CORPORATE PARTICIPANTS

Chuck Kyrish
Vice President - Investor Relations

Mark C. Rohr
Chairman, President & Chief Executive Officer

Christopher W. Jensen
Chief Financial Officer & Senior Vice President

OTHER PARTICIPANTS

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

David I. Begleiter
Deutsche Bank Securities, Inc.

Vincent Stephen Andrews
Morgan Stanley & Co. LLC

Robert Andrew Koort
Goldman Sachs & Co.

Frank J. Mitsch
Wells Fargo Securities LLC

Jeffrey J. Zekauskas
JPMorgan Securities LLC

Daniel DiCicco
RBC Capital Markets LLC

John Roberts
UBS Securities LLC

James M. Sheehan
SunTrust Robinson Humphrey, Inc.

Aleksey Yefremov
Nomura Securities International, Inc.

Nils-Bertil Wallin
CLSA Americas LLC

Hassan I. Ahmed
Alembic Global Advisors LLC
MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Celanese Second Quarter 2016 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Chuck Kyrish. Please go ahead.

Chuck Kyrish
Vice President-Investor Relations

Thank you, Gary. Welcome to the Celanese Corporation's second quarter 2016 earnings conference call. My name is Chuck Kyrish, Vice President, Investor Relations. With me today are Mark Rohr, Chairman and Chief Executive Officer, and Chris Jensen, Senior Vice President and Chief Financial Officer.

Celanese Corporation's second quarter 2016 earnings release was distributed via Business Wire yesterday after the 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 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 [indiscernible] 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 Form 8-K. This morning we'll begin with introductory comments from Mark Rohr and then we'll field your questions.

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

Mark C. Rohr
Chairman, President & Chief Executive Officer

Thanks, Chuck, and good morning, everyone. Our prepared remarks were released with earnings, so I'll keep my comments brief and open the line for your questions. For the quarter, I am pleased to report GAAP diluted earnings of $1.50 per share and adjusted earnings of $1.59 per share. We generated year-over-year growth despite roughly $0.20 of headwinds from planned turnaround activity in the quarter, including the first-ever turnaround at our POM facility in Frankfurt, Germany. Our operations team did a terrific job planning and executing multiple turnarounds in the quarter. I'd like to thank them for getting this up and running safely and on schedule.

Segment income for the quarter was $312 million and we expanded our margin by 110 basis points over the prior year to 23.1%, reflective of continued momentum in our Engineered Materials business, resilient performance in the Acetyl Chain and focused productivity actions.
In Engineered Materials, we grew volumes 8% year-over-year across an increasingly diverse set of end uses. We launched a record number of new projects in the quarter at 335 and remain on track to achieve our ambitious goal of 1,200 new product launches for the year. We generated a record free cash flow in the quarter and our balance sheet stands in a strong position, evidenced by the upgrade in our credit ratings to investment grade by both Moody's and Standard & Poor's. This upgrade validates the tremendous progress we have made over the last several years to strengthen our businesses and deleverage our balance sheet, and it's a natural step in the evolution of Celanese. We also returned over $250 million in cash to our shareholders in the quarter, deploying $200 million in cash to repurchase 2.8 million shares and paying $54 million in dividends.

Looking through the remainder of 2016, we see the economic landscape in the U.S. and Europe as relatively stable. In China, we are having great success in industry materials driven by trends in the use of specialty materials, while at the same time the Acetyl Chain continues to deal with historically low acetic acid margins. As always, we focus on what we can control to serve our customers and drive a differentiated result regardless of prevailing economic conditions.

The strength we have built in our commercial models combined with our ability to consistently drive productivity gains has allowed us to overcome unprecedented challenges and headwinds while consistently growing our earnings and cash flow. We are maintaining our view of 8% to 10% growth in adjusted earnings per share for the full year of 2016 based on our expectation that the global economy will gain momentum as we finish out the year.

With that, I'm going to turn it over to Chuck for Q&A.

Chuck Kyrish
Vice President - Investor Relations

Thanks, Mark. As a reminder, we'd like the callers to limit the questions to one question and one follow-up. Gary, let's go ahead and get started.
QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Duffy Fischer with Barclays. Please go ahead. Hello, Duffy. Your line is open.

Our next question comes from P.J. Juvekar with Citigroup. Please go ahead.

