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Celanese Corp. (CE)

Q4 2012 Earnings Call
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Douglas M. Madden  
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Steven M. Sterin  
CFO, President-Advanced Fuel Technologies & SVP, Celanese Corp.

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Duffy Fischer  
Analyst, Barclays Capital, Inc.

Mike J. Ritzenthaler  
Analyst, Piper Jaffray, Inc.

P.J. Juvekar  
Analyst, Citigroup Global Markets Inc. (Broker)

David I. Begleiter  
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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Celanese Corporation Q4 2012 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time [Operator Instructions] As a reminder, today's conference is being recorded. I would now like to turn this conference call to Mr. Jon Puckett. You may begin, sir.

Jon Puckett
Vice President-Investor Relations, Celanese Corp.

Thanks, Kevin, and welcome to the Celanese Corporation Fourth Quarter 2012 Conference Call. My name is Jon Puckett. With me today are: Mark Rohr, Chairman and Chief Executive Officer; Steven Sterin, Senior Vice President and Chief Financial Officer; Doug Madden, Chief Operating Officer; and Mark Oberle, Senior Vice President-Corporate Affairs.

The Celanese Corporation fourth quarter 2012 earnings release was distributed by Business Wire yesterday after market closed. The slides for the call and our prepared comments for the quarter were also posted on our website, www.celanese.com, in the Investor Section. All of these items have been submitted to the SEC in a current report on Form 8-K.

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 PowerPoint 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 in the posted slides or the press release as applicable.

This morning, Mark Rohr will provide some introductory comments and then we will field your questions. I'd now like to turn the call over to Mark.

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

Thanks, Jon, and welcome, everyone, to the call today. We released our prepared remarks last night, so I'll do a brief summary of the quarter before opening the line for questions.

For the quarter, we reported adjusted earnings per share of $0.67 on revenue of $1.5 billion. This represents a 16% adjusted earnings growth year-over-year on expanded operating EBITDA margins in three out of four businesses. We generated strong cash flow again this quarter and recorded our second highest operating cash flow of $722 million for the year. Adjusted free cash flow for the year was $339 million despite higher year-over-year capital spending on growth projects like ethanol, and this number also includes $100 million of voluntary pension – U.S. pension contribution. These results demonstrate the strength of our business, our technology platforms and most importantly the capability of our teams around the world.

Looking forward to 2013, we expect the economic environment to remain uncertain. And as we said last quarter, we are not planning on global economic growth to help Celanese this year. To drive earnings growth in 2013, we will focus on Celanese-specific initiatives: like productivity; like our Acetate footprint rationalization; like the expansion at our Chinese facility in Nantong; and like the planned start-up of the ethanol production facility in
Nanjing. We also expect our efforts to increase the effectiveness and speed of new product introductions to help drive earnings growth this year.

The slowdown in Asia and Europe will increase the percentage of earnings we realize in higher tax jurisdictions, particularly the U.S., increasing our 2013 forecasted adjusted tax rate by 200 basis points to 19% or about 10% (sic) [$0.10] per share impact for 2013. Nonetheless, we continue to believe the positive effect of our actions will yield adjusted EPS growth between $0.45 and $0.50 in 2013.

Now before we move to Q&A, I want to express my gratitude to our Chief Operating Officer, Doug Madden. Doug is going to retire at the end of March and he’s been a critical part of the organization for the last 28 years. He’s led multiple departments, divisions and our corporation. We’ve all benefited from his knowledge about the industry and the world of chemistry. And Doug has helped transform Celanese into the customer-focused business it is today and he’s set the foundation for the innovative force it will become tomorrow.

Doug, on behalf of the entire Celanese team, I want to thank you for your many contributions and wish you and Patty all the best in retirement.

With that, I’ll turn the call over to Jon for Q&A.

Jon Puckett
Vice President-Investor Relations, Celanese Corp.

Thanks, Mark. Kevin, will you give the instructions? And let me just remind folks that we’d ask you to have one question and one follow-up and – just so we can get everybody’s questions in.

**QUESTION AND ANSWER SECTION**

**Operator:** [Operator Instructions] Our first question comes from Kevin McCarthy with Bank of America.

Kevin W. McCarthy
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Mark, would you provide an update on your discussions related to fuel ethanol in Indonesia and China, please?

