances as a result of increased prices for graphite electrodes, losses incurred in connection with the redemption of long term debt, the realization of certain international deferred taxes, planned pension and post retirement contributions, and payments for severance under restructuring plans and workforce rationalization initiatives. Our cash flow will also be impacted from the loss of working capital and capital expenditures related to our former cathodes business, which was sold in the fourth quarter of 2006.

Long term obligations could have a material impact on our liquidity. Cash flow from operations services payment of our debt and other obligations thereby reducing funds available to us for other purposes. These obligations make us more vulnerable to economic downturns in the event that these obligations are greater or timing of payment is sooner than expected.

In order to seek to minimize our credit risks, we reduced our sales of, or refused to sell (except for cash on delivery), graphite electrodes to some customers and potential customers in the U.S. and, to a limited extent, elsewhere. Our unrecovered trade receivables worldwide were only 0.1% of global net sales during the last 3 years. We cannot assure you that we will not be materially adversely affected by accounts receivable losses in the future. In addition, we have historically factored a portion of our accounts receivable and used the proceeds to reduce debt.

We may from time to time and at any time repurchase Senior Notes or Debentures in open market or privately negotiated transactions, opportunistically on terms that we believe to be favorable. In the three months ended March 31, 2007 we redeemed \$135.0 million of our senior notes using proceeds from the sale of our cathode business. In the three months ended June 30, 2007, we redeemed an additional \$50.0 million of our Senior Notes. On July 11, 2007, we called an additional \$50.0 million of our Senior Notes. We expect this redemption to occur on or about August 10, 2007.

We have in the past entered into, and may in the future enter into, natural gas derivative contracts and short duration fixed rate purchase contracts to effectively fix some or all of our natural gas cost exposure, as described under Item 3 Quantitative and Qualitative Disclosure about Market Risks in this Report.

We believe that the long-term fundamentals of our business continue to be sound. Accordingly, although we cannot assure you that such will be the case, we believe that, based on our expected cash flow from operations, our existing capital resources, and taking into account our working capital needs and our efforts to reduce costs, improve efficiencies and product quality, and accelerate commercialization of new products and cash flow, we will be able to manage our liquidity to permit us to service our debt and meet our obligations when due.

Cash Flow Provided By Operating Activities. Cash flow provided by operating activities was \$53.8 million in the six months ended June 30, 2007 and \$20.1 million in the same period in 2006, an improvement of \$33.7 million.

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In the six months ended June 30, 2007, net income after adding back the effect from non-cash items, amounted to \$103.9 million, including the loss from discontinued operations of \$3.1 million. The non-cash expenses consisted of depreciation and amortization of \$16.2 million and restructuring charges of \$0.7 million, deferred income taxes of \$3.6 million, and other credits of \$0.1 million. Net cash used by working capital of \$20.8 million primarily consisted of a decrease in inventories of \$7.1 million, the final \$5.4 million antitrust payment, \$4.5 million of restructuring payments, an \$13.4 million decrease in accounts payable and accruals, and a decrease in interest payable of \$7.1 million. These increases in working capital were offset by a decrease in accounts receivable of \$15.8 million, including the effect of factoring of \$22.5 million and a decrease in prepaid and other current assets of \$0.9 million. Also affecting cash flows from operations for the six months ended June 30, 2007 was an increase in post retirement obligations of \$1.7 million and long-term assets and liabilities of \$4.0 million, and \$23.7 million related to the gain on the sale of fixed assets (primarily our Caserta, Italy facility).

In the six months ended June 30, 2006, net income, after adding back the net effect from non-cash items, amounted to \$42.8 million, including the \$1.9 million loss from discontinued operations. The non-cash items consisted of \$20.5 million for depreciation and amortization, \$1.2 million for deferred income taxes, restructuring charges of \$5.8 million, impairments of \$8.8 million, and other charges of \$1.2 million. Net cash used by working capital of \$9.2 million primarily consisted of increases in inventory of \$17.1 million, payments made for antitrust related items of \$9.9 million, payments for restructuring items, primarily severance and related payments, of \$4.1 million, a decrease in accounts payable and other accrued items of \$6.1 million, and a decrease in prepaid and other current assets of \$2.7 million. These uses of cash were offset by cash provided by accounts receivable, including the effect of factoring, of \$30.7 million. Also affecting cash flow from operations for the six months ended June 30, 2006 was an increase in post retirement obligations of \$6.7 million and long-term assets and liabilities of \$7.7 million.

Cash Flow (used in) Provided by Investing Activities. Cash flow provided by investing activities was \$1.2 million in the six months ended June 30, 2007 compared to cash flow used in investing activities of \$24.4 million in the same period in 2006. In the first six months of 2007, capital expenditures amounted to \$20.2 million and \$0.5 million for patent costs, offset by proceeds from the sale of assets of \$24.7 million. Finally, we paid \$2.8 million to Alcan for the final purchase price adjustment related to the sale of our cathodes operation.

Cash Flow Provided by (Used in) Financing Activities. Cash flow used in financing activities was \$171.2 million in the six months ended June 30, 2007, compared to cash flow provided by financing activities of \$4.2 million during the same period in 2006.

During the six months ended June 30, 2007, we repaid \$184.8 million in long-term debt obligations. Net revolver borrowings were \$0.6 million, and short term borrowings were \$0.5 million. Proceeds from the exercise of stock options provided an additional \$12.3 million of cash.