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

Yes. Good morning. I have a question on acetate tow. For the last two years, the industry has talked about inventory destocking, which should have ended by now. And in fact in the first quarter your volumes are up 17%, which you were up only 2% this quarter. So can you talk to us about this destocking? Is there a secular change in buying patterns?

Mark C. Rohr
Chairman, President & Chief Executive Officer

No. P.J., I think that destocking has been talked about by a lot of people. And I think that's been pretty well reflected in comments that various producers and consumers have made in the marketplace. So we think that that is kind of running its course. And we don't see a material change in that going forward.

In China, we have a view that that material that's exited the Chinese market is out for good, and we really don't see that changing very much going forward, certainly not in the near term anyway. So no, I don't think there's been any real change in the market other than the fact that the capacity outside of China, the western capacity utilization, has gone from effectively 100% to effectively 80%. And we're seeing a lot of activity on the part of buyers to try to stir up the market, and that's resulted in some price declines.

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

So you would say it's more of a pricing issue rather than volume issue?

Mark C. Rohr
Chairman, President & Chief Executive Officer

Well, the volume piece of it, P.J., was the first part you referred to which was the destocking phenomena as well as the elimination of imported material into China. And that was — the elimination of imported material was the biggest chunk of that by far. So that has — no, that's also been part of it, but I think to your point is that's kind of run its course.

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

Okay. And then secondly, can you spell out your [indiscernible] (7:52) opportunity for GUR? What is it today and where could it be by 2020? Thank you.

Mark C. Rohr
Chairman, President & Chief Executive Officer

[Mark C. Rohr's response would be here.]
Yeah. GUR is a really interesting product. It has a lot of great characteristics that are into a number of uses. I mean, derivatives of it go into lithium ion battery separators, and that's a pretty hot market for us. There are a lot of industrial applications for GUR as well that continue to grow. We're running our plant pretty hard from a capacity point of view, and there's certainly opportunities we think to expand and grow that business as we move forward in the years ahead.

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

Thank you.

Chuck Kyrish  
*Vice President-Investor Relations*

Thank you, P.J. Gary, let's go to the next question, please.

**Operator:** The next question comes from David Begleiter with Deutsche Bank. Please go ahead.

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

Thank you. Good morning.

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

Good morning, David.

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

Hey, Mark. On acetate tow, in terms of the aggressive activity you referenced, is it one competitor? Is it more than competitor? And why do you think they're doing this now?

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

Well, it's — perhaps I shouldn't have put those words in. But I'm seeing activity out there that would indicate that people are starting to chase volume. And so if it's people, it's more than one. And the dilemma with that that people get into is that once you start that cycle, it's kind of hard to break it. So I think there are folks out there that have a view that they're more entitled to volume than others, and that's just a dangerous precedent.

So I hope we don't get into that, David. And if we do, it's a zero-sum game, so market share can shift around but at the end of the day you don't really — in a declining market like this, you don't build volume by lowering price. You don't create additional demand in that scenario. So it's kind of a silly thing to do.

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

And Mark, you referenced potentially down earnings in tow in 2017. Could the segment be — can you quantify the magnitude of the decline of the consumer segment in 2017 potentially?
Mark C. Rohr  
Chairman, President & Chief Executive Officer  
Well, I think what we have said at prior conferences, the Deutsche Bank conference in particular we made a comment that it could be down 10% to 20% and that – but it could also be flat. We're kind of sticking with that. I mean, that's a pretty broad range, and I don't mean that in a bad way, David, but we're in the contract season now so it's kind of hard to call it in that process. But I would characterize it as something like that.

David I. Begleiter  
Deutsche Bank Securities, Inc.

Thank you very much.

Mark C. Rohr  
Chairman, President & Chief Executive Officer  
Yeah.

Chuck Kyrish  
Vice President-Investor Relations  
Gary, let's move on to the next question, please.


Vincent Stephen Andrews  
Morgan Stanley & Co. LLC  
Thanks. Good morning, everyone. Could I just ask on – I'm sorry to beat on tow a bit but there's been a lot of capacity curtailments in the past few years and it really seems like the industry was being rational. And I think at a recent conference, Mark, I think I read that you thought that more capacity could come out fairly easily. So I'm just wondering why we're not seeing that. I was kind of thinking we might see some curtailments from somebody in the industry before we got into the 4Q contracting season. Why do you think that's not happening?