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

A

Yeah. Thanks, Kevin. We continue to work with Pertamina in Indonesia. We’re nearing the end of the first phase of that study and we’re looking forward and think we’ll be in a position before too long to announce movement into the second phase for that project. If you look at that project under a big perspective, fuel ethanol in Indonesia really works well. We have abundant availability of low cost coal. We have an inherent demand in that economy for clean fuel and the growing fuel demand there’s a lot of imported fuel that can be offset and there’s also subsidies that the government pays, so it’s a really good economic formula. Pertamina’s excited, we’re excited, but we really have some more work to do. So I hope we can announce something before too long about moving into the second phase and currently our view is that we should be in a position by the end of this year to have a sort of a go/no-go decision on that project.
Kevin W. McCarthy  
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Okay. And then...

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

Go ahead, I am sorry.

Kevin W. McCarthy  
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Please go ahead.

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

In China, we're continuing to work with some partners over there and I'll just leave it at that. I think China's a more complex model in many ways. It's a more complex fuel distribution system, a lot of regional players in China. I will say we are making progress and I hope that we can make some announcements in China before too long.

Kevin W. McCarthy  
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

And then as a follow up, Mark, just to clarify the timeline on the 275 kT that you plan to add at Nanjing for industrial ethanol, I think the prepared remarks had referenced a late 2013 start-up. I don't mean to split hairs, but I had the impression that it was perhaps mid-2013, July type timeframe. Is that the case or has there been any material change there?

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

Well, part of it is our – we've creating some confusion here we don't mean to. We'll be mechanically complete in end of June, early July and we're commissioning after that, and we have a plan to bring it on slowly and that's not because we have any concerns about the technology, but we want to move this material into markets and we've got commercialization effort that's going to push it around China. So, I'm trying to, when I say the third quarter, I mean, I think before you really see some impact, it's going to be really the third and fourth quarter.

Kevin W. McCarthy  
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Understood. Thanks for that clarification.

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

Thank you, Kevin.

Jon Puckett  
Vice President-Investor Relations, Celanese Corp.

Okay, operator. Let's move to the next question.
Operator: Our next question comes from Duffy Fischer with Barclays.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Couple questions. One, you mentioned that you weren't planning any help from GDP, but I'm just, you know, if I go to slide 12, you talk about some expected improvement in this second half. Can you just quantify how much help you're expecting kind of in the second half, and this was under the Acetyl's Intermediate bullet there?

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

Well, this is a broad statement, I mean, there are sub-segments where we're expecting some goodness from the economy, but we've also got some badness. So, an example of that will be is we're expecting Emulsions to pick up as construction comes back a bit, but we've been struggling a bit with EVA going and photovoltaics. So there's some offset and what I'm trying to say is that on a balanced basis, GDP is not going to be doing a lot for us this year.

The comment about the second half of the year really relates to broadly what we've seen in the last two or three years, which is a stronger first half and actually a weaker second half, and we really need this year to not have that repeated. So we believe as we come out of Chinese New Year, we're going to see some strengthening and we look at capacity utilisations in the AI business, and Doug can talk about that a bit as well, we're seeing that push up. It's been mid-to-low 70%s. Maybe it's pushed up a bit higher in the 70%s now. So we're seeing some positive signs and so we're depending on a little bit stronger second half to make these numbers.

Douglas M. Madden
Chief Operating Officer, Celanese Corp.

Yeah, I think – Duffy, it's Doug. I'll just comment too following on Mark's comments. You follow what's going on in China and the fact that they are even reflecting I think in some of their public data a slower start-up or ramp-up around this year 8% GDP, a little bit more second half than the first half. If you look at some of the key drivers for our markets and our industries, you know that we play a big role in autos in Europe. There you're seeing the same kind of demographic, I guess, in terms of the auto builds a little bit lighter in the first half of the year building in stronger net-net just modestly down year-over-year. So I think, you kind of take a look at that as the underlying to the GDP is where we're trying to suggest we see the business following.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Okay. Great. And then, a couple of traders and consultants have mentioned that your Singapore plant has run a little bit in the last couple of months. Can you clarify kind of, is that plant up and running and will it be running in the first half of this year?

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

Singapore is running now, yes.

Duffy Fischer
Analyst, Barclays Capital, Inc.

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

Thanks, Duffy.

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Jon Puckett  
Vice President-Investor Relations, Celanese Corp.

Thanks. Let’s move on to the next question.

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Operator: Our next question comes from Mike Ritzenthaler with Piper Jaffray.

Mike J. Ritzenthaler  
Analyst, Piper Jaffray, Inc.

