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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to Celanese Second Quarter 2017 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions]

After today’s presentation, there will be an opportunity to ask questions. [Operator Instructions] Please also note that today’s event is being recorded.

At this time, I'd like to turn the conference call over to Ms. Surabhi Varshney, Vice President of Investor Relations. Ma'am, please go ahead.

Surabhi Varshney
Vice President - Investor Relations, Celanese Corp.

Thank you, Jamie. Welcome to the Celanese Corporation's second quarter 2017 earnings conference call. My name is Surabhi Varshney, Vice President, Investor Relations. With me today are Mark Rohr, Chairman and Chief Executive Officer; Chris Jensen, Chief Financial Officer; Scott Sutton, Chief Operating Officer; and Pat Quarles, President, Acetyls Chain.

Celanese Corporation's second quarter 2017 earnings release was distributed via Business Wire yesterday after market close. The slides for the call and our prepared comments for the quarter were also posted on our website, www.celanese.com, in the Investor Relations section.

As a reminder, some of the matters discussed today and included in our presentations may include forward-looking statements concerning, for example, Celanese Corporation's future objectives and results. Please note the cautionary language contained in the posted slides.

Also, some of the matters discussed and presented include references to non-GAAP financial measures. Explanations of these measures and reconciliations to the comparable GAAP measures are included with the press release and on our website in the Investor Relations section under Financial Information.

The earnings release and non-GAAP reconciliations have been submitted to the SEC on a Form 8-K.

The slides and prepared comments have also been submitted to the SEC on a separate Form 8-K. This morning, we'll begin with introductory comments from Mark Rohr, and then open up for your questions.

I'd now like to turn the call over to Mark.

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

Thank you, Surabhi, and welcome, everyone, listening in today. We posted our prepared remarks along with the earnings yesterday. So, I'll limit my comments and then open the line for questions.

First, a few performance highlights. We successfully completed the Clear Lake, Texas site turnaround to repair and upgrade unit operations on-time, on-budget and injury-free. We also made significant progress to SO.F.TER.
and Nilit integrations, and announced an agreement with Blackstone to form a new European-based cellulose acetate company to better support global customers and technology.

In the second quarter, we reported GAAP earnings of $1.72 per share and adjusted earnings of $1.79 per share, both second quarter records. In the quarter, we returned $237 million of cash to investors with $172 million in share repurchases. By the end of 2017, we expect to have completed $500 million worth of share repurchases. And as you’ve probably seen, we just announced a new share repurchase authorization of $1.5 billion.

The Acetyl Chain income came in at $132 million, that's 19% higher year-over-year, driven by commercial agility and production flexibility. Product swaps and rigorous supply chain planning allowed Celanese to participate in the market and overcome production limitations at Clear Lake as well as industry supply constraints.

Income margin for the Acetyl Chain was 16%, driven by pricing improvements. Materials Solutions increased net sales to a record $709 million in the second quarter as rapid growth in Advanced Engineered Materials outpaced the decline in acetate tow volume and price. AEM reported its second highest ever segment income of $142 million, 28% higher than the same quarter last year. Volume increased double digits year-over-year driven by SO.F.T.E.R. and Nilit, organic growth, and greater penetration in China.

As expected, segment income margin for AEM was 290 basis points lower year-over-year with the integration of recent acquisitions and growth in Asia. The team closed a record 547 projects in the quarter, allowing us to increase the target for projects closed in 2017 by 5% to roughly 2,000.

In Consumer Specialties, segment income in the second quarter was $79 million, in line with our previous guidance. Tow price and volume were lower year-over-year driven by reduced industry utilization rates. We expect earnings for the third and fourth quarter 2017 to be around the second quarter level and believe 2018 results will be in line with 2017.

For the rest of 2017, there are a number of efforts underway to utilize our unique commercial models and leverage our operating flexibility. Record numbers of projects commercializations and strategies to take advantage of raw material volatility will extend the second quarter success throughout the year. We are, therefore, increasing our expectations for adjusted earnings per share growth to be in the 9% to 11% range for 2017.

Surabhi Varshney
Vice President-Investor Relations, Celanese Corp.

Thank you, Mark. I'd like to request our callers to please limit to one question and a follow-up. Jamie, please open the line for Q&A.
QUESTION AND ANSWER SECTION

Operator: Ladies and gentlemen, we'll now begin the question-and-answer session. [Operator Instructions] Our first question today comes from Robert Koort from Goldman Sachs. Please go ahead with your question.

Robert Andrew Koort  
Analyst, Goldman Sachs & Co.

Q

Thanks very much and maybe this would be for Pat, but trying to get some better sense of exactly – Mark, you so eloquently talked about commercial agility and production flexibility. Can you give us some more specifics on what the heck you did in acetic [indiscernible] (6:08)? And then how should we think about that business in the second half? I know earlier in the year, you talked about a nice uptick in the second half. Is that still something we can expect in acetic?

Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.

A

Let me. I'll take the last question and then perhaps [indiscernible] (6:24) better Pat answers your first, Bob. But, yes, we're seeing trends to – that we had hoped to see that gives us some comfort that we're going to be moving this business up in the third quarter. So, yes, I think that broad trend that we had reflected earlier in the year is there and that's why we reaffirmed and also [indiscernible] (6:45) just a little bit. But, Pat, do you want to talk about the commercial agility?

Patrick D. Quarles  
Executive Vice President and President, Acetyl Chain, Celanese Corp.

A

Sure. Hey, Bob. So, if you think about our priorities we entered the second quarter, yes, there were a few things in front of us. Our turnaround. Priority number one is [indiscernible] (6:57) I get hurt as they come on to our site. We had over 1,200 new contractors on the site to help us complete that maintenance work and we're very proud of the men and women down at Clear Lake. We were able to send those guys back home every day safely throughout the whole turnaround. That's a great accomplishment.

And of course, secondly, to meet the commitments we've made to our customers as the leader in Acetyls business globally. And we're able to accomplish that despite the turnaround by a variety of sourcing arrangements and moving of molecules around our systems. So, Mark mentioned swaps. So, we had agreements with co-producers to provide us some product. We actually even uneconomically had to move product out of China and out of Singapore to meet our commitments in the West.

So, one of the reasons we talked about this $30 million impact in the second quarter is related to that commitment to meet our customers' needs and we're able to get through that without incident. So, that really is what sets us up for the improvement as we go into third quarter because we just [indiscernible] (7:53) not only will we [ph] not have work (7:54) going on at Clear Lake, we won't have the inefficiencies of the need to move those molecules around to meet market requirements.

Robert Andrew Koort  
Analyst, Goldman Sachs & Co.

Q

And, Chris, could you tell us what the tax assumption is for second half earnings?
Christopher W. Jensen  
*Executive Vice President and Chief Financial Officer, Celanese Corp.*  

Yes. Right now, we're assuming it will be the same as what we're using today, which the way we do quarters, it's – the rate you used in the quarter is the rate you expect for the year.

Robert Andrew Koort  
*Analyst, Goldman Sachs & Co.*

Thanks.

**Operator**: Our next question comes from Frank Mitsch from Wells Fargo Securities. Please go ahead with your question.

Frank J. Mitsch  
*Analyst, Wells Fargo Securities LLC*

Hey. Good morning, folks. So, just to be clear, so following this result of $106 million in AI in Q2, you're expecting continued improvement in Q3. Is that correct off of that number?

Mark C. Rohr  
*Chairman & Chief Executive Officer, Celanese Corp.*

You got it.

Frank J. Mitsch  
*Analyst, Wells Fargo Securities LLC*

And I thought I read and this is last night, I thought I read that you thought the negative impact of the Clear Lake turnaround was close to $30 million. Is that right?

Mark C. Rohr  
*Chairman & Chief Executive Officer, Celanese Corp.*

Yes. That's right. I mean, the direct is $15 million and indirect as Pat talked about the inefficiencies in our system, you can – and some of that's – as far [indiscernible] (9:10) exactly, but – so you call another $15 million for that.

Frank J. Mitsch  
*Analyst, Wells Fargo Securities LLC*

All right. So, that result in Q2 was constrained by that amount? All right, terrific. And obviously, AEM, nice result there. How would you compare and contrast the organic growth of Celanese relative to the M&A you did? What's the growth been like if you can parse it out between those two?

Mark C. Rohr  
*Chairman & Chief Executive Officer, Celanese Corp.*

Scott, would you mind jumping on that?

Scott McDougald Sutton  
*Chief Operating Officer, Celanese Corp.*

Yes, sure. Frank, if you think about what we did in Q2, I mean, for the broad performance lift, M&A contributed, organic growth contributed. Organic growth still contributed much more than M&A, certainly, even more than our
affiliates did. So, if I had to break it out to give you just a good view of it and you look at the organic volume growth, again, Q2 2017 versus Q2 2016 was about 10% organic volume growth.

Frank J. Mitsch
Analyst, Wells Fargo Securities LLC

Terrific. Thanks so much.

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

Thank you, Frank.

Operator: Our next question comes from P.J. Juvekar from Citi. Please go ahead with your question. And, sir, your line is open.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Yes. Thank you. Sorry about that. You guys have done a great job in the AEM business. It's become an envy in the chemical industry. So, what drives your success? Can you talk about your $75 million of R&D—corporate R&D. How much of that goes into this division and how much of that goes to as new product [indiscernible] (10:45), say, application R&D?

