Management Report

You should read the following discussion and analysis of the financial condition and the results of operations of Celanese together with Celanese's Consolidated Financial Statements and the notes to those financial statements, which were prepared in accordance with U.S. GAAP.

Investors are cautioned that the forward-looking statements contained in this section involve both risk and uncertainty. Several important factors could cause actual results to differ materially from those anticipated by these statements. Many of these statements are macroeconomic in nature and are, therefore, beyond the control of management. See "Forward-Looking Information" located at the end of this section.

Basis of Presentation ►►

On October 22, 1999, the effective date of the demerger, Celanese was formed through the demerger of the principal industrial chemicals businesses and some other businesses and activities from Hoechst. Hoechst distributed all of the outstanding shares of Celanese to existing Hoechst shareholders.

The Consolidated Financial Statements reflect, for the periods indicated, the financial condition, results of operations and cash flows of Celanese and its wholly-owned subsidiaries and have been presented to show separately the effects of discontinued operations. See "Summary of Consolidated Results – 2002 Compared with 2001 – Discontinued Operations for the Years Ended December 31, 2002, 2001 and 2000."

The financial condition, results of operations and cash flow of Celanese have been, and may in the future be, affected by special charges. Special charges include provisions for restructuring, asset impairments and other unusual expenses and income incurred outside the ordinary course of business. Special charges totaled €1 million of income in 2002 and expense of €496 million and €21 million in 2001 and 2000, respectively. For a further discussion of special charges, see "Summary by Business Segment – 2002 Compared with 2001 – Special Charges," "Summary of Consolidated Results – 2002 Compared with 2001 – Special Charges," "Summary by Business Segment – 2001 Compared with 2000 – Special Charges" and "Summary of Consolidated Results – 2001 Compared with 2000 – Special Charges."

Effective January 1, 2002, Celanese adopted Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, and accordingly applied the standards of the statement prospectively. This statement addresses financial accounting and reporting for acquired goodwill and other intangible assets and provides that goodwill and some intangibles no longer be amortized on a recurring basis. Instead, goodwill and intangible assets with an indefinite life are subject to an initial impairment test upon adoption of SFAS No. 142 and at least

annually thereafter. The related charges in 2001 were a net expense of €77 million in selling, general and administrative expense and €6 in equity in net earnings of affiliates. Additionally, SFAS No. 142 requires that any unamortized negative goodwill (excess of fair value over cost) on the balance sheet be written off immediately and classified as a cumulative effect of change in accounting principle in the consolidated statement of operations. As a result, income of €10 million was recorded to cumulative effect of changes in accounting principles in Celanese's Consolidated Statement of Operations in the first quarter of 2002.

Effective October 2002, Celanese early adopted SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* and accordingly applied the statement prospectively to exit and disposal activities initiated after September 30, 2002. See "Summary of Consolidated Results – 2002 Compared with 2001 – Special Charges".

In 2002, Celanese changed the actuarial valuation measurement date for its U.S. pension and other postretirement benefit plans from September 30 to December 31. Celanese believes this method is preferable in the circumstances because a calendar year reporting will bring the valuation date in line with Celanese's fiscal year-end reporting and allow for a more current measurement of the related actuarial components. Celanese accounted for this as a change in accounting principle, which resulted in a cumulative effect adjustment in 2002. As a result, income of €9 million, net of income taxes of €5 million, was recorded to cumulative effect of change in accounting principles in Celanese's Consolidated Statement of Operations. In addition, this change reduced total 2002 pension expense by approximately €14 million.

Celanese evaluates performance based on operating profit, net earnings, cash flows and other measures of financial performance reported in accordance with U.S. GAAP. Besides these measures, earnings before interest, taxes, depreciation and amortization ("EBITDA"), excluding special charges, is considered appropriate for evaluating the performance of its operating segments as it closely reflects cash flow management. EBITDA, which may be calculated differently by other companies, is calculated by adding depreciation and amortization expense back to operating profit (loss). Celanese excludes special charges from EBITDA for better comparability between periods. EBITDA eliminates the effect of depreciation and amortization of tangible and intangible assets.

Major Events in 2002 ►►

Enhancing the value of Celanese´s portfolio:

- Acquisition of the European emulsions and global emulsion powders business from Clariant AG, Switzerland
- Divestiture of Trespaphan, the oriented polypropylene (OPP) film business
- Formation of a 50/50 European joint venture with Hatco Corporation, U.S. for production and marketing of neopolyol esters, a basic raw material for synthetic lubricants

Continuing internal growth activities:

- Start-up of a new 30,000 ton per year GUR® ultra-high molecular weight polyethylene plant in Bishop, Texas, U.S.
- Completion of capacity expansion for Vectra® liquid crystal polymers in Shelby, North Carolina, U.S.
- Opening of the world's first pilot plant for high temperature membrane electrode assemblies for fuel cells in Frankfurt, Germany
- Announcement to construct with Asian partners a world-scale 60,000 ton per annum polyacetal plant in China, with operations expected to start during 2005

Additional highlights:

- Cost savings of an estimated €100 million achieved in 2002 associated with the "Focus" and "Forward" restructuring programs, initiated in 2001
- Agreement with BOC p.l.c., United Kingdom to supply carbon monoxide that feeds the acetic acid production facility at the Clear Lake, Texas site in a move to decrease costs and improve efficiency
- Divestiture of global allylamines and U.S. alkylamines business with production sites in Portsmouth, Virginia and Bucks, Alabama
- Initiation in December 2002 of a buy back of up to 1,031,941 shares, expected to be completed by the end of April 2003
- Expensing of stock options commenced in July 2002 at a total estimated cost of €10 million, of which approximately €3 million was recognized in 2002
- Agreement with Degussa AG, Germany to establish a 50/50 joint venture for the European oxo chemicals business, subject to regulatory approval in 2003
- Appointment of Dr. Andreas Pohlmann as chief administrative officer to the Board of Management, responsible for Performance Products and Celanese Ventures, and as director of personnel. He succeeds Prof. Ernst Schadow, who retired in October 2002.