Mark C. Rohr  
Chairman, President & Chief Executive Officer  
Well, yeah, I don't know. It's a real disappointment to me. If you look at the asset base we have, we think it's the best in the world, and if it's not the best it's right there with the best in the world. The productivity steps we've taken, the multiple shutdowns that we've incurred, we've shut down assets that are, from a production cost point of view, a heck of a lot better than assets that are still in the marketplace today. So it's a bit frustrating to me that others haven’t elected to do so. So you'll just have to – Vince, you'll just have to ask them why they're not doing it.

Vincent Stephen Andrews  
Morgan Stanley & Co. LLC  
Okay. We will do that. And then, Chris, could I just ask you, you made some comments in the prepared remarks about Section 385 of the tax code and some concerns you have about it. Could you put that in some type of perspective for what, if any, the impact could be for Celanese maybe in 2017?

Christopher W. Jensen  
Chief Financial Officer & Senior Vice President  

Yeah. I probably won't give you a very satisfying answer because it's such a fluid situation. And what I mean by that is we're talking about a proposed regulation, not a regulation. And the pushback from industry, including both parties in Congress getting involved in the fray, is substantial.

So we've heard that there have been over 150,000 comment letters written in response to the proposal, and our understanding is they are required to address every single one of those before they move forward. So it's really hard to say how long that's going to take. And I don't want you to think that I'm hiding from anything here. We can't quantify it until we see what direction it's going.

I can tell you what our objective is, and this is what we're working on right now along with every other multinational that I've talked to. Our objective is to find ways irrespective of how this pans out to meet the cash commitments that we've talked about over the course of the next two years, and that's what we're working through. And when I say meet the cash commitments, I mean without some significant detriment to our tax rate.

---

Vincent Stephen Andrews  
Morgan Stanley & Co. LLC

Okay. Understood.

Mark C. Rohr  
Chairman, President & Chief Executive Officer

I think, Vince, I'm going to comment on that. That's a question back from someone last night. This isn't about our income tax structure. It's really about our ability to manage cash and cash generated in Europe. That's really the big issue that most multinationals had with 385. It's not the - again, it's not the tax structure on earnings. It is the fact that you've actually now earned money, and the classic ways we had of handling that money in Europe and pooling it and things like that are all being challenged by this law, which was put in place ostensibly to reduce the number of inversions that have been occurring. So it's an unintended consequence of the ruling.

---

Vincent Stephen Andrews  
Morgan Stanley & Co. LLC

Okay. Thanks very much.

Mark C. Rohr  
Chairman, President & Chief Executive Officer

Thank you.

Chuck Kyrish  
Vice President-Investor Relations

Gary, let's move on to the next question, please.

Operator: The next question comes from Bob Koort with Goldman Sachs. Please go ahead.

Robert Andrew Koort  
Goldman Sachs & Co.

Thank you. Good morning,
Hey, Bob.

Robert Andrew Koort
Goldman Sachs & Co.

Mark, I wanted to talk a little about the AEM business, where your volumes have just been terrific. And I was wondering if you could put in context what you see maybe the market growing in those businesses. I'm trying to isolate your particular product lines and maybe the internal product development process and how that's manifesting in above-market growth rates.

And then maybe, as you think into the second half and into next year, I know a lot of investors seem quite cautious and anxious about SAR numbers, auto SARs. I know that's not the only thing you do in AEM. But how do you think about that influence on your go-forward numbers in AEM? Thanks.

Mark C. Rohr
Chairman, President & Chief Executive Officer

Great. Thanks, Bob. Yeah. What we've developed is a model that – I mean, it would be wrong to say we're agnostic about materials. But we try to be agnostic about materials. We try to go in and really present all these different platforms and options through our engineers to the engineers at the OEM. We're currently moving six to seven platforms and I would hope that in a not-too-distant future that number grows to almost double that, the number of platforms that we're moving out into the marketplace.