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

Yes, P.J., it's Mark. Well, let me back up and just talk about success at the high level for just a minute. And Scott probably would like to [indiscernible] (10:58) on this as well. What I would say, we've done extremely well as we've really married technology and commerce with our customers. So, we look at that having sort of multiple people in that box that are making decisions on a real-time basis what we pursue. And we have a lot of flexibility within our technology and sales groups to make sure that we're putting all the resources of the company behind delivering on the things we say we're going to do, P.J. So, imagine the full force and weight of selling these whenever we commit to the project, A, B or C for Ford or whoever we're working with, then we get it done right now.

And so, I think, that's the power—the inherent power of the model. From a technology point of view, most of our technology goes into in the AEM. Most of the spending is for that, and it's largely developmental spending. So, I think, if you use the sort of industry standard of 85/15 or 90/10, there's a small portion that's going in futuristic work, but most of it is addressing contemporary things before us.

Scott, do you want to add something to that or?

Scott McDougald Sutton
Chief Operating Officer, Celanese Corp.

Yes. Mark, I mean the only thing that I would add all that, perfectly correct. I would just say that, P.J., our go-to-market strategy is quite differentiated. And we're really able to drag a lot of complexity out of customers and handle all these projects and find solutions that they might not otherwise be able to find and certainly can't find
from a single supplier. And we move that complexity to our side of the house and manage it well. And that really is the competitive advantage.

P.J. Juvekar  
Analyst, Citigroup Global Markets, Inc.

Thank you. And after acetate tow goes into this JV with Blackstone, what is the long-term future of the Acetyls Intermediate business, Mark, and would you be looking to do a similar tax-efficient deal in the future if an opportunity comes?

Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.

Yes. [indiscernible] (13:03) I'll answer your first question. I think, when we look at putting these two businesses together, P.J., what we really will have in place is we'll have a business that can really focus on the tremendous amount of changes underway in the tow industry, much of which is promoting the use of more sophisticated tow materials or cellulose acetate material, as well as new technology out there to find uses for cellulose acetate, some of which we're pretty excited about. And, I think, our partners, Blackstone, also have something they're excited about. So, the marriage of those things gives us a chance to create truly a sustainable business model.

Out of that, we expect that model to continue to contribute earnings to Celanese and we expect to continue to see high levels of free cash flow generation, and then, sometime we think it will be a standalone entity that will have all the strength and power. It should have a standalone entity. Would we do that again? Sure. I mean I think we already feel like we have three number one businesses as we like to say and if there's a way in the chain business, we could bring in other assets or businesses and find ways to key it up to grow with the kind of pace we expect it to grow, we'd absolutely do that.

P.J. Juvekar  
Analyst, Citigroup Global Markets, Inc.

Great. Thank you.

Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.

Thank you.

Operator: Our next question comes from Duffy Fischer from Barclays. Please go ahead with your question.

Duffy Fischer  
Analyst, Barclays Capital, Inc.

Great. Good morning, fellows. Two quick questions. One, for Scott, just on that 10% organic growth, the incremental margins on that, is that keeping pace with segment average?

Scott McDougald Sutton  
Chief Operating Officer, Celanese Corp.

Yes. Hi, Duffy, and it is. I mean if you boil it down and you take out affiliates and you take out M&A, you actually find that our margin in Q2 of 2017 is a little bit better than our underlying margin in Q2 of 2016. So, it's absolutely keeping pace.
Okay. And then, just a second one, on the commodity side of the acetic, how do you guys see the cycle today? I mean it's been a long time that we've been in a relative trough. Next three years, is there a chance that we can start getting some tighter operating rates and actually start to see a cycle in acetic acid?

Patrick D. Quarles
Executive Vice President and President, Acetyl Chain, Celanese Corp.

Now, Duffy, you know we don't talk about this business as a commodity business.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Well, there are some commodity parts, probably not yours.

Patrick D. Quarles
Executive Vice President and President, Acetyl Chain, Celanese Corp.

[indiscernible] (15:39). As we've always said, China, we know China structurally oversupplied in such a large way that I'm not going to tell you you're going to have this global tightening. And what we have to do is to manage between the differentiation that we have in our cost structure between the three asset units around the world, and tie those together in a way in which we can capture value as it presents itself quickly. And that's how we have to do it, Duffy. I'm not going to tell you that demand is going to suddenly overcome all the supply coming out of China. It's not going to unfold that way. We're working hard in China to try and to drive conversations and outcomes that might put the supply side in a more sustainable position. But that also is a complicated process given the nature of China.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Great. Thanks, fellows.

Operator: Our next question comes from David Begleiter from Deutsche Bank. Please go ahead with your question.

David I. Begleiter
Analyst, Deutsche Bank Securities, Inc.

Thank you. Mark and Pat, on the same issue in China. I see you just announced some price increases, I guess last week in China. [ph] Is that side any (16:47) underlying strength in the Chinese market or maybe you can comment on the reasons for that Chinese price increase in acetyls?

Patrick D. Quarles
Executive Vice President and President, Acetyl Chain, Celanese Corp.