Q

Ford said this morning the E.U. market is much weaker than the most recent expectations. Can you expound for us the risk that the decline of 3% that I think that you embedded in your expectations comes in materially lower kind of based on their commentary and the surplus capacity in Europe that’s been plaguing the various OEMs?

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

Yeah, Mike. When you look at autos in Europe, it’s down year-over-year right now, high single digits, probably 9%, Doug, something like that?

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Douglas M. Madden  
Chief Operating Officer, Celanese Corp.

Right.

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

I mean, that’s the kind of numbers that we see. For the full year the forecast is, it will be down 3% auto builds. So, as we made the earlier comments about the back of the year, there are – while the numbers that you see built in is pretty anemic, performance out of Europe does have the second half stronger than the first half, so that’s how we characterize that. We’ve also made comments about increased penetration and we’re seeing that really in Asia where we’re seeing numbers in the 40% increased sales in automotive in that part of the world over the last year.

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Douglas M. Madden  
Chief Operating Officer, Celanese Corp.

And, Mike, let me add a little bit more to that. If you kind of walked the world, you started with your question in Europe and Mark’s kind of given you the data on Europe. But think about net-net year-over-year, Europe down a couple of percent. U.S. expected to be up by probably the same amount and Asia builds up substantially more, probably high single digit as a percent. As Mark said, we’re seeing great growth year-over-year in our business in Asia relative to that industry. And if you recall, we see great growth in the amount of value and the amount of pounds that we put on every vehicle when we think about North America and E.U., the more mature regions of the world. We see some places where that’s growing high single-digit kind of growth year-over-year, which has a way of compensating for maybe modestly lower auto builds as well. So, frankly, overall we still see reasonably good industry and market for 2013.
Okay. And then in your 2013 qualitative outlook statements, it's clear that year-over-year growth is expected in Consumer Specialties; Industrial Specialties might be flat; Acetyl Intermediates maybe – may see some modest growth. But I guess to expound on that AEM question a bit, the expectations were I guess a little vague. Based on the innovation you spoke about, would it appear that you're expecting growth in AEM next year as that penetration increases and as you see growth in some of these pockets?

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

Yeah, I think we are expecting modest growth, but it's – we've said flat because it's closer to flat than growing.

Okay. Fair enough. Thanks, guys.

Jon Puckett  
Vice President-Investor Relations, Celanese Corp.

Okay. Kevin, let's move on to the next question.

Operator: Our next question comes from P.J. Juvekar with Citi.

P.J. Juvekar  
Analyst, Citigroup Global Markets Inc. (Broker)

Yes. Hi. Good morning.

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

Hi, P.J.

P.J. Juvekar  
Analyst, Citigroup Global Markets Inc. (Broker)

A question on your ethanol plant in Nanjing; you're building this retrofit. It's a new technology, so do you think your other potential partners in China are likely to wait and see how the Nanjing plant operates before they sign anything with you? Or...

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

Yeah, P.J. There clearly is where we've had folks over to look at the technology and in the pilot plant, there is a desire to see the plant that we're building operational. And so the project development is kind of revolving around that to some extent. So yeah, I think you're calling that right.

P.J. Juvekar  
Analyst, Citigroup Global Markets Inc. (Broker)
And the other question I have is, there is this new fuel standards of 54 miles per gallon of fuel efficiency, and as a result plastic use in cars is likely to go up. I just want to figure out how you are positioned to take advantage of that? Because lot of these new materials that are being proposed like carbon fiber are on the outside of the car, while your materials are more on the under-the-hood and inside of the car. So where do you think that growth occurs in these new materials?

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

Well, you’re referring to fuel efficiency and the impact to that. One of the real drivers to that is lightness in vehicles which really plays well into our AEM business, and we’re seeing that – we made a few references actually to some of the composite materials we’re putting in cars. Those are very attractive and we’re seeing some pretty strong growth in that arena. We’re also seeing manufacturers step out in areas where they’ve not considered polymers before in things like automobile rims even, and we’re very engaged in that kind of process. So, we’re quite confident that there’s going to be a lot of growth in there. We have some advantages over carbon fiber. So we’re – I don’t know, Doug, if you’ve got any numbers that pop in your head, but we feel pretty good about our ability to penetrating that space.

Douglas M. Madden  
Chief Operating Officer, Celanese Corp.