So what that's done is it's availed us to a lot of new business opportunities that we didn't get from a classic perspective. So we're seeing markets like industrial and medical really take off in a lot of ways. We're seeing consumer appliances and those kind of product lines – think of refrigerators, washing machines. We're seeing a lot more interest in designing sophisticated material into their products. So we think the potential of that is best summarized by our statement of product launches. We moved, if you look back in the 2014 timeframe, from 300 to 1,000; we'll be at 1,200 this year. I expect we'll be pushing 1,500 next year and 2,000 the year after that. That's the kind of growth rate that we believe, and you've seen the benefit of going effectively from 300 to 1,000 and then 1,000 to 1,200. You're seeing that in our volume. So I think that's what should continue as we go out there.

Auto sales, I mean I saw the numbers the other day of 91 million units for the year; I think up about 2.9% to 3% is the current forecast. Pretty flat in the U.S., Bob, to your point. Europe is up pretty strong. And of course places like Latin America or South America, I should say, are down double digits. So we think that maybe it is kind of peaking in the 90 million unit kind of range, but again our objective is substitution. We think there's a lot more opportunities for the substitution business to go. So auto is important for us, but it's getting less important every day.

Robert Andrew Koort
Goldman Sachs & Co.

Great

Christopher W. Jensen
Chief Financial Officer & Senior Vice President
One example to that, Bob, so we sort of track this by various sectors and you heard Mark talk about consumer, where we're going after some really great opportunities. So those volumes, if you do second quarter versus prior year, are up over 20%, and that's kind of how it's tracking this year.

Robert Andrew Koort  
Goldman Sachs & Co.

Very good. Thanks, guys.

Mark C. Rohr  
Chairman, President & Chief Executive Officer

Thanks.

Chuck Kyrish  
Vice President-Investor Relations

Great. Gary, let's go to the next question, please.

Operator: The next question is from Frank Mitsch with Wells Fargo Securities. Please go ahead.

Frank J. Mitsch  
Wells Fargo Securities LLC

Yes. Good morning, gentlemen.

Mark C. Rohr  
Chairman, President & Chief Executive Officer

Good morning, Frank.

Frank J. Mitsch  
Wells Fargo Securities LLC

Hey, Mark. If I listen – if I read between the lines, it doesn't sound – on the acetate tow side, it doesn't sound like Celanese is contemplating shuttering any assets to get that capacity utilization number up over that 80% level. I presume that's correct?

Mark C. Rohr  
Chairman, President & Chief Executive Officer

Yeah. We think we've done our fair share.

Frank J. Mitsch  
Wells Fargo Securities LLC

All right. Terrific. And you also referenced volumes being a bit better in Q2 due to unusual purchasing patterns in Europe. What exactly was that?

Mark C. Rohr  
Chairman, President & Chief Executive Officer
Well, I mean, classically volumes are up a bit in the first quarter. We had some contractual activity that gave us the opportunity to move some more volume. And I don't want to get into the specifics of that, but there were some opportunistic events that occurred that gave us a chance just to move incremental volume.

Frank J. Mitsch  
_Wells Fargo Securities LLC_

Okay. Terrific. And then you mentioned obviously a $0.20 negative impact from turnarounds in Q2. Can you split that between the AEM and AI side of things and...

Mark C. Rohr  
_Chairman, President & Chief Executive Officer_

Yeah. It's one-third AI, two-thirds materials.

Frank J. Mitsch  
_Wells Fargo Securities LLC_

All right. Terrific. Then lastly, you mentioned that you expect the global economy to improve in the back half of the year. Here we are three, four weeks into Q3. Are you seeing signs that give you more confidence that you will see that reacceleration?

Mark C. Rohr  
_Chairman, President & Chief Executive Officer_

Well, I think the real signs of the misery index continues to go up, and that can only last so long. But we are seeing – we do think that in China – if you look at China, some of the activity that is underway right now this very minute is kind of a response we think to ongoing and continued pressure for a reduction in capacity utilization in China, so I expect that that's going to start to happen this fall. It's my personal belief.

I also think that the relatively tight band on methanol that we've seen in China between the cost to produce and the MTO value is going to start expanding. And you're going to see more and more methanol move into MTO, and I think that's going to shore up that business and start pushing that higher. And really that's what we need. At the end of the day, we need in terms of AI, we need China to stabilize. We need them to start taking actions, to start shutting some capacity, and we need methanol to start easing up. So there's signs that that could be happening.

Frank J. Mitsch  
_Wells Fargo Securities LLC_

Terrific. Thank you.