Yes. So, thanks. It's really building up the comment I just made being quick. There's some interesting things going on inside China today that presented an opportunity for us to drive some value. And on the VAM business, for instance, I talked last quarter about the implication of high ethylene price on our ability to compete versus the carbide suppliers in the first quarter and how we backed away from the market. So, that situation did reverse as we got into the second quarter. It allowed us to kind of reengage with the market.
As we sit today, in addition to that competitiveness, we also see some supply outages. You've got a lot of rain in Central China that's driving difficulty, getting product down the Yangtze into the coastal market that's providing an opportunity for us to drive value as well. And as those opportunities present themselves, we'll re-jump on it and I would say similarly with acid, where we're monitoring kind of what the supply dynamics are and when we see something, we're going to jump on it. It may not last a quarter, it may not last a month, but as it lasts, we're going to go grab it.

David I. Begleiter  
Analyst, Deutsche Bank Securities, Inc.

Very good. And, Scott, just in your business, how do you stand in the dynamic of price [ph] reservoirs in your business in AEM?

Scott McDougald Sutton  
Chief Operating Officer, Celanese Corp.

Yes. David, I mean we are raising price in some specific areas and having some success at doing that. I mean, I'll go back to my earlier comment that there was actually a little bit of margin expansion, taking out M&A and affiliates and so forth. But, I mean we're able to do that and we've specifically been successful at raising price in China on some of our larger products.

David I. Begleiter  
Analyst, Deutsche Bank Securities, Inc.

Very good. Thank you.

Operator: Our next question comes from Mike Sison from KeyBanc. Please go ahead with your question.

Michael J. Sison  
Analyst, KeyBanc Capital Markets, Inc.

Hey, guys.

Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.

Hey, Mike.

Michael J. Sison  
Analyst, KeyBanc Capital Markets, Inc.

Hey. In AEM, you talked about margins being lower year-over-year largely from acquisitions. Was there any squeeze from raw materials or were you able to kind of offset those with pricing?

Scott McDougald Sutton  
Chief Operating Officer, Celanese Corp.

Yes. So, Mike, and this is Scott. Yes, we do have that margin decline when you throw in all the M&A. That's really what – we reduced it some. Yes, there's a little bit of margin squeeze going on, but we have been successful at raising price in certain areas particularly in China. I referenced a previous comment. So, I mean we're able to combat that. And that's why you don't see a squeeze in the underlying business.
Michael J. Sison
Analyst, KeyBanc Capital Markets, Inc.

Okay, great. And then, Mark, just in general, acquisitions for AEM, how is the pipeline? Any particular areas in the plastics world that you see exciting now going forward? And maybe given the balance sheet position, any opportunities to look at something bigger?

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

Well, let me start in the background there. We feel pretty good about the pipeline. I will say that we thought — we had a couple of deals we were working that had been pulled away from us, again, no reason other than the ownership has elected not to sell. This set us back just a little bit, but we have a number of indicative offers out there now that we're discussing to try to see if we can close on some deals here.

So, we're working as hard as we've said. And, Mike, we've made the comment that we need to — that needs to be a continuation for us, I think, to continue to expand our business profile and market reach and access so we can imply our skills to keep this growth going. So, we're working as hard. We feel pretty good about the pipeline and I really hope to be in a position to announce something. We just can't quite do that now.

Michael J. Sison
Analyst, KeyBanc Capital Markets, Inc.

Great. Thank you.

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

So, yes. Thank you, Mike.

Operator: Our next question comes from Jeff Zekauskas from JPMorgan. Please go ahead with your question.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Thanks very much. When you described your acetate tow joint venture with Blackstone, you talked about it being accretive by $0.50 or $0.75 a share a few years down the road. Do those accretion calculations assume that there are no divestitures?

Mark C. Rohr
Chairman & Chief Executive Officer, Celanese Corp.

Yes. We assume there are no divestitures.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Okay. And second, your AI business [indiscernible] (21:25) really nicely on a sequential basis, maybe in EBITDA, you were up $23 million. Can you talk about whether that came from Europe or the United States or Asia and/or what the rates were sequentially? And was it more a VAM phenomenon or [indiscernible] (21:44) acid phenomenon. Can you give us some color?
Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.

Well, [indiscernible] (21:49) just a little bit. I mean, our business predominantly from a profit value point of view is on either side of the Atlantic. So, you should – generically speaking, that's where the real value equation is driven. So, it's almost always the case. We're seeing the biggest uplift in that area.

Pat, do you want to comment just probably directionally on how you saw that unfold?

Patrick D. Quarles  
Executive Vice President and President, Acetyl Chain, Celanese Corp.

Sure. Yes, Jeff, I think, acid and VAM, both went in the right direction obviously to get that result, almost equally, globally. Mark’s right of course, we do make most of our money in the West. We did have a change in the circumstance for VAM, specifically 1Q to 2Q, [indiscernible] (22:28) mentioned earlier, right?