No, I guess, P.J., the only thing I could add is that if you just kind of look at it, you’re talking about in some cases, hundreds and in some cases, maybe thousands of different applications, all with the intent of light-weighting those vehicles. There are models out there that I can tell you from our own business that we’re doubling the size on particular models and putting our polymers on those vehicles. Others don’t grow quite as rapidly, so Mark mentioned a few. I mean still early stages, composite materials on rims and wheels that’s not yet commercialized, but clearly in line with that longer term goal. Those are the kind of materials that are intended to help reach those fuel efficiencies. Putting products into structural things like seats and giving strength is a structural item. Or typical ones, even with dashboards, but light-weighting those even further with some of the work that we’re doing on our polymers. So, I’d just say that the work that we do with the OEMs is consistent with that long-term standard and its growth for Celanese.

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

P.J., building on that a little bit too, is that we’ve advanced this technology largely in passenger vehicles. And there are other applications that are also very interested in moving this way in other arenas. So, we have the ability to move horizontally we think too, in a fashion. So we’ve got not only the structural growth that Doug talked about in automotives, but I think we have other places that we’re exploring and getting some good receptivity through our technology.

P.J. Juvekar  
Analyst, Citigroup Global Markets Inc. (Broker)

Thank you. Helpful.

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

Thanks, P.J.
Jon Puckett  
Vice President-Investor Relations, Celanese Corp.

Thanks, P.J. Kevin, let's move to the next question.

Operator: Our next question comes from David Begleiter with Deutsche Bank.

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

On China, I know it's still early in the year, but any signs of visibility in terms of improved demand from the construction end markets?

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

In the U.S? Yes.

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

How about China?

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

China, I'm shaking my head no. I'm not seeing it yet. Doug?

Douglas M. Madden  
Chief Operating Officer, Celanese Corp.

Yeah. David, I think, you know as we go into the New Year, it's typically post the New Year before we would see anything. I'd say that in China we're modestly encouraged early on with the order books, but from years gone by we've learned that sometime between, for this year, mid-to-later February before you see them come out of it. Last year they came out, and it wasn't quite as strong. We all know now. So, we're cautiously optimistic, but I think we need some time here to see how things develop.

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

And Mark, just on Kelsterbach, given the lower European volumes, how much of a drag is that facility? How much is it running, utilized right now and what's the impact from depreciation or overhead cost there?

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

Well, volumes are pretty good in Kelsterbach. I mean what you tend to see is, you tend to see a mix impact maybe more than anything where we may have to move into lower-end applications if the high-end stuff is not available. We're actually going to be increasing volumes year-over-year out of Kelsterbach. You may recall, we bought on the second line late in the year. And so, we have a higher volumetric output year-over-year, so you are going to see actually more contribution from that side in this year than last. The depreciation impact of that's pretty onerous. We in effect doubled our depreciation in that segment. Part of that's accounting treatments, maybe we can ask Steven to comment on that.
Steven M. Sterin  
CFO, President-Advanced Fuel Technologies & SVP, Celanese Corp.

Yeah. We’re already running at the full run rates on depreciation, so you won’t see any more moving into 2013. What you will see, when we complete the demolition of the old site, is all the proceeds we receive from the Kelsterbach government will come through the P&L as a large gain, offset by the old – carrying value of the old plant.

So unfortunately, even though we didn't spend that capital, the accounting requirements required us to basically step up the new plant to full value, even though we only contributed a very small portion of the total amount. So, that's already reflected in depreciation and unfortunately will continue to be so. It's about $0.20 a share. And then, we'll have a large onetime gain hopefully later this year when we complete the demolition.

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

Thank you very much.

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

Thanks, David.

Jon Puckett  
Vice President-Investor Relations, Celanese Corp.

Kevin, let’s move to the next question.

Operator: Our next question comes from Laurence Alexander with Jefferies.

Laurence Alexander  
Analyst, Jefferies & Co., Inc.

Good morning. So first, could you give an update on your strategic review, and any sort of businesses that – or product lines that you think could be either right-sized or optimized?

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

Yeah. Laurence, I'm happy to talk about the strategic review. I don't think – I don't want to get into that in too much specifics here. But what I will say is we've gone through a six-month process of really assessing in-depth each business, the competitive landscape, our ability to innovate and move into markets. We've got third-party validation of our belief systems around the value of these products and the end customers. And out of that, we've outlined the path to get us to $2 billion of EBITDA, and it is a reasonable path. And we'll share a lot of details with you guys on that when we have our Investor Day here, this coming year.