Financial Highlights ►►

in € millions, except for share and per share data	Year Ended December 31, 2002	2001	2000
Net sales	**4,325**	4,777	4,885
Gross profit	**682**	645	730
Special charges	**1**	(496)	(21)
Depreciation and amortization	**286**	390	356
Operating profit (loss)	**155**	(488)	87
EBITDA excluding special charges [1]	**440**	398	464
Earnings (loss) from continuing operations	**113**	(364)	54
Earnings (loss) from discontinued operations	**55**	(21)	4
Cumulative effect of changes in accounting principles	**19**	–	–
Net earnings (loss)	**187**	(385)	58
Weighted average shares – basic and diluted	**50,329,346**	50,331,847	53,293,128
Earnings (loss) per common share – basic and diluted:			
from continuing operations	**2.25**	(7.23)	1.01
from discontinued operations	**1.09**	(0.42)	0.08
from cumulative effect of change in accounting principles	**0.38**	–	–
from net earnings (loss)	**3.72**	(7.65)	1.09

in € millions	As of December 31, 2002	2001
Trade working capital [2]	**618**	605
Total assets	**6,127**	7,064
Net financial debt [3]	**497**	835
Shareholders' equity	**2,005**	2,210

[1] Celanese defines EBITDA excluding special charges as operating profit plus depreciation and amortization plus special charges.

[2] Celanese defines trade working capital as trade accounts receivable from third parties and affiliates net of allowance for doubtful accounts, plus inventories, less trade accounts payable to third parties and affiliates.

[3] Celanese defines net financial debt as short-term borrowings and current installments of long-term debt plus long-term debt less cash and cash equivalents.

Overview – 2002 Compared with 2001 ►►

In a global business environment characterized by slow and uneven growth, net earnings increased significantly to €187 million in 2002 from a loss of €385 million in the prior year. The increase reflected lower special charges, lower raw material and energy costs, lower amortization expense due to the adoption of SFAS No. 142, savings from restructuring and operational excellence initiatives, improved capacity utilization rates in the Acetyl Products segment, and an increase in demand in the Technical Polymers Ticona segment. Additionally, net earnings benefited from a cumulative effect of changes in accounting principles of €19 million, net of income tax, and positive effects from the sale of discontinued operations of €55 million. These effects were reduced by lower pricing in most segments, the effect of year on year changes in LIFO inventory and unfavorable currency effects, principally the appreciation of the euro against the U.S. Dollar. Operating cash flow remained strong, though below last year's level, as trade working capital increased slightly compared to year-end 2001. 2002 capital expenditures were at similar levels to the previous year.

Segment sales declined 9% as higher volumes (+2%) could not offset lower pricing (–8%) and unfavorable currency effects (–3%). EBITDA excluding special charges increased 11%, reflecting lower operating costs and slightly improved demand conditions partially offset by weaker pricing for our products. Volumes increased in Ticona, on modest demand improvement from the automotive and other end-use industries, especially in Europe. In Performance Products, volumes of Nutrinova's high intensity sweetener, Sunett®, continued to grow. In Acetyl Products, somewhat higher demand and temporarily tight supply conditions during the second half of 2002 led to improved capacity utilization rates. Although overall selling prices were lower year on year, average pricing in the Acetyl Products and Chemical Intermediates segments rose steadily throughout 2002. Continuing difficult merchant market conditions and weak pricing, especially in acrylates, resulted in reduced performance in the Chemical Intermediates segment. Profitability in the Acetate Products segment declined as lower volumes in all products, mainly in filament, offset higher tow pricing and cost savings from restructuring efforts.

Celanese reduced its net financial debt by 40% from €835 million as of December 31, 2001 to €497 million as of December 31, 2002. The reduction was due to debt repayment resulting from a continuing high level of cash from operations and net proceeds of €100 million for the net assets and €78 million for the repayment of borrowings from divestitures, combined with the effects of currency movements of approximately €200 million. Operating cash flow declined slightly from €522 in 2001 to €387 in 2002, as 2001 operating cash flow reflected the benefits of a €297 million reduction in trade working capital compared to 2000. Trade working capital in 2002 increased slightly compared to year-end 2001 levels.

Celanese had capital expenditures of €218 million in 2002, compared to €217 million in 2001. Major projects included the completion of a new 30,000 ton per year plant to produce GUR® ultra-high molecular weight polyethylene in Bishop, Texas, U.S. The plant began supplying customers in the fourth quarter of 2002. Celanese also completed the 6,000 ton per year expansion of capacity for Vectra® liquid crystal polymers in Shelby, North Carolina, U.S. In addition, Celanese began construction in 2002 of a new plant for synthesis gas, an important raw material for the production of oxo and specialty chemicals, at its Oberhausen, Germany site. The new plant is scheduled to come on stream in the second half of 2003 and is expected to improve reliability and reduce production costs.

The "Focus" and "Forward" restructuring initiatives, started in 2001, generated estimated savings of approximately €100 million in 2002. In 2003, annual savings are expected to increase to approximately €140 million. In connection with these restructuring programs, most of the approximate 1,500 positions identified had been eliminated by December 31, 2002. Celanese's company-wide operational excellence efforts, including Six Sigma, continued to contribute to profitability.