So, we did reenter, and versus second quarter, we did better in VAM in China than we did the prior quarter. That was a sequential, kind of a differential market-driven improvement. Otherwise, I would say, you just had that environment because of what we were doing in the market and impact to the outages that allowed general margin inflation throughout.

Jeffrey J. Zekauskas  
Analyst, JPMorgan Securities LLC

Okay, great. Thank you so much.

Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.

Thanks, Jeff.

Operator: Our next question comes from Laurence Alexander from Jefferies. Please go ahead with your question.

Laurence Alexander  
Analyst, Jefferies LLC

Good morning. Just wanted to follow up on the discussion about the competitive dynamics in China and the degree to which they’re being – discipline is being forced on them [ph] via (23:10) weather-related issues. In the past, you’ve suggested that there may have been an emerging trend of better just competitor discipline in the region. Are you still seeing that or is that reversing?

Patrick D. Quarles  
Executive Vice President and President, Acetyl Chain, Celanese Corp.

Yes. I'm not sure I characterized it as supplier discipline. I think, the conversation we've had before was, there are indications that these units that are kind of structurally impaired, to use a technical term, because the [indiscernible] (23:45) oversupply and the challenges we all see in margins is leading people to consider options for rationalization or consolidation, but it's just hard to get that done in China, but it's a start, right?

These guys have social obligations beyond just financial that's different than the way we think. And so, they have to work these things through. So, that's what I was speaking to during our last call. And I would say those things
still exist, it's just a process. In [indiscernible] (24:14) now, the weather impact and so forth, I would say that just is very reflective of the nature of our business that it hinges on people's ability to continuously run and meet market demand and the changing economics that happen inside China and our ability to manage our system around to capitalize on that volatility.

Laurence Alexander  
Analyst, Jefferies LLC  
Okay. And then secondly just on the increased number of projects that you're running. Is the average size of the projects – is it shrinking?

Scott McDougald Sutton  
Chief Operating Officer, Celanese Corp.  
Yes. Laurence, this is Scott. You know the average size really isn't coming down that much, but what I will say is that with the acquisitions, you do find that they have an initial smaller size project going into there. So, it's possible that the number comes down for a while, right? But then we get the cross-synergies, we pick up other projects, so it's sort of a temporary phenomenon. It's not a major concern.

Laurence Alexander  
Analyst, Jefferies LLC  
Thank you.

Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.  
Thank you.

Operator: Our next question comes from John Roberts from UBS. Please go ahead with your question.

John Roberts  
Analyst, UBS Securities LLC  
Thank you. Your implied back half guidance doesn't seem to be all that different from where consensus was at the start of the year in spite of having pretty good first quarter and second quarter. Are there any key risks that you want to highlight for the second half of the year?

Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.  
[indiscernible] (25:48) from what we've been saying, mathematically, John, you're probably right. But we think we're promoting to pushing up our guidance and our earnings in the second half of the year, which is what our original premise was when we rolled this out as you may recall there. Key risk to, I think really when you push in this kind of level of earnings is that the business gets weak in the fourth quarter for some reason we can't predict. I mean, that's always a risk when you get into this. But from a trend point of view, that 9% to 11% we believe is there and we think from our point of view that that's an improvement. We're trying to signal an improvement [ph] than we were before (26:30).

John Roberts  
Analyst, UBS Securities LLC  
Thank you.
Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.

Thank you.

Operator: Our next question comes from Arun Viswanathan from RBC Capital Markets. Please go ahead with your question.

Arun Viswanathan  
Analyst, RBC Capital Markets LLC

Great. Thanks. Good morning. Just a question on Consumer Specialties. You had a little bit of a downtick there. What's the new outlook for the remainder of the year and next year? Have you found potentially a baseline here? Thanks.

Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.

Yes, Arun, we believe where we are now is roughly a baseline and of course, we went to as we had advertised that step-down was going to occur in the second quarter, so you've seen that. We'll continually work to try to tune that up a bit, find ways we can impact those earnings, and we'll need to a little bit to be flat year-over-year. But we expect that run rate that you're seeing now is as good a number as any [ph] two run out (27:25) through this year.

Arun Viswanathan  
Analyst, RBC Capital Markets LLC

And then as a follow-up, I mean, methanol cost potentially could be coming down in the second half. They've already come down a little bit. How does that affect your ability to go out and get price in some of the derivatives and what gives you the confidence that [indiscernible] (27:44) will continue to go up in that environment? Thanks.

Patrick D. Quarles  
Executive Vice President and President, Acetyl Chain, Celanese Corp.

Yes. This is Pat. Yes, look, I think the way to characterize methanol is it can be volatile, and it's very difficult particularly in the second half of the year to have a strong outlook and which way it's going. But I appreciate, it's right. We've been talking about MTO coming on stream in China, on the coast, buying 3 million to 4 million tons a year of new methanol demand. And that's kind of matched against their ethylene and polyethylene alternatives.