We have said in there hurdles and obligations that we feel from return on capital need to be met for our businesses to satisfy the expectations that we put on ourselves, and the shareholders have on us. And there are some businesses that currently don't meet those expectations. You guys can look at our performance. You know which businesses those are. So, we're not calling out anybody as being a failure, and we're working hard to try to change that and we have plans to change that. But these businesses all need to get through a point where they're contributing in a positive sense to the growth and the profitability of this corporation.
Laurence Alexander  
Analyst, Jefferies & Co., Inc.  

And then secondly, on the Acetyl Intermediates, are there any derivative areas where you can see any scope for a pricing cycle in the next two years? Or do you think demand – the prospects are just too muted for that?

Douglas M. Madden  
Chief Operating Officer, Celanese Corp.  

Yeah. I think the latter, Laurence, we need a – we still need a healthy global economy or a healthy global economy, most of those today are from – I wouldn't even call them well balanced. I’d say that there is over capacity that sits within the world even on some of those derivatives. Recall that a big part of those – obviously you've got vinyl acetate monomer; it goes downstream heavily into construction-related, ultimately paints and coatings, things that are consumed in that industry.

Our esters are in Europe, and Asia tied a large part to the auto industry, and coatings on those autos. So the short answer is we need a healthier global economy I think before we could see something in the next couple of years barring any other unforeseen event that would occur.

Laurence Alexander  
Analyst, Jefferies & Co., Inc.  

Thank you.

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

Thanks, Laurence.

Jon Puckett  
Vice President-Investor Relations, Celanese Corp.  

Kevin, let’s move to the next question.

Operator: Our next question comes from Jeff Zekauskas with JPMorgan.

Jeffrey J. Zekauskas  
Analyst, JPMorgan Securities LLC  

Hi. Good morning.

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

Good morning, Jeff.

Jeffrey J. Zekauskas  
Analyst, JPMorgan Securities LLC  

Your volume contraction in Consumer Specialties of 13%, is that a one-time event that comes from the closure of Spondon? Or is that something that will weigh into 2013 results?
Douglas M. Madden  
Chief Operating Officer, Celanese Corp.

So, Jeff, the contraction does come from the closure of our Spondon site in the fourth quarter, just about all of that. I suspect as we go through 2013 and the assumptions is that, that we are able to offset some of that is I think you saw in our fourth quarter of this year and those results where we continue to work to get a little bit more out of the rest of the footprint. Also, you'll see the expansion coming out of Nantong and the impact of that in the business performance. So, there'll be some net contraction, but it won't be from what you saw or what you are seeing in Q4 going forward.

Steven M. Sterin  
CFO, President-Advanced Fuel Technologies & SVP, Celanese Corp.

So think about, as Doug said, a little bit less top line contraction than you saw in Q4, lower energy and overall fixed spending within our plant network, and then higher dividends coming in also from our joint ventures as we shift some capacity around there as well. So on a net basis, significant improvement in the profitability of Consumer Specialties, [indiscernible] (24:50) geography where earnings come from.

Jeffrey J. Zekauskas  
Analyst, JPMorgan Securities LLC

Okay. And as far as Indonesia and Pertamina go, have they committed to an ethanol-based fuel instead of say a methanol-based fuel or methanol derivatives? Or is that something that they continue to compare and to contemplate?

Douglas M. Madden  
Chief Operating Officer, Celanese Corp.

Well, I know that the government has been very clear that ethanol is a desirable fuel for them. Given that they've got significant coal, would they look at it in addition to that? Potentially they could, longer term, but when you look today at the price point of our technology, the environmental benefits that come with it, the high-octane and the lack of need for infrastructure changes, it gives them a direct reduction in gasoline imports. So ethanol, they've clearly said is a preferred option today. Most countries like Indonesia will look for as many different alternatives as possible, and there's not going to be just one solution, but we think TCX will be part of any solution in Indonesia.

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

We’re not aware of any activity if that’s your question, Jeff, to go out and try to bring in methanol for fuel.

Jeffrey J. Zekauskas  
Analyst, JPMorgan Securities LLC

Okay, good. Thank you very much.

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

Thanks, Jeff.
Kevin, let’s move to the next question.

**Operator:** Our next question comes from Nils Wallin with CLSA.

**Nils Wallin**  
*Analyst, Credit Agricole Securities (USA), Inc.*

... taking my question. A question about China’s plans to build around 20 or so methanol-to-olefins plants, I’m curious as to what your view would be on how that might change the cost structure for your acetic acid plans there in Nanjing?