In 2002, Celanese made further progress in enhancing the value of its portfolio. Celanese acquired the European emulsions and worldwide emulsion powders businesses of Clariant AG, Switzerland in December 2002 for €147 million, which included €125 million cash plus the assumption of debt and other liabilities. Additionally, Celanese divested the Trespaphan OPP films business of the Performance Products segment in December 2002 for €209 million, which included €112 million in cash, the repayment of €78 million in intercompany debt that Trespaphan owed Celanese AG and a purchase price adjustment for liabilities assumed by the buyer. The acquisition of the emulsion businesses extends Celanese's acetyls value chain into higher value businesses and is expected to be earnings and cash flow positive in 2003.

Celanese took a major step to address performance issues within the Chemical Intermediates segment in 2002. Celanese signed an agreement with Degussa AG, Germany to form a 50/50 joint venture for their European oxo activities. The European Commission is currently conducting a detailed investigation into the proposed joint venture. Celanese expects regulatory approval in 2003. In addition, Celanese divested its global allylamines and U.S. alkylamines business at the end of 2002.

Selected Data by Business Segment ►►

in millions, except percentages	2002 €	2002 % of Segment[1]	2001 €	2001 % of Segment[1]	2000 €	2000 % of Segment[1]
Net Sales [2]						
Acetyl Products	**1,923**	**43**	2,155	44	2,106	42
Chemical Intermediates	**907**	**21**	1,020	21	1,048	21
Acetate Products	**670**	**15**	762	16	756	15
Technical Polymers Ticona	**757**	**17**	773	16	923	19
Performance Products	**161**	**4**	159	3	124	3
Segment Total	**4,418**	**100**	**4,869**	**100**	**4,957**	**100**
Other Activities	**68**		83		84	
Intersegment Eliminations	**(161)**		(175)		(156)	
Total Net Sales	**4,325**		**4,777**		**4,885**	
Special Charges [3]						
Acetyl Products	**(3)**	**(38)**	125	26	68	139
Chemical Intermediates	**3**	**38**	328	66	2	4
Acetate Products	**–**	**–**	50	10	8	16
Technical Polymers Ticona	**8**	**100**	(9)	(2)	(29)	(59)
Performance Products	**–**	**–**	–	–	–	–
Segment Total	**8**	**100**	494	100	49	100
Other Activities	**(9)**		2		(28)	
Total Special Charges	**(1)**		**496**		**21**	
Operating Profit (Loss) [2]						
Acetyl Products	**145**	**69**	(73)	17	(10)	(9)
Chemical Intermediates	**(29)**	**(14)**	(374)	83	(20)	(19)
Acetate Products	**24**	**11**	(32)	7	9	8
Technical Polymers Ticona	**22**	**11**	(15)	3	96	89
Performance Products	**48**	**23**	44	(10)	33	31
Segment Total	**210**	**100**	(450)	100	108	100
Other Activities	**(55)**		(38)		(21)	
Total Operating Profit (Loss)	**155**		**(488)**		**87**	
EBITDA Excluding Special Charges [3]						
Acetyl Products	**252**	**51**	208	48	200	38
Chemical Intermediates	**22**	**4**	30	7	48	9
Acetate Products	**81**	**16**	91	21	92	18
Technical Polymers Ticona	**87**	**18**	52	12	140	27
Performance Products	**55**	**11**	50	12	40	8
Segment Total	**497**	**100**	**431**	**100**	**520**	**100**
Other Activities	**(57)**		(33)		(56)	
Total EBITDA Excluding Special Charges	**440**		**398**		**464**	

[1] The percentages in this column represent the percentage contribution of each segment to the total of all segments.

[2] Derived from the accompanying audited Consolidated Financial Statements.

[3] For a further discussion of special charges, see "Summary by Business Segment – 2002 Compared with 2001 – Special Charges," "Summary of Consolidated Results – 2002 Compared with 2001 – Special Charges," "Summary by Business Segment – 2001 Compared with 2000 – Special Charges" and "Summary of Consolidated Results – 2001 Compared with 2000 – Special Charges."

Summary by Business Segment – 2002 Compared with 2001 ►►

Acetyl Products

Net sales for the Acetyl Products segment decreased by 11% to €1,923 million in 2002 from €2,155 million in 2001 primarily due to lower pricing (–12%) and unfavorable currency effects (–3%), partially offset by higher volumes (+4%). Selling prices for major products decreased year on year, following the decline in hydrocarbon costs, particularly natural gas and ethylene. Although overall selling prices were lower year on year, pricing rose steadily throughout 2002, as a result of higher demand, temporarily tight supply conditions and a sequential quarterly increase in raw material costs. Increased demand as well as temporary supply-demand imbalances resulted in higher volumes for vinyl acetate monomer in the United States and Asia, and for acetic acid and polyvinyl alcohol, primarily in Asia.

In special charges, the Acetyl Products segment recorded €3 million of income in 2002 compared to €125 million of expense in 2001. The income of €3 million in 2002 resulted from favorable adjustments to restructuring reserves recorded in 2001, due to lower than expected severance and other closure costs. These adjustments were partially offset by employee severance costs recorded in 2002 for cost-savings initiatives at production sites.