And with the wave now coming, U.S. Gulf Coast, candidly I think it's just a question mark as to how that plays through in the coming months. One thing we would anticipate is just the volatility piece of it. So, we've positioned ourselves on both sides of it to be prepared to drive either operationally or price and margin-wise to get the best out of that volatility that we can. It's going to be somewhat interesting to watch, I think, over these coming months as to how these dynamics play out.

Arun Viswanathan  
Analyst, RBC Capital Markets LLC

Great. Thanks.

Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.
Mark, you talked a bit about the margin erosion on the AEM side of things and, obviously not surprisingly, it's just coming on the back of some of these acquisitions that you've made. My question basically is that, again, in your prepared remarks, you talked about recovering some of that margin erosion from synergies. So, I'm just trying to figure out where we'll end up in terms of run rate margins once those synergies are captured. Should we think mid-30%s, high-30%s, maybe even back to 40%-plus levels?

Well, we've lost several hundred basis points from the dilutive effect of this [ph] material coming into (29:37) the portfolio. We were very, very open about that process. These companies we're buying have margin levels of roughly half of ours. So, our strategy is to, over a period of time, to get those levels up to our existing level. So, you expect if we didn't do any other acquisitions [indiscernible] (30:00) we will push that margin back up over some period of time.

Just on the other hand, we're continuing to roll in acquisitions like this on an annualized basis. I think you're going to see numbers more like where we are now. If there's always a dilutive impact on a near-term basis that we haven't recovered, you won't be able to push it up. So, I think somewhere between where we were and where we are today is the long-term average for our company. But near-term, it's going to be closer to this level.

Understood. And then, as a follow-up, you talked about at least in the near-term your expectation for some volatility in methanol pricing. As you look at your portfolio now, I know back in the day you talked about potentially another methanol plant. But seeing some of this recent volatility, the influx of some of these MTO plant and the like, where do you guys stand now with regards to your global position in methanol? Would you sort of consider another methanol plant particularly as your cash flow continues to improve?

Well, I think it's not – it's not at the top of our list to where we'd like to invest our money today. We like our methanol prices, but we also like methanol volatility. And we think certainly the coastal MTO facilities out there
created the element of that volatility, so that's good for us. So, right now, we are not taking a position on that. We're just watching that market and continue to consider it. If there were to be another investment, we'd probably be a logical company to do it, but right now it's not very high on our list.

Hassan I. Ahmed  
Analyst, Alembic Global Advisors LLC

Understood. Very helpful. Thanks so much, Mark.

Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.

Thank you.

Operator: And our next question comes from Jim Sheehan from SunTrust Robinson Humphrey. Please go ahead with your question.

James Sheehan  
Analyst, SunTrust Robinson Humphrey, Inc.

Good morning.

Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.

Good morning, Jim.

James Sheehan  
Analyst, SunTrust Robinson Humphrey, Inc.

Can you talk about the process with the JV. You referenced that you were preparing to carve some assets out in preparation for that joint venture and making your contribution to it. How long do you think that process might take and can you give kind of a ballpark for when you think that deal might close?

Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.

I think, Jim, we're staying away from giving specific dates. We're just really getting started in this process. So, I think, if you'll be a little bit patient, we'll share more of that probably in October timeframe after we're fully in it and have the ability maybe to get a sense of the pace people are working at and things like that. The carve-out process is just some of the many things we've got to do to prepare our assets. [indiscernible] (32:40) transfer assets into the new JV. So, that process is a multi-market process and it will probably take us to the end of this year or next to complete.

Christopher W. Jensen  
Executive Vice President and Chief Financial Officer, Celanese Corp.

Hey, Jim, this is Chris. Let me just add to that. When we say carve-out in this particular transaction, this is not complicated from a physical asset separation perspective. We're really talking about systems, processes and legal entity [ph] intact (33:08) structure.
James Sheehan  
Analyst, SunTrust Robinson Humphrey, Inc.

Great. And could you give us an update on your thoughts on portfolio management? There's a lot of global assets for sale. Under what circumstances might you consider some transformational M&A, and then in the context to that, do you consider that Acetyls Chain, core to your business?

Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.

I'm sorry. Can you ask that question one more time?

James Sheehan  
Analyst, SunTrust Robinson Humphrey, Inc.

Sure, Mark. I'm just wondering if you could update us on your thoughts on the portfolio and in terms of whether you would consider larger M&A transformational deals, whether you would consider breaking up the company? Is Acetyl Chain something that you consider to be core or would you consider different structures to create shareholder value?

Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.

Well, like we've said all along, our purpose here is to create shareholder value. So, we don't look at ourselves as being constrained in any way to do that. We've also said we're not going to do anything that's galactically stupid or anything that destroys shareholder value. So, if you look at the deal we just did, as a [indiscernible] (34:21) if Celanese is taking the position to sell that asset, let's say, the net of that part would have been about the level of this dividend that we received. So, we structured the deal in a way that's going to have tremendous shareholder value creation as a result of it. Net-net, you're taking what was already arguably one of the best, if not the best, cellulose acetate business in the world and you're making it even better by combining these two great businesses.