Mark C. Rohr  
_Chairman, President & Chief Executive Officer_

Thank you.

Chuck Kyrish  
_Vice President-Investor Relations_

Thanks. Gary, let's go to the next question, please.

Operator: The next question comes from Jeffrey Zekauskas with JPMorgan. Please go ahead.
Hi. Good morning.

Mark C. Rohr
Chairman, President & Chief Executive Officer

Good morning, Jeff.

Jeffrey J. Zekauskas
JPMorgan Securities LLC

Hi. In looking at your AEM pricing, I think in the first quarter it was down 2%, and in the second quarter it was down 4%. Is there a trend there? Is down 4% where we are for the second half or is there further slippage?

Mark C. Rohr
Chairman, President & Chief Executive Officer

Well, I think the – we talked about that in the last two calls in directionally, Jeff. So what you're seeing is you're seeing a greater split between high-end product values and low-end product values. So the low-end materials, which represent still a big chunk of volume for us, are decreasing in price as there's more and more competition than some of those big-volume products.

Yeah. There's not a lot of ongoing activity in price in that, so I think I want to say it's run its course and the guys haven't told me to expect a lot more with that. But I'm kind of looking around the room. I think that's - I'm getting head nods here, so I think where we are is kind of where we are going to be for a while.

Jeffrey J. Zekauskas
JPMorgan Securities LLC

Okay. And then in the quarter, your SG&A costs were $71 million, I guess, versus $80 million in the first quarter. What caused that change? Is that the right level for the remainder of the year? And can you also speak on the change in your pension liabilities because of changes in interest rates?

Christopher W. Jensen
Chief Financial Officer & Senior Vice President

So the SG&A has continued to trend down because of the productivity initiatives that we've got. I don't have the split between SG&A and your fixed costs and manufacturing, but we're on track with what we talked about being around $100 million of productivity year-over-year. Pensions, are you referring to the forward view on what we have?

Jeffrey J. Zekauskas
JPMorgan Securities LLC

Yeah, in other words, interest rates have really come down. And I think in your prepared remarks you talk about how it's difficult to forecast GAAP earnings for the year.
Right. Well, we’re referring to the fact that we use mark-to-market pension accounting, which some companies don’t. So in the fourth quarter, you always have a gain or a loss associated with those interest rate movements. So yeah, if interest rates go lower during the year, then we’ll have a bigger pension liability and a bigger loss.

Jeffrey J. Zekauskas  
JPMorgan Securities LLC  
Okay. Great. Thank you so much.

Mark C. Rohr  
Chairman, President & Chief Executive Officer  
Okay. Thanks

Chuck Kyrish  
Vice President-Investor Relations  
Gary, let’s move to the next question.


Daniel DiCicco  
RBC Capital Markets LLC  
Hi. This is Dan DiCicco on for Arun. Thank you.

Mark C. Rohr  
Chairman, President & Chief Executive Officer  
Can you speak up, please?

Daniel DiCicco  
RBC Capital Markets LLC  
Yeah. I'm sorry. This is Dan DiCicco on for Arun. I was just wondering what are the near-term catalysts for acetic and VAM that could improve pricing for the rest of this year? It looks like there's kind of limited outages in North America for the rest of the year. Is this primarily related to methanol or what else needs to happen here?

Mark C. Rohr  
Chairman, President & Chief Executive Officer  
Yeah. I think there's not much – there doesn't seem to be much volatility in that market today. So I don't see a lot of activity to improve pricing on the near term, near term being this quarter, out there. On a fundamental sense, a lot of the reduction, the mathematical reduction that's occurred in VAM has been methanol-driven. So what you need to see is you need to see methanol starting to shore up and starting to drift higher is one mechanism for that. I can't comment on outages or anything – you never see those in the horizon, but this is an industry that has, unlike Celanese, has had a lot of trouble running for very long periods of time. So I'm sure there will be some outages, I just don't know where they'll be. But fundamentally, to get price up methanol is going to start easing back up a bit.
Okay. And then just as a follow-up for methanol, is it still safe to think of that MTO as kind of the price setter going forward? And then how should we think about – there's still a large wave of capacity coming on 2017. How could that impact prices over kind of the medium term?