The 2001 special charges related to 2001 restructuring initiatives of €121 million and fixed asset impairments of €18 million associated with the acetyl derivatives and polyols business line. These special charges were offset by a €14 million favorable adjustment to prior year restructuring activities. The €121 million in restructuring initiatives included €78 million for the shutdown of the acetic acid, pentaerythritol, and vinyl acetate monomer units in Edmonton, Alberta and €43 million relating primarily to employee severance costs at plant and administrative sites as well as closure costs associated with a research and development center in the United States. The closure of the research and development center resulted from the decision to relocate these functions to production sites. The €18 million fixed asset impairment related to a reassessment of the expected long-term value of the polyols product line.

Operating profit for the Acetyl Products segment of €145 million in 2002 improved from an operating loss of €73 million in 2001. This increase resulted primarily from a reduction in special charges as noted above. Higher sales volumes, benefits from productivity and restructuring initiatives and a faster rise in selling prices than in raw material and energy costs contributed to this improvement. Lower amortization expense of €33 million resulting from the adoption of SFAS No. 142 also had a positive effect in 2002. Operating profit in 2001 benefited from a €39 million non-recurring compensation payment associated with operational problems experienced by the carbon monoxide supplier to Celanese's Singapore facility from July 2000 through May 2001. The carbon monoxide supplier experienced operational difficulties in the third quarter 2002, which were corrected during the fourth quarter and had minimal impact on full year 2002 operating results due to insurance recoveries.

At the end of 2002, Celanese completed the acquisition of the European emulsions and global emulsion powders businesses of Clariant. Beginning in 2003, the businesses were integrated into the Acetyl Products segment and are expected to contribute positively to earnings and cash flow.

EBITDA excluding special charges for the Acetyl Products segment rose by €44 million to €252 million in 2002 as compared to €208 million in 2001. EBITDA excluding special charges as a percentage of sales increased to 13.1% in 2002 from 9.7% in 2001.

Chemical Intermediates

Net sales for the Chemical Intermediates segment decreased by 11% to €907 million in 2002 from €1,020 million in 2001, due to lower pricing (–8%) and unfavorable currency effects (–3%). In all business lines, 2002 selling prices were lower than in 2001 as pricing reflected lower costs for raw materials, primarily propylene, and energy, as well as competitive pressure, primarily in acrylates. Volumes in the acrylates business were lower due to reduced merchant market opportunities, while oxo and specialties volumes increased slightly.

In 2002, the Chemical Intermediates segment recorded special charges of €3 million compared to €328 million in 2001. The 2002 special charges primarily related to employee severance costs associated with cost savings initiatives at production sites. The 2001 special charges largely resulted from the impairment of most of the segment's goodwill and a portion of its fixed assets, due to a reassessment in the expected long-term value of the segment's underlying businesses.

Of the €328 million in special charges in 2001, €243 million related to goodwill impairments and €63 million to fixed asset impairments resulting primarily from the deterioration in the outlook of the acrylates and oxo business lines. The remaining €28 million related to restructuring initiatives, primarily for employee severance costs at both plant and administrative sites. These charges were partially offset by recoveries due to Celanese of €6 million from third party site partners.

The operating loss for the Chemical Intermediates segment decreased to €29 million from €374 million in 2001. This improvement was primarily due to lower special charges as noted above. Operating profit also benefited from productivity improvements and cost savings from restructuring initiatives. The improvement was partially offset by a decline in acrylate prices, which fell more than the decrease in raw material costs. Acrylates were negatively affected by a continued decline in merchant market demand and pressure on selling prices due to overcapacity. Operating results for the segment in 2002 also benefited from lower amortization expense of €17 million resulting from the adoption of SFAS No. 142.

EBITDA excluding special charges for the Chemical Intermediates segment fell to €22 million in 2002 from €30 million in 2001. EBITDA excluding special charges as a percentage of sales decreased to 2.4% in 2002 from 2.9% in 2001.

Acetate Products

Net sales for the Acetate Products segment decreased by 12% to €670 million in 2002 from €762 million in 2001. Lower sales volumes (–7%) and unfavorable currency movements (–5%) contributed to the decline in sales in 2002. Average pricing for acetate was stable in 2002 as higher tow prices offset lower filament pricing. Volumes declined mainly due to lower demand for acetate filament from the U.S. and European textile industries and ongoing fiber substitution. Volumes of acetate flake, a primary raw material in acetate filament and tow production, also decreased due to lower merchant sales. Tow volumes were slightly lower in 2002 mainly due to reduced volumes in North America and Europe, partially offset by improvements in other regions.

The Acetate Products segment recorded no special charges in 2002 compared to €50 million in 2001. The charges in 2001 resulted from the costs associated with the closure of acetate filament operations in Rock Hill, South Carolina and Lanaken, Belgium, as well as for costs incurred with the relocation of filament operations within the United States. Additional special charges were incurred in connection with employee severance costs associated with a production facility in Mexico.

The Acetate Products segment recorded an operating profit of €24 million in 2002, compared to an operating loss of €32 million in 2001. Operating profit in 2002 benefited from the absence of special charges and a €10 million decrease in amortization expense resulting from the implementation of SFAS No. 142. Cost reductions from the Forward program and other productivity initiatives partially offset the effects of lower sales volumes.

In January 2003, the International Paper Company, a primary supplier of wood pulp to Celanese’s acetate flake production facilities in the United States, announced that it would be shutting down its facility in Natchez, Mississippi. Although Celanese believes it will have an adequate wood pulp supply from International Paper for 2003 requirements, we expect that this plant closure will result in increased operating expenses in 2003 from temporary increases in wood pulp inventory, as well as by expenses associated with the qualification of product from alternative suppliers.

EBITDA excluding special charges for the Acetate Products segment was €81 million in 2002 compared to €91 million in 2001. EBITDA excluding special charges as a percentage of sales increased slightly to 12.1% in 2002 from 11.9% in 2001.