So, that kind of structure, would we do that again and again? Sure, we would. It's not easy to do but we certainly would. We believe that the materials is best in class in terms of the solution-based formula that we have. We have more bandwidth on our molecules than anyone else in that space and we have ways to continue to grow that. We would like to do a bigger deal in that space, absolutely, if we could find one to fit. If you look at the chain business, the chain business is awesome. At a time, where no one can look at the industry metrics and believe you're able to generate this kind of margin off of that business, yes, we continually do it because of the unique nature and differentiating nature of that business. There are also ways we can expand that. So, I think, what you have here at Celanese is you have a leadership team that's totally driven to create shareholder value.

And we don't feel like we've constrained anybody to do that. But we don't want to just buy some for the sake of buying it, nor sell something just for the sake of doing it. It's got to really translate into incremental shareholder value or we can't do it.

James Sheehan  
Analyst, SunTrust Robinson Humphrey, Inc.

Thank you, Mark.
Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.

Thank you.

Operator: Our next question comes from Vincent Andrews from Morgan Stanley. Please go ahead with your question.

Vincent Stephen Andrews  
Analyst, Morgan Stanley & Co. LLC

Thanks. I have a more specific follow-up on this line of question. Mark, you referenced or said last year, I think, at a conference that if you were to separate the business units, it should be, I think, $125 million to $150 million of dissynergies, specifically from raw materials and logistics. And you went on to say that the tax implications would be more substantial, which I took to mean more than $125 million to $150 million. So, could you just update us, are those the right numbers to think about? And what would the tax complexity be, maybe in a range as well? Thanks.

Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.

Yes. Yes, so, we continue to work on pulling those numbers down a bit. But on a gross level, the way I would look at it is it has a negative present value, somewhere between $1 billion and $1.4 billion, if you look at from an impact to cash flow kind of basis. And, Chris, I don’t know if you want to add any more to that.

Christopher W. Jensen  
Executive Vice President and Chief Financial Officer, Celanese Corp.

Yes, Vincent, I would tell you that the number Mark just threw out there and what we’ve talked about on run rate basis does include tax impacts. And we’ve done a lot of work over the last couple of years to actually minimize what those otherwise would be.

Vincent Stephen Andrews  
Analyst, Morgan Stanley & Co. LLC

Okay. And, Chris, maybe just a follow-up for you. I think, your free cash flow guidance. I think before it was at least $850 million and now I guess around $850 million. Looks like CapEx is the same. So, is there a working capital issue or cash taxes or what’s causing that?

Christopher W. Jensen  
Executive Vice President and Chief Financial Officer, Celanese Corp.

Our intention was not to signal that it’s any different than where we were last quarter.

Vincent Stephen Andrews  
Analyst, Morgan Stanley & Co. LLC

Okay. Fair enough. Thanks very much.

Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.

Thank you.
Operator: Our next question comes from Aleksey Yefremov from Nomura Instinet. Please go ahead with your question.

Aleksey Yefremov
Analyst, Nomura Instinet

Good morning. Thank you. You provided overall profit guidance for the Consumer business. Could you give us some thoughts separately on your outlook for pricing and volume? Do you have any visibility on either one of these components?

Scott McDougald Sutton
Chief Operating Officer, Celanese Corp.

Yes. In terms of what business, please?

Aleksey Yefremov
Analyst, Nomura Instinet

Sorry. [indiscernible] (38:10) business.

Scott McDougald Sutton
Chief Operating Officer, Celanese Corp.

Yes. Well, I mean, look, as Mark said, right, we think that there's a baseline that we sort of hit and you should see that going forward. So, there's like to be fairly consistent volumes going forward, a little bit of potential price degradation that we're able to offset here going forward if it's still a really competitive industry. But net-net, earnings is sort of stabilizing.

Aleksey Yefremov
Analyst, Nomura Instinet

Thank you. And then a question for Pat on methanol, you mentioned your prior view of tightening methanol market due to MTO project. But why did that tightness not happen and what is your, I guess, longer-term view? You mentioned also more volatility in the near-term. Do you think as we look out next 12 months or 24 months, do we still have a tight market or somewhere in the balanced region?

Patrick D. Quarles
Executive Vice President and President, Acetyl Chain, Celanese Corp.

Well, I think based on what we're anticipating, we are absolutely seeing the new demand coming in. I mentioned about 4 million tons of new demand associated with MTO on the China Coast. So, that is there structurally. Well, with the volatility dynamic now is the choices that they make economically between their ethylene and polyethylene alternatives. So, that's why structurally I think the market is in a better place than it used to be and yet the volatility is going to be the principal driver, because you have so much demand now tied to basically the ethylene or C2 chain versus just the straight C1 chain. And that's a new dynamic for this business.