Mark C. Rohr  
Chairman, President & Chief Executive Officer

Yeah. What you are seeing with MTO is you're seeing the introduction of really world-scale, world-class assets. And those assets are going to run and they have a much lower average operating cost than some of the smaller assets which are the early ones to come on. So we believe that as these big units come online, we think they're going to suck up methanol and we think they're going to be very competitive against other ethylene producers within China. And so that's sort of our story and our belief system. And that should be happening as we enter 2017, it should start to happen. So we think, as we go through 2017, it's going to continue to grow and we think methanol is going to follow that as that consumption picks up.

Regarding acid, yeah, I'm not really sure what you're talking about from additional capacity coming on. Acid is way long today in China. And I think it's academic whether it's another future kt that's going in on this. It's just – it's very long.

Daniel DiCicco  
RBC Capital Markets LLC

Okay. Thank you.

Mark C. Rohr  
Chairman, President & Chief Executive Officer

Thank you.

Chuck Kyrish  
Vice President-Investor Relations

Thank you. Gary, let's go to the next question.

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

John Roberts  
UBS Securities LLC

Thank you. On the cellulose acetate resin lines that feed the fiber lines, can the resin lines be repurposed to engineered polymer, or is the demand for those types of polymers so small that that wouldn't be an option?

Mark C. Rohr  
Chairman, President & Chief Executive Officer

We sell some of that, but the demand generically is pretty low for those products. So we continue to look for ways to promote that and push it, but it's – you're talking a few percentage of the volume of cellulose resin that goes into the polymers. It's a small percentage of the industry that goes that way.

John Roberts  
UBS Securities LLC

Okay. Thank you.
Mark C. Rohr  
*Chairman, President & Chief Executive Officer*

Thanks, John.

Chuck Kyrish  
*Vice President-Investor Relations*

Great. Gary, let's go to the next question.

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

James M. Sheehan  
*SunTrust Robinson Humphrey, Inc.*

Thanks. Mark, I remember a couple of years ago you had some issues with methanol supply and it created a big headwind for your business. And you guys really worked hard and defied expectations offsetting the impact of that. Can you talk about strategically what you're thinking about as ways to mitigate any impacts from the filter tow in 2017?

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

Well, I think – I mean, that was a great example, going back to methanol. Methanol was a multi-hundred million dollar impact to us. And at the time we were pretty creative in how we brought in a new project to offset the vast, vast majority of that, probably all but $30 million to $40 million of the inventory offset.

Yeah. On cellulosics, I think the – let me just start by saying that when you look at the base data, this is a declining business, but it's not declining at any materially different rate than it had been declining at. And the big issue that we've had in that business has been the step changes that occurred in China, which pushed out effectively 100 kt – 100,000 tons into the western market, which effectively reduced our capacity utilization by 20%. So if you look at it as a one-time event, bam, that's done, and it's not going to be replicated. So there's no way that [indiscernible] (27:50) is going to pick up to the extent they'll replace 20% of the volume in the western world.

So what we see is necessary there for the industry to restructure over time to minimize the industry's cost over time to service the customers that the industry has out there. And that's good for everybody. That's going to occur, Jim. It's just going to take a while for that to occur. So when you go beyond that, is there some magic bullet to do something with cellulosics? It's not easy to see that.

We're working on some schemes to increase volume there. I'm sure others are as well. I'm sure we'll be somewhat successful with that, but it won't be the same value equation as tow or the same quantity material as tow.

James M. Sheehan  
*SunTrust Robinson Humphrey, Inc.*

And on the tax code, potential impacts from that proposed change, I think you referenced some workarounds that you might have. Could you describe what kind of workarounds that you're thinking about?
Christopher W. Jensen
Chief Financial Officer & Senior Vice President

Well, as Mark mentioned, this is really kind of about cash management and how you move cash around your company. And some things that were written in that proposal make the typical transactions that you use a little more challenging. What we think is there are going to be certain provisions for how you avail yourself of current-year earnings around the world and that those can pass through more easily than sort of prior-year earnings. So that's really kind of what we're working on is are there ways to still effectively move your money around.

James M. Sheehan
SunTrust Robinson Humphrey, Inc.

Thank you.