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PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

During the six months ended June 30, 2006, we borrowed \$320.9 million under the Revolving Facility and made payments of \$316.7 million. We used these borrowings to fund working capital requirements.

Restrictions on Dividends and Stock Repurchases

A description of the restrictions 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.

Recent Accounting Pronouncements

A description of recent accounting pronouncements is set forth under **New Accounting Standards** in Note 2 to the Notes to the Consolidated Financial Statements contained in this Report, and such description is incorporated herein by reference. Such description contains all of the information required with respect thereto.

Description of Our Financing Structure

A description of the Revolving Facility, the Senior Notes and the Debentures is set forth under **Long-Term Debt and Liquidity** in the Annual Report and such description is incorporated herein by reference.

Antitrust Proceedings Against Us

At December 31, 2006, \$5.4 million remained in the reserve for liabilities and expenses in connection with the antitrust investigations described in our Annual Report representing the last scheduled installment of the fine imposed by the United States Department of Justice, which was paid in January 2007.

Other Proceedings Against Us

We are involved in various other 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 them, we do not believe that their ultimate disposition will have a material adverse effect on our financial position, results of operations or cash flows.

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GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks primarily from changes in interest rates, currency exchange rates, and commercial energy rates. We 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 costs results primarily from the purchase of natural gas and electricity for use in our manufacturing operations.

Interest Rate Risk Management. We periodically implement interest rate management initiatives to seek to minimize our interest expense and optimize the risk in our portfolio of fixed and variable interest rate obligations. At December 31, 2006 and June 30, 2007, we had no interest rate swaps outstanding.

When we sell a fair value hedge swap, the gain or loss is amortized as a credit or charge to interest expense over the remaining term of the Senior Notes. When we effectively reduce the outstanding principal amount of the Senior Notes (through debt-for-equity exchanges, repurchases or otherwise), the related portion of such credit or charge is accelerated and recorded in the period in which such reduction occurs.

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. At December 31, 2006 and June 30, 2007, we had no outstanding interest rate caps.

Currency Rate Management. We periodically enter into foreign currency instruments 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, net, relating to euro-denominated

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GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

debt and identifiable foreign currency receivables, payables and commitments held by our foreign and domestic subsidiaries. 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. The result is the creation of a range in which a best and worst price is defined, while minimizing option cost. At December 31, 2006 and June 30, 2007, there were no outstanding contracts.

Commercial Energy Rate Management. We periodically enter into natural gas derivative contracts and short duration fixed rate purchase contracts to effectively fix some or all of our natural gas cost exposure. The outstanding contracts at December 31, 2006 were a payable of \$0.2 million. All existing contracts expired in April 2007 and no new contracts were initiated.

When we enter derivative contracts, we may be required to provide cash collateral to certain counterparties to the extent that the fair market value of the natural gas derivative contracts exceeds a specific threshold.

Sensitivity Analysis. We used a sensitivity analysis to assess the potential effect of changes in currency exchange rates, and interest rates on results of operations for the six months ended June 30, 2007. Based on this analysis, a hypothetical 10% weakening or strengthening in the dollar across all other currencies would have changed our reported gross margin for the six months ended June 30, 2007 by about \$7.0 million. Based on this analysis, a hypothetical increase in interest rates of 100 basis points would have increased our interest expense by a nominal amount for the six months ended June 30, 2007, as our debt is primarily fixed rate debt.

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 us in the reports that we file 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 our Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Report, and, based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that these controls and procedures are effective at the reasonable assurance level as of June 30, 2007.

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PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

There have been no changes in our internal controls over financial reporting that occurred during the second quarter of 2007 that materially affected or is reasonably likely to materially affect our internal controls over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES****Item 1. Legal Proceedings**

This information required in response to this Item is set forth under *Contingencies* in Note 13 to the Notes to Consolidated Financial Statements contained in this Report, and such description is hereby incorporated by reference.

Item 4. Submission of Matters to a Vote of Security Holders

On May 23, 2007, GTI held its annual meeting of stockholders in Parma, Ohio.

At the meeting, the stockholders elected directors, and the shares present at the meeting were voted for or withheld from each nominee, as follows:

| Name of Director | Number of Shares | |
|-------------------------|-------------------------|----------------------------------|
| | Cast For | Number of Shares Withheld |
| R. Eugene Cartledge | 81,828,422 | 11,081,230 |
| Mary B. Cranston | 83,220,442 | 9,689,210 |
| John R. Hall | 81,871,091 | 11,038,561 |
| Harold E. Layman | 83,144,292 | 9,765,360 |
| Ferrell P. McClean | 80,658,215 | 12,251,437 |
| Michael C. Nahl | 80,081,728 | 12,827,924 |
| Frank A. Riddick III | 81,349,503 | 11,560,149 |
| Craig S. Shular | 80,592,266 | 12,317,386 |

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PART II (CONT D)

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 Craig S. Shular, Chief Executive Officer, President, and Chairman of the Board. |
| 31.2 | Certification pursuant to Rule 13a-14(a) under the Exchange Act by Mark Widmar, Vice President and Chief Financial Officer. |
| 32.1 | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Craig S. Shular, Chief Executive Officer, President, and Chairman of the Board. |
| 32.2 | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Mark Widmar, Vice President and Chief Financial Officer. |

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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 3, 2007

GRAFTECH INTERNATIONAL LTD.

By: /s/ Mark Widmar
Mark Widmar
Vice President and Chief Financial Officer
(Principal Accounting Officer)

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EXHIBIT INDEX

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