Technical Polymers Ticona

Net sales for the Ticona segment decreased by 2% to €757 million in 2002 from €773 million in 2001 as the result of lower selling prices (–3%) and unfavorable currency movements (–3%), which were mostly offset by higher volumes (+4%). Volumes increased mainly in polyacetal, reflecting some improvement in demand from the automotive and other end-use industries, especially in Europe. Volumes

also improved in ultra-high molecular weight polyethylene, but declined or were flat in other product lines. Average selling prices declined for most product lines, primarily polyacetal. Polyacetal standard-grade pricing was reduced in response to competitive pressure, mainly from Asian suppliers.

In special charges, the Ticona segment had expense of €8 million in 2002 compared to income of €9 million in 2001. The 2002 expense resulted from restructuring costs associated with the consolidation of manufacturing operations in Europe and the United States. The favorable adjustment in 2001 was primarily due to higher than expected insurance reimbursements associated with the plumbing cases, which were largely offset by restructuring expenses for employee severance costs in the United States and Europe. These 2001 restructuring initiatives were taken to streamline administrative and operational functions under Celanese's Forward initiative.

The Ticona segment recorded an operating profit of €22 million in 2002 compared to an operating loss of €15 million in 2001. The major factors contributing to the earnings improvement were reduced raw material costs and increased sales volumes. Operating results in 2002 also benefited from €22 million of lower amortization expense due to the adoption of SFAS No. 142. These improvements were partially offset by costs for maintenance shutdowns and startup costs related to expansions, as well as the higher special charges noted above. The Ticona segment continued to incur market development costs for cyclo-olefin copolymers in 2002.

EBITDA excluding special charges for the Ticona segment increased to €87 million in 2002 compared to €52 million in 2001. EBITDA excluding special charges as a percentage of sales rose to 11.5% in 2002 from 6.7% in 2001.

Performance Products

Net sales for the Performance Products segment, which consists of the Nutrinova food ingredients business, increased by 1% to €161 million in 2002 from €159 million in 2001 due to increased volumes (+10%), largely offset by price decreases (–9%). Increased volumes reflected strong growth of the high intensity sweetener Sunett® from new applications in the beverage and confectionary industries in the U.S. and Europe. Overall pricing declined, mainly in connection with higher Sunett® volumes to major customers. In sorbates, pricing pressure from Asian competitors intensified in 2002, mainly in the fourth quarter, due to worldwide overcapacity. We expect these conditions to continue in 2003.

Operating profit for the Performance Products segment of €48 million in 2002 improved from €44 million in 2001. The increase is mainly a result of higher volumes from new applications in Sunett®, increased yields from manufacturing efficiencies and cost reductions, which were mostly offset by lower pricing as noted above.

EBITDA excluding special charges for the Performance Products segment increased by €5 million to €55 million in 2002 from €50 million in 2001. EBITDA excluding special charges as a percentage of sales rose to 34.2% in 2002 from 31.4% in 2001.

Other Activities

Other Activities includes revenues mainly from Celanese's captive insurance companies, Celanese Ventures GmbH, Celanese Advanced Materials, Inc., as well as ancillary businesses and service companies, which do not have significant sales. Celanese Advanced Materials primarily consists of the high performance polymer PBI and Vectran® polymer fiber product lines. In addition, Other Activities includes Celanese corporate operating expenses.

Net sales for Other Activities decreased by 18% to €68 million in 2002 from €83 million in 2001. This decline was primarily due to the divestiture of an InfraServ subsidiary during the first quarter of 2002 and the expiration of a number of service contracts and licensing fees at Celanese Ventures GmbH.

Other Activities recorded €9 million of income in special charges in 2002 compared to a charge of €2 million in 2001. The €9 million income in 2002 similarly relates to a reduction in environmental reserves due to a settlement of obligations associated with former Hoechst entities. The €2 million expense in 2001 primarily consisted of corporate employee severance costs, which were partially offset by a €4 million favorable adjustment related to a net reduction in reserves associated with settlements of environmental indemnification and other obligations associated with former Hoechst entities.

The operating loss of Other Activities increased to €55 million in 2002 from €38 million in 2001. This was primarily due to an adjustment to loss reserves at the captive insurance companies, lower third party commission income earned by a procurement subsidiary and the reduction of revenues from Celanese Ventures. This decrease was partially offset by a gain of €10 million on the sale of an InfraServ subsidiary and an increase in income related to adjustments in special charges as noted above.

EBITDA excluding special charges for Other Activities declined to a loss of €57 million in 2002 from a loss of €33 million in 2001.

Summary of Consolidated Results – 2002 Compared with 2001 ►►

Net Sales

Net sales decreased by 9% to €4,325 million in 2002 as compared to €4,777 million in 2001 primarily as a result of lower selling prices and unfavorable currency movements despite improved volumes in most segments. Decreases in the Acetyl Products, Chemical Intermediates, Acetate Products and Ticona segments were only slightly offset by an increase in the Performance Products segment.

Cost of Sales

Cost of sales decreased by 12% to €3,643 million in 2002 compared with €4,132 million in 2001. Cost of sales as a percentage of net sales decreased to 84% in 2002 from 86% in 2001, reflecting lower raw material and energy costs, primarily in the Acetyl Products, Chemical Intermediates and Ticona segments, and cost reductions from productivity and restructuring initiatives.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by 15% to €471 million in 2002 from €552 million in 2001 driven largely by a €77 million decline in amortization expense resulting from the implementation of SFAS No. 142. Excluding the effects of this amortization expense, selling, general and administrative expenses as a percentage of sales were relatively flat. Selling, general and administrative expenses were affected by lower third party commission income earned by a procurement subsidiary of Celanese, and increased selling efforts by the Ticona segment, offset by favorable currency fluctuations and benefits from cost reduction efforts. In 2002 and 2001, Celanese had favorable adjustments of €15 million and €12 million, respectively, relating to reduction in environmental reserves due to favorable trends in environmental remediation.