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

Well, let me start this, and Doug, hop in here. I think the trend is going to be for rising methanol – increasing methanol pricing. In China today, it’s $360 to $370 a ton, and there’s some views that it can push up higher than that, but be mindful you can produce methanol in a low-cost place and ship it for about $60 a ton from anywhere in the world. So, I’m not sure how high it’s actually going to go, but we expect methanol is going to go higher and that puts a little bit of pressure on acid [indiscernible] (27:28) – and a little bit higher acid pricing we think. Doug, is that...?

**Douglas M. Madden**  
*Chief Operating Officer, Celanese Corp.*

Yeah, I got nothing to add to that.

**Nils Wallin**  
*Analyst, Credit Agricole Securities (USA), Inc.*

Okay, thanks. And then just on your proposed methanol plant in Texas, I know not exactly a competitor, but someone in the space has just inked a long-term natural gas contact for their proposed plant. What type of interest are you seeing from the E&Ps to be able to do a long-term gas contract for your Clear Lake plant?

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

It’s an option for us as well.

**Nils Wallin**  
*Analyst, Credit Agricole Securities (USA), Inc.*

Great. Thanks very much.

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

Thanks a lot.

**Jon Puckett**  
*Vice President-Investor Relations, Celanese Corp.*

Thanks, Nils. Kevin, let’s move to the next question.
Operator: Our next question comes from Frank Mitsch with Wells Fargo.

Frank J. Mitsch
Analyst, Wells Fargo Advisors LLC

And best wishes on your pending retirement, Doug.

Douglas M. Madden
Chief Operating Officer, Celanese Corp.

Well, thank you, Frank. Appreciate it.

Frank J. Mitsch
Analyst, Wells Fargo Advisors LLC

I know earlier, Mark, you were saying that acetic acid operating rates were in the low to mid-70%s. Can you recap where they were in the fourth quarter, where you saw them through the month of January? And what are you actually running your Singapore plant? What operating rates are you running that Singapore plant at right now?

Douglas M. Madden
Chief Operating Officer, Celanese Corp.

Yeah. So Frank, let me try to walk you through. You take fourth quarter and where they were, not any kind of appreciable difference from where we were. Typically, this is the industry and the business where you see in October and November a little bit of a pullback in December on those rates. But I think Mark said mid-70%s today, about the same place, and frankly, if you look at the margins, that's about equal to where they are now. So, no significant difference in the assumptions going forward. I think, barring through the turnaround seasons of Q2/Q3, our assumption is that it's a fairly stable environment. Your second question, Frank, was about Singapore?

Frank J. Mitsch
Analyst, Wells Fargo Advisors LLC

Right.

Douglas M. Madden
Chief Operating Officer, Celanese Corp.

Yeah, so we're running Singapore today consistent with the way we did in the fourth quarter. I think we shared with you in the past that as we run that unit, we run it based upon demand, based upon the underlying market needs, and so it continues to operate at this point right now in the same 24/7 cycle, and I won't speculate about the future.

Frank J. Mitsch
Analyst, Wells Fargo Advisors LLC

Ah, hell, we love to speculate about the future. Why not step out there?

Douglas M. Madden
Chief Operating Officer, Celanese Corp.

I'm out there.
And just following up on the equity income line, it ticked up obviously, nicely year-over-year and you mentioned that it was – you had a turnaround in the year earlier period, but however it also ticked up nicely sequentially. What should we be expecting out of your equity income earnings as we progress into 2013?

Steven M. Sterin  
CFO, President-Advanced Fuel Technologies & SVP, Celanese Corp.

Yeah. There’s two items to keep in mind when you look at equity earnings year-over-year in this quarter in particular. First of all, there’s $22 million of earnings in there that relate to some debt forgiveness at one of our affiliates that is on the GAAP P&L, but we excluded it from our adjusted EPS. So that takes your $79 million, $80 million down to about $58 million. So, you’re up about $10 million year-over-year and that’s principally driven by the fact that we had a turnaround in one of our Asian joint ventures in the fourth quarter of last year. So, I would say, if you look at equity earnings ex those two items, you’re kind of running at a normalized level. And as we’ve said, we expect our equity affiliates to show similar type of growth that we see in our business, particularly in AEM. In Consumer Specialties, which on the cost side, you’ll see accelerated growth as a result of the expansion as well as what we talked about earlier which is the consolidation of our manufacturing footprint. So I think you’re – I think you adjust for those two items and have a normal growth rate on that.
two-fold: one is that from these remarks it seems that there really aren't any per se delays associated with EP&C work or construction work or the like, particularly keeping in mind this slug of new, be it methanol, ethylene, and the like capacity coming online, that's one part; and the second, I guess question is that are you seeing or beginning to see any capital cost inflation out there as well?