Aleksey Yefremov
Analyst, Nomura Instinet

Thank you very much.
Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.

Thank you.

Operator: And our next question comes from Ghansham Panjabi from Robert W. Baird. Please go ahead with your question.

Mehul M. Dalia  
Analyst, Robert W. Baird & Co., Inc. (Broker)

Hi. Good morning. This is actually Mehul Dalia, sitting in for Ghansham. How are you doing?

Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.

Great.

Mehul M. Dalia  
Analyst, Robert W. Baird & Co., Inc. (Broker)

Great. In AEM, you're increasing the number of projects for 2017. Is that purely due to the cross-pollination from recent acquisitions or is there any particular end market that is perhaps doing better from an adoption standpoint than you thought initially?

Scott McDougald Sutton  
Chief Operating Officer, Celanese Corp.

Yes. Sure. I mean, this is Scott. Look, I mean it's really not about a specific end market, right? I mean, as an example, Q2, right, we grew business in every single end market. It's more about improving the business model, getting more out of the organic business, continuing to enhance the acquisitions that we made. So, it's very broad-based is the best way I can answer that question.

Mehul M. Dalia  
Analyst, Robert W. Baird & Co., Inc. (Broker)

Great. Thanks. And then, in previous calls, you've given some parameters for AEM, acetyls and tow in terms of EPS contribution year-over-year. Can you give us any updates on that, if there is any?

Scott McDougald Sutton  
Chief Operating Officer, Celanese Corp.

Yes. So, this is Scott again. I mean, it's really not a significant change to the guidance we gave before. But what we will say is that we're operating out on the ins of all those. You see, assets yields are certainly pushing the upper limit at will, engineered materials will push the upper limit, right? We're working hard to keep tow within the guidance we gave you before.

Mehul M. Dalia  
Analyst, Robert W. Baird & Co., Inc. (Broker)

Great. Thank you so much.

Kevin W. McCarthy  
Analyst, Vertical Research Partners LLC

Yes. Good morning.

Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.

Good morning, Kevin.

Kevin W. McCarthy  
Analyst, Vertical Research Partners LLC

My question relates to Ibn Sina. I think you're in testing phase there on the incremental POM capacity in the second week of June. Have you transitioned to commercial production? And related to that, would you give us an update on the likely timing of the step-up in your ownership interest to 32.5%, please?

Scott McDougald Sutton  
Chief Operating Officer, Celanese Corp.

Yes. Sure, Kevin. So, this is Scott. Yes. I mean, we've really moved beyond the testing phase. We're in commercial startup now. We've made some material. It's not fully running at commercial rates. So, there's still a little bit more work to do here in the third quarter.

While I won't give a specific time on our equity interest step-up, that will be sometime in the period of the fourth quarter just to contractual lag effects that happened. There's still some milestones to go with getting fully in commercial production of POM.

Kevin W. McCarthy  
Analyst, Vertical Research Partners LLC

Great. And then, with regard to your AEM segment as a whole, where do you stand on end use market mix, particularly automotive mix in the wake of your two acquisitions? And maybe you could speak more broadly about how you would expect end use market mix as well as geographic mix to evolve over the next year or two?

Scott McDougald Sutton  
Chief Operating Officer, Celanese Corp.

Yes. So, this is Scott. Right, I'll start with the geographic question first. I mean, we're growing Asia much more rapidly than we're growing the Americas and Europe, though the Americas and Europe are both growing. So, one day, that's going to mix out sort of one-third, one-third, one-third. It's not quite there yet.

In terms of market segment, I mean, auto is still our largest market segment, but as we said before, it's come down quite a lot. I mean, you can think of it in the range of a third or just over. There are other segments that are growing more rapidly for us. We're growing in every single segment. But, if you look at energy storage, consumer products and particularly medical, that's where we're seeing some of the higher growth rates.
And building on that...

Kevin W. McCarthy  
Analyst, Vertical Research Partners LLC

That's helpful. Thank you.

Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.

If you look at – just to build a bit on that. If you look at auto, you see a number [indiscernible] (44:01) quarter-to-quarter 10% drop in Germany and yet we're still seeing our volume hold to go up in these cases. So, we don't look at markets as much as we do applications and technology. That's how we approach this.

Kevin W. McCarthy  
Analyst, Vertical Research Partners LLC

Understood. Thanks.

Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.

Thank you.

Operator: And, ladies and gentlemen, I'm showing no additional questions. I'd like to turn the conference call back over to Ms. Varshney for any closing remarks.

Surabhi Varshney  
Vice President-Investor Relations, Celanese Corp.

Thank you, Jamie, and thanks, everybody, for your questions and for listening in this morning. We will be around if you have any further questions after the call. Jamie, I'll turn the call back to you now.

Operator: And, ladies and gentlemen, with that, we will conclude today's conference call. We do thank you for attending today's presentation. You may now disconnect your lines.