Research and Development Expenses

Research and development expenses decreased by 15% to €74 million in 2002 from €87 million in 2001. The reduction resulted primarily from Celanese's strategy to concentrate the research and development efforts at production sites within most businesses. Research and development expenses as a percentage of sales remained flat at 2% for both 2002 and 2001.

Special Charges

Effective October 2002, Celanese early adopted SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* and accordingly applied the statement prospectively to exit or disposal activities initiated after September 30, 2002. The statement nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. The principal difference between SFAS No. 146 and EITF Issue No. 94-3 relates to the recognition of a liability for a cost associated with an exit or disposal activity. SFAS No. 146 requires recognition only when the liability is incurred. In contrast, under Issue No. 94-3, a liability was recognized when the Company committed to an exit plan.

In 2002, Celanese recorded special charges totaling €1 million of income, which consisted of €19 million of restructuring charges, €10 million of income from favorable adjustments to restructuring reserves recorded in 2001 and 2000, €9 million of income from other special charges related to a reduction in reserves associated

with settlements of environmental indemnification obligations associated with former Hoechst entities and €1 million of income from reimbursements from third party site partners related to prior year restructuring initiatives. The €19 million of additions to the restructuring reserve in 2002 included employee severance costs of €11 million and plant and office closure costs of €8 million.

The €19 million of additions to the restructuring reserve included €10 million under SFAS No. 146 and €9 million under EITF Issue No. 94-3, as explained below.

SFAS No. 146 Initiatives

Initiatives that commenced during the fourth quarter of 2002 and were recorded under SFAS No. 146 represented restructuring additions for employee termination benefits of €4 million and plant and office closure costs of €6 million.

Acetyl Products and Chemical Intermediates

Severance costs as a result of the streamlining of chemical production facilities in the United States and Germany amounted to €3 million in 2002. Future costs for this initiative are estimated to be €2 million and are expected to be incurred in 2003.

Technical Polymers Ticona

The Ticona segment plans to concentrate its European manufacturing operations in Germany and as a result will cease its compounding operations in Telford, United Kingdom by mid-year 2003. As a result, fixed asset impairments totaling €4 million were recorded in 2002. Additional costs of approximately €7 million relating to employee severance and lease cancellation costs are expected in 2003. The restructuring will affect approximately 70 employees.

With the construction of a new and expanded GUR® plant in Bishop, Texas, the GUR® operations in Bayport, Texas were transferred to the new facility. Decommissioning and demolition costs associated with the Bayport closure are estimated to be €2 million, all of which were accrued in 2002.

EITF Issue No. 94-3 Initiatives

Restructuring initiatives that commenced during the first three quarters of 2002, and recorded under EITF Issue No. 94-3, represented €7 million of restructuring additions for employee severance costs and €2 million of restructuring additions for plant and office closure costs.

Employee severance costs consisted primarily of €3 million for the shutdown of the nylon polymer unit in Bishop, Texas, €1 million for personnel in the PVOH business, and €3 million for adjustments related to 2001 Project Forward initiatives as discussed below.

Plant and office closure costs consisted mainly of asset write-offs of €2 million for the nylon polymer unit shutdown in Bishop.

The €10 million of favorable adjustments in 2002 of prior year restructuring reserves consisted of an €8 million adjustment to the 2001 reserves and a €2 million adjustment to the 2000 reserves. The 2001 adjustment was primarily due to lower than expected personnel and closure costs associated with the streamlining of chemical facilities in the United States, Canada, and Germany. The 2000 adjustment was due to lower than expected demolition costs for the Acetyl Products production facility in Knapsack, Germany.

Project Focus, initiated in early 2001, set goals to reduce trade working capital by €100 million compared to end of year 2000 levels, limit capital expenditures to a maximum of the 2000 level of €235 million and contribute €100 million to EBITDA from programs to increase efficiency. Project Forward was announced at the end of August 2001 and initiated additional restructuring and other measures to reduce costs and increase profitability. The 2001 restructuring initiatives detailed below resulted in a reduced cost base and operational efficiencies in 2002.

in € millions	Employee Termination Benefits	Plant/ Office Closures	Total Restructuring	Restructuring Special Charges	Total Special Charges	Of which noncash
Focus	29	17	46	4	50	8
Forward	92	88	180	77	257	105
Goodwill Impairment	–	–	–	243	243	243
Other	–	–	–	(35)	(35)	(28)
Subtotal	**121**	**105**	**226**	**289**	**515**	**328**
Restructuring Adjustments	(2)	(17)	(19)	–	(19)	(19)
Total Special Charges	**119**	**88**	**207**	**289**	**496**	**309**

In 2001, Celanese recorded special charges totaling €496 million, which consisted of €234 million of restructuring charges, which were reduced by €8 million of income for reimbursements from third party site partners and income from forfeited pension plan assets, €19 million of favorable adjustments to restructuring reserves recorded in 2000 and 2001 and €289 million of other special charges.

The €234 million of additions to the restructuring reserve included employee severance costs of €129 million and plant and office closure costs of €105 million. Employee severance costs consisted primarily of €42 million for the streamlining of chemical production and administrative positions in the United States, Germany and Singapore, €28 million for administrative and production positions at Ticona in the United States and Germany, €22 million for the restructuring of production and administrative positions in Mexico, €8 million for the closure of the acetic acid, pentaerythritol and vinyl acetate monomer units and the elimination of administrative positions in Edmonton, €7 million for the elimination of corporate administrative positions, €6 million resulting from the closure of a chemical research and development

center in the United States, €5 million for the shut-down of acetate filament production at Lanaken, Belgium and €11 million for the shut-down of acetate filament production at Rock Hill, South Carolina.

The €105 million of additions to the restructuring reserve related to plant and office closures consisted mainly of €74 million for fixed asset impairments, the cancellation of supply contracts, other required decommissioning and environmental closure costs relating to the closure of the acetic acid, pentaerythritol and vinyl acetate monomer units in Edmonton. Also included in plant and office closure costs were €11 million for fixed asset impairments, contract cancellation and other costs associated with the closure of the chemical research and development center in the United States, €4 million of fixed asset impairments and other closure costs related to the closure of a chemical distribution terminal in the United States, €9 million for fixed asset impairments and shut-down costs at the acetate filament facility in Lanaken, €6 million for equipment shutdown and other decommissioning costs for the acetate filament production facility at Rock Hill and €1 million associated with the cancellation of a lease associated with the closure of an administrative facility in Germany.

In 2001, the Focus and Forward initiatives identified approximately 1,500 positions to be eliminated, substantially all of which had been eliminated as of December 31, 2002.

The €19 million of favorable adjustments in 2001 of prior year restructuring reserves consisted of a €14 million adjustment to the 2000 reserves and a €5 million adjustment to the 1999 reserves. The entire 2000 reserve adjustment was due to lower than expected demolition and decommissioning costs for the Acetyl Products segment's production facility in Knapsack, Germany. This adjustment resulted from a third party site partner assuming ownership of the existing facility and obligations. Of the 1999 reserve adjustment, €3 million related to the reversal of a reserve for closure costs for a parcel of land in Celaya, Mexico that Celanese donated to the Mexican government, which assumed the remaining liabilities. The 1999 adjustment also included €2 million relating to less than anticipated severance costs for Ticona employees in Germany.

The other special charges of €289 million consisted of the Chemical Intermediates segment's goodwill impairment of €243 million and fixed asset impairments of €57 million, the Acetyl Products segment's fixed asset impairments of €18 million and €6 million for the relocation of acetate filament production assets associated with restructuring initiatives.

Also included in other special charges was €31 million of income from the receipt of higher than expected insurance reimbursements linked to the plumbing cases (see Note 24 to the Consolidated Financial Statements) and €4 million of income related to a net reduction in reserves associated with settlements of environmental indemnification and other obligations associated with former Hoechst entities.

Foreign Exchange Gain

Foreign exchange gain increased to €5 million in 2002 from €2 million in 2001. This change is primarily attributable to the weakening of the Mexican peso against the U.S. dollar as well as the weakening of the U.S. dollar against the euro.

Operating Profit (Loss)

An operating profit of €155 million was generated in 2002 compared to a loss of €488 million in 2001 primarily due to a decrease in special charges from €496 million in 2001 to income of €1 million in 2002. Also contributing to the profit improvement were lower raw material and energy costs in most segments, cost reductions throughout Celanese and improved volumes. The profit increase was partially offset by the unfavorable effect of lower selling prices. Lower amortization expense of €77 million resulting from the adoption of SFAS No. 142 also had a positive effect in 2002.

EBITDA excluding special charges totaled €440 million in 2002 compared to €398 million in 2001. EBITDA excluding special charges as a percentage of sales increased to 10.2% in 2002 from 8.3% in 2001.

Equity in Net Earnings of Affiliates

Equity in net earnings of affiliates increased to €22 million in 2002 from €13 million in 2001. This increase was partially attributable to an increase in the earnings of Korea Engineering Plastics Co. Ltd. Lower goodwill amortization expense of €6 million due to the adoption of SFAS No. 142 also had a positive effect on 2002 results.

Interest Expense

Interest expense decreased by 26% to €59 million in 2002 from €80 million in 2001, as a result of lower average financial debt and lower interest rates.

Interest and Other Income, Net

Interest and other income, net decreased to €48 million in 2002 from €65 million in 2001, mainly due to lower dividend income from our investments, primarily from our methanol joint venture in Saudi Arabia, writedown of investments and lower interest income partially offset by higher transaction gains on foreign currency financing. Additionally, in 2001, Celanese received gross proceeds of €10 million and recorded a gain of €6 million relating to the sale of its ownership interests in InfraServ GmbH & Co. Münchsmünster KG, Hoechst Service Gastronomie GmbH, and Covion Organic Semiconducters GmbH. Investments accounted for under the cost method contributed dividend income of €41 million and €52 million in 2002 and 2001.

Income Taxes

In 2002, Celanese recognized income tax expense of €53 million as compared to an income tax benefit of €126 million in 2001. Celanese also recognized in 2002 a €43 million German tax benefit relating to a tax deductible writedown of its investment in Trespaphan GmbH. This tax benefit is attributable to a discontinued business and is therefore reported as part of discontinued operations and is not included in the 2002 income tax provision.

The effective tax rate for Celanese in 2002 was 32 percent compared to 26 percent in 2001. The Celanese effective tax rate in 2002 was favorably affected by the utilization of certain net operating loss carryforwards in Germany, the release of certain valuation allowances on prior years' deferred tax assets, unrepatriated low-taxed earnings and a lower effective minimum tax burden in Mexico. The effective tax rate was unfavorably affected in 2002 by distributions of taxable dividends from certain equity investments and the reversal of a tax deductible writedown in 2000 of a German investment.