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

Great questions. So we're moving towards the conclusions of negotiations and the parties that are talking with their respective boards, so we think we'll be in a position shortly to be more definitive about partnership and what we're doing there. The permitting processes that you called out are underway and in the State of Texas, it just takes a while to work through that process. We don't anticipate a problem with that. So we'll actually begin construction and begin real detailed engineering. We'll actually order equipment and things like that before we have the final permits. We just can't break ground until we have the permits. [ph] We just have a (33:20) view that even though it's the end of the year for the final permits, it's not having a huge delay or an impact on the project. Regarding the inflation, we're actually ahead of the curve a bit. So we're on the other side of that curve. We're getting excellent pricing on big equipment and raw materials because folks are trying to get their shops up and running and so we're early – an early entrant for their – for that process. So, you're right in saying it's going to come, but I think we're going to be on the front of that wave and not behind it.

Hassan I. Ahmed  
Co-Founder & Head of Research, Alembic Global Advisors

Very good. Thanks so much, Mark.

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

Right, thanks.

Jon Puckett  
Vice President-Investor Relations, Celanese Corp.

Thanks. Let's move to the next question, Kevin.

Operator: Our next question comes from Bob Koort with Goldman Sachs.

Robert A. Koort  
Analyst, Goldman Sachs & Co.

Good luck, Doug, and thanks for the new format on the conference call. Obviously, we like to have questions and like to have the night before to look at everything, so appreciate that.

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

Thanks, Bob.

Robert A. Koort  
Analyst, Goldman Sachs & Co.

My questions, a couple around the Indonesian opportunity and I guess specifically the – after meeting with you guys, the industry minister there was suggesting that you guys would spend $2 billion over the next several years.
So, one, I’m wondering is that what you’ve committed to and if so, what does that get you? And then, is it reasonable still from your initial agreement with Pertamina to expect production by the end of 2014?

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

Yeah. I think the all-in project cost is going to be $2 billion-ish, maybe a little north of $2 billion, and be mindful that you’re going into Indonesia and really starting from scratch to build the process. Our piece of that will be a hard cut, if you would think of that. And, I think the numbers we’ve guided around are $600 million-ish and we have a fraction of that or a portion of that, so a much lower capital number, and returns on that are very good. And again, it’s – that’s made possible because of the grade economics associated with coal that are available in Indonesia. No, I think what we’re saying is by the end of this year we – the belief is as we get to a point we can say we’re doing this project full steam ahead. But if you look at project completion schedule, we don’t have a number on that. So I think you’re looking at 2016 or 2017 to be up and running.

Douglas M. Madden  
Chief Operating Officer, Celanese Corp.

Yeah. We typically said, I think about 30 months from all approvals to get these projects up and running, Bob.

Robert A. Koort  
Analyst, Goldman Sachs & Co.

Okay.

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

And in this space, Bob, we’re – right, so what we’ve done so far is we’ve identified three sites and a team is ready to go out and say, it is this site. We’ve done a broad permitting process, but we have to go file specific permits. So, that’s where we are kind of in the debate process with Pertamina and the Indonesian government.

Robert A. Koort  
Analyst, Goldman Sachs & Co.

Is there any way to shift Singapore acetic chemistries and output down to Indonesia to speed up the process or does it really count on home baked coal there to make it work?

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

Yeah, not practically. I mean, you could do it, I guess, academically you could do it, but it wouldn’t add a lot to the project. It wouldn’t reduce the project timeline very much, because you still need to build the ethanol, you still need to build all the infrastructure, you still need all the ethylene, hydrogen. So, I think, no, I think this is going to be an Indonesian project.

Robert A. Koort  
Analyst, Goldman Sachs & Co.

And then if I could ask Mark a question. I noticed the U.S. Court of Appeals recently gave a little bit of a stiff arm to some of the cellulosic biofuel mandates, is there any small chance or a ray of hope that something could happen for coal or gas-based ethanol in the U.S., getting a better shot at the table?
Mark C. Rohr  
*Chairman, President & Chief Executive Officer, Celanese Corp.*

Well, Bob, I think 2013 is clearly going to be a year where the renewable fuel standard has a lot of debate. What I can say is that we are a part of that debate; we'll continue to be a part of that debate. We'll see how things go as we move forward, but I'll say the same thing that we've said for a while now which is changing any law, maybe this law in particular is very challenging, but it's clear it's going to be under scrutiny during this session.