Mark C. Rohr
Chairman, President & Chief Executive Officer

Jim, on the first question, so I answered that first question of yours referenced to cellulosics in particular. When you look beyond cellulosics from a corporate point of view, I'll mention two things. One is that you're seeing examples in materials of the strength of the growth of that model. We don't think that that's anywhere close to being fully realized, and we're investing a lot of energy and effort to effectively double from 1,000 to 2,000, effectively double the new product launches and projects that we have ongoing per year into that marketplace. There's tremendous value associated with that.

Our M&A effort remains very active and strong. And where you've seen small things like CoolPoly, we have bigger things on the horizon that we're working to bring home. And hopefully we'll bring those home. That would take us, if we can do that, from six platforms in materials to multiples of that, so call it 10 or 12 platforms in the marketplace. So that should give us a chance and even further grow and further expand and push.

In the Acetyl Chain, we think that there are opportunities for that industry to consolidate, that industry to be more cooperative in terms of who's producing what products for the marketplace and one another. And so we think that those activities, we'll be in front of those, and we're working those very hard.

And lastly, there's productivity. And this year, as Chris mentioned, we're going to roll out some net $100 million, and we'll keep working that next year. And it's too early to put forth a number for next year but we've been doing that for a number of years. And you should expect that you'll see a pretty healthy expectation for us on productivity as we continue to go forward.

James M. Sheehan
SunTrust Robinson Humphrey, Inc.

Appreciate the color, Mark.

Mark C. Rohr
Chairman, President & Chief Executive Officer

Great. Thanks, Jim.

Chuck Kyrish
Vice President-Investor Relations

Yeah. Let's go to the next question.
Operator: The next question comes from Aleksey Yefremov with Nomura Securities. Please go ahead.

Aleksey Yefremov  
Nomura Securities International, Inc.

Good morning. Thank you. In AEM, your volumes grew 8% in the second quarter. Can you sustain this level of growth into the second half?

Mark C. Rohr  
Chairman, President & Chief Executive Officer

Yeah. We think so. I mean naturally you have less growth and – I don't know if you've been, Aleksey, over to Europe anytime soon, I was over there last week and everybody is already on vacation. So August is kind of a non-event. So there's a natural fall-off a bit for us in the third quarter, but directionally, yes, we think we can sustain that.

Aleksey Yefremov  
Nomura Securities International, Inc.

Thank you. And then I think you've provided us with some elements to kind of bridge your 2017 segment income. So you spoke about advancing your materials. What about Acetyl's side of the equation? Do you think you can show growth next year?

Mark C. Rohr  
Chairman, President & Chief Executive Officer

It's hard to see the activity in China and not be able to view that it's short term. I mean, it's so messy and so bloody and – so, yeah, I believe that business will grow next year in spite of the fact that it's dealing with – has been dealing this year through some toughness and will continue to deal with some toughness for another quarter or so.

Aleksey Yefremov  
Nomura Securities International, Inc.

And a final question, if I may. Is consolidation in acetate tow possible in your opinion, from an anti-trust perspective, from any other considerations?

Mark C. Rohr  
Chairman, President & Chief Executive Officer

It's challenging. It's challenging because – well, it's just challenging. It depends on who it is and where it is is what I would say. But any trust today no matter what you're doing is challenging. So not easy.

Aleksey Yefremov  
Nomura Securities International, Inc.

Okay. Thank you very much.

Mark C. Rohr  
Chairman, President & Chief Executive Officer

Thanks, Aleksey.
Chuck Kyrish  
Vice President-Investor Relations

Yeah, let's go the next question, please.

Operator: The next question comes from Nils Wallin with CLSA. Please go ahead.

Nils-Bertil Wallin  
CLSA Americas LLC

Yeah. Good morning. Thanks for taking my question. I believe in the third quarter you'll start to anniversary the methanol contract and, of course, you're on natural gas in the U.S., and then some coal-based and oil-based in Asia. Would you refresh us on how your different acetic acid assets look in terms of the global cost curve today?

Mark C. Rohr  
Chairman, President & Chief Executive Officer

Yeah. Well, of course, the U.S. remains the low-cost spot of the world, followed now by Singapore, which has coal derivative – I mean, the oil derivative feedstock and the gasification there, followed by Chinese coal. So we are running the Singaporean asset harder. It's satisfying a lot of the demand outside of China with that asset.

Nils-Bertil Wallin  
CLSA Americas LLC

Understood. And then just in terms of the tow pricing in the second quarter, would you be able to tease out how much of that was driven by raw materials versus meeting competitive pressures in the market?