In 2001, Celanese recognized an income tax benefit of €126 million and reported an effective tax rate of 26 percent. The effective tax rate in 2001 was favorably affected by the full recognition of previously reserved deferred tax assets of a subsidiary in Germany, the utilization of net operating loss carryforwards, offset by non-deductible goodwill amortization and impairment charges.

Discontinued Operations for the Years Ended December 31, 2002, 2001 and 2000

In December 2002, Celanese completed the sale of Trespaphan, its OPP film business, to a consortium consisting of the Dor-Moplefan Group and Bain Capital, Inc. The preliminary purchase price for the business was €209 million. Net of the purchase price adjustments of €19 million and the repayment of €78 million in intercompany debt that Trespaphan owed Celanese AG, Celanese received net proceeds of €112 million. Trespaphan was formerly part of Celanese's Performance Products segment. The transaction is reflected as a component of discontinued operations in the consolidated financial statements in accordance with SFAS No. 144.

During 2002, Celanese sold its global allylamines and U.S. alkylamines businesses to U.S. Amines Ltd. This business was formerly part of Celanese's Chemical Intermediates segment.

In 2002, Celanese received net proceeds of €123 million and recorded a pre-tax gain of €14 million on the disposal of discontinued operations relating to these divestitures. Pre-tax earnings from operations of discontinued operations in 2002 were €1 million.

Additionally, Celanese recognized a tax benefit of €40 million for discontinued operations, which includes a tax benefit associated with a tax deductible writedown of the tax basis for Trespaphan's subsidiary in Germany relating to tax years ended December 31, 2000 and 2001. Since this tax benefit relates to an entity solely engaged

in a business designated as discontinued operations in the 2002 Consolidated Financial Statements, this tax benefit has been correspondingly included in earnings (loss) from discontinued operations. Relating to these divestitures, Celanese adjusted 2001 and 2000 earnings by reclassifying pre-tax losses of €40 million and €3 million, respectively, into earnings (loss) from operations of discontinued operations relating to these divestitures. Additionally, Celanese recognized tax benefits of €10 million and €4 million in 2001 and 2000, respectively, for discontinued operations related to these divestitures.

In 2001, Celanese completed the sale of NADIR filtration GmbH, formerly Celgard GmbH, received minimal proceeds from this sale and recorded a €2 million pre-tax gain on disposal of discontinued operations. Celanese recorded an additional gain in 2001 of €12 million in pre-tax gain on disposal of discontinued operations related to a business divested in 2000. Additionally, Celanese recognized a tax expense of €5 million for discontinued operations.

In 2000, Celanese completed the sale of Vinnolit Kunststoff GmbH, Vintron GmbH and the phosphorous and phosphorous derivatives business conducted by the Thermphos Group. Celanese received gross proceeds of €35 million from the sales of these discontinued operations, which led to a net cash inflow in 2000 of €30 million from the 2000 divestitures and additional cash inflow of €60 million from the 1999 divestitures.

Celanese recorded €31 million, pre-tax, in earnings (loss) from operation of discontinued operations (including gain on disposal of discontinued operations of €28 million) relating to these divestitures in 2000. Celanese also recorded €9 million of additional pre-tax losses incurred in 2000 relating to other discontinued operations sold in 1999 in gain on disposal of discontinued operations. Celanese recognized a tax expense of €19 million for these discontinued operations in 2000.

The following table summarizes the results of the discontinued operations for the years ended December 31, 2002, 2001 and 2000.

	Sales			Operating Profit (Loss)		
in € millions	**2002**	**2001**	**2000**	**2002**	**2001**	**2000**
Discontinued operations of Chemical Intermediates	**34**	39	37	**(12)**	(35)	(4)
Discontinued operations of Performance Products	**273**	281	285	**10**	(5)	–
Discontinued operations of Other Activities	**–**	–	54	**–**	–	3
Total discontinued operations	**307**	**320**	**376**	**(2)**	**(40)**	**(1)**

Cumulative Effect of Changes in Accounting Principles

Celanese recorded income of €19 million for a cumulative effect of changes in accounting principles, net of tax of €5 million, in 2002. The adoption of SFAS No. 142 in 2002 resulted in income of €10 million as it required unamortized negative goodwill (excess of fair value over cost) on the balance sheet to be written off immediately and classified as a cumulative effect of change in accounting principle in the consolidated statement of operations. Additionally, in 2002 Celanese changed the actuarial measurement date for its U.S. pension and other postretirement benefit plans from September 30 to December 31. As this change was accounted for as a change in accounting principle, a cumulative effect adjustment of €9 million income, net of taxes of €5 million, was recorded in 2002.

Net Earnings (Loss)

As a result of the factors mentioned above, the net earnings (loss) of Celanese increased by €572 million to net earnings of €187 million in 2002 from a net loss of €385 million in 2001.

Summary by Business Segment – 2001 Compared with 2000 ►►

Acetyl Products

Net sales for the Acetyl Products segment increased by 2% to €2,155 million in 2001 from €2,106 million in 2000 primarily due to the acquisition of the PVOH business in September 2000 (+3%) and favorable currency effects (+2%), largely offset by lower volumes (–2%) and pricing (–1%). Selling prices followed the trends of hydrocarbon costs, primarily natural gas and ethylene, which continued an upward pattern through the first quarter of 2001 but declined throughout the remainder of the year. Lower demand amid the weakening economic environment during