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

Great, thank you.

Jon Puckett  
*Vice President-Investor Relations, Celanese Corp.*

Thanks, Bob. Let's move to the next question, Kevin.

Operator: Our next question comes from Vincent Andrews with Morgan Stanley.

Jon Puckett  
*Vice President-Investor Relations, Celanese Corp.*

Vincent, you there?

Vincent Andrews  
*Analyst, Morgan Stanley & Co. LLC*

Hello?

Jon Puckett  
*Vice President-Investor Relations, Celanese Corp.*

Yep. We hear you now.

Vincent Andrews  
*Analyst, Morgan Stanley & Co. LLC*

Oh, sorry about that. So a quick question on the Nanjing ethanol facility and the commercialization effort. Can you just help us understand sort of what are the logistics or sort of the gating events that are going to roll through that ramp up, whether it's customer relationships or just sort of timing of bringing the plant up? What are the specifics that drive that?

Douglas M. Madden  
*Chief Operating Officer, Celanese Corp.*

Well, I mentioned the mechanical completion, so call that July and then you've got commissioning and startup, which just adds some time to that. The team is out today meeting with customers all over China. We're segregating those customers from between those that are spot buyers and those that would like a contract position. We're looking at regional pricing and net-backs that are available and it moves around a lot depending on where you are in China. We're looking at the industrial segments that the ethanol is consumed in to decide where we want to put our volume, and so that is a process we're going through. We will start – we'll have those contract positions finalize stuff as the plant is coming up, it will be starting to move material to the consumers that provide us the best net-back. Does that answer your question?
Vincent Andrews  
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. That's exactly what I wanted to know. And then just as a follow up on Clear Lake, it sounds like you guys are very much in the direction of going forward with constructing the facility, so would you say there's a very low probability of not putting capital in the ground and instead signing some type of new contract?

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

A

Yes. That's why I said it's a low probability.

Vincent Andrews  
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thanks very much.

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

A

Thanks, Vincent.

Jon Puckett  
Vice President-Investor Relations, Celanese Corp.

A

Thanks, Vincent. And Kevin, let's move to the next question, and we'll have this be the last question.

Operator: Our next question comes from John McNulty with Credit Suisse.

Jon Puckett  
Vice President-Investor Relations, Celanese Corp.

A

John, are you there?

John McNulty  
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

...facility. When we look at the pricing and the utilization rates, year-over-year they haven't changed all that much and yet Singapore's up and running now and you had shut it down around this time last year. So, I guess, I don't exactly understand what changed. Maybe you can help us to understand why Singapore is running, why it actually makes sense and profit-wise, what it may be contributing for you?

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

A

Yeah. Let me – I'll take a shot at this and then Steven can jump in, John. If you kind of walk the way I think about it, remember, when you talk about last year at this time, Q4 year-on-year, recall that as we went into the quarter, we were still – we were coming off of a very strong third quarter going into the fourth quarter. We were strong in October and then we saw a decelerating that occurred in November- December which turned to be the precursor of I think what certainly we experienced in 2012. The fact is, when you look at pricing and margins across the year, they've probably moved up and down within a range, but as we saw the second half, a little bit more of the volume that I'll say firmed up, if that's in a context that we saw a little bit stronger second half certainly than we did the first half.
We ran and we – as I said before, we run Singapore based upon the underlying market demand and what we did see through the course of, I’ll call it, mid-to-later second half is Southeast Asia got better; better relative to the first half, not better relative to a norm. The other part to this is, we operate a global footprint. We’ve got to balance our system globally as well to the highest efficiencies based around supplying around the world. So, there’s elements of that as well that goes into the plan. So, margins that you’re seeing today are relatively similar to Q4 last year. Frankly with what we saw through the year with the weaknesses in Southeast Asia and with Europe, we feel actually pretty good about where we are and where we weathered that storm and I think also suggests that at least in our minds maybe that’s the bottom.

John McNulty
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Okay, great. Thanks for the additional color. I appreciate it.

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

Yeah.

Operator: And now I’d like to turn the conference back over to Jon Puckett for closing remarks.

Jon Puckett
Vice President-Investor Relations, Celanese Corp.

Thank you everybody for your time and interest in Celanese. We'll be around to answer follow-up questions later today.

Operator: Well, ladies and gentlemen, this does conclude today’s presentation. You may now disconnect and have a wonderful day.