Christopher W. Jensen  
Chief Financial Officer & Senior Vice President

Well, we don't really price that product off of raw materials. I mean, it's pretty disconnected from that.

Nils-Bertil Wallin  
CLSA Americas LLC

But presumably with raw materials came down, generally the annual contracts do follow to a certain degree?

Mark C. Rohr  
Chairman, President & Chief Executive Officer

No. No. There's no relationship there, at least not that I'm aware of in that. And pricing this year is a function of the contract last year, the year after that. So there's a lag in that process. So the pricing step-down that you saw is the stuff we were talking about last year that was happening as the early tranches of volume came out of China.

Nils-Bertil Wallin  
CLSA Americas LLC

Understood. Understood. And if I could squeeze in a last one, would you be able to quantify how your cash balances are geographically, where you hold most of your cash?

Christopher W. Jensen  
Chief Financial Officer & Senior Vice President
Yeah. Most of it is overseas. We do have some in the U.S. right now. I think it's around $200 million. We finished the year last year with virtually none in the U.S., and since then we've moved some back. And as you know we've had great strong cash flows and it's enabled us to return about $300 million to shareholders so far this year.

Nils-Bertil Wallin
CLSA Americas LLC

Understood. Thanks very much.

Chuck Kyrish
Vice President-Investor Relations

Great. Gary, we'll take one more question with one follow-up.

Operator: The final question comes from Hassan Ahmed with Alembic Global. Please go ahead.

Hassan I. Ahmed
Alembic Global Advisors LLC

Good morning, Mark. Mark, I wanted you to revisit the turnaround sort of guidance that you had given in Q1. If I remember correctly, you talked about $0.30 to $0.35 worth for sequential headwind. So my question is did it turn out to be $0.30 to $0.35? Was it higher or was it lower?

Mark C. Rohr
Chairman, President & Chief Executive Officer

I'm going to let Chris answer that.

Christopher W. Jensen
Chief Financial Officer & Senior Vice President

So when we said $0.30 to $0.35, there was another thing in there in addition to the turnarounds, which we talked about some overlapping VAM contracts that were a benefit in Q1 that wouldn't be there in Q2. So the $0.30 to $0.35 was really those things together. And together they're in that range.

Hassan I. Ahmed
Alembic Global Advisors LLC

Right. Fair enough. And again, sticking to the whole sort of turnaround side of things, in the AI business sequentially volumes were down 11%. So if I were to sort of assume that there were no turnarounds, what would that sort of volume figure look like?

Christopher W. Jensen
Chief Financial Officer & Senior Vice President

I don't think we lost volume because we planned production to manage our way through these turnarounds.

Hassan I. Ahmed
Alembic Global Advisors LLC

Got it. So it was just purely sort of demand weakness Q1 to Q2 that resulted in that 11% decline.
Mark C. Rohr  
Chairman, President & Chief Executive Officer

Yeah. Yeah. If you look at it, most of that is really just China. And there's no point in chasing incremental volume when it's in the ditch like that. It doesn't really contribute material to your business. So no, you saw us bring – pull blinds back as did many in China and just not chase the bottom of that market.

Hassan I. Ahmed  
Alembic Global Advisors LLC

Very sense. And one final one, if I may. The sort of Q1 guidance for [indiscernible] (37:57) was a $0.10 headwind. Clearly, a bunch of moving parts with regards to methanol and MTB and the like. But you still think that that headwind should be in the same range for 2016?

Mark C. Rohr  
Chairman, President & Chief Executive Officer

Yeah. I think that business will be down $40 million or something for the year. So...

Christopher W. Jensen  
Chief Financial Officer & Senior Vice President

$40 million to $50 million.

Mark C. Rohr  
Chairman, President & Chief Executive Officer

$40 million to $50 million, so you'll save $0.25 of earnings from that alone.

Hassan I. Ahmed  
Alembic Global Advisors LLC

Got it. Got it. Very helpful. Thanks so much, Mark.

Mark C. Rohr  
Chairman, President & Chief Executive Officer

Thank you.

Chuck Kyrish  
Vice President-Investor Relations

Great. We will wrap things up here. Thanks, everybody, for your time. And we'll be around for questions later today. Gary, at this point I'll turn it back over to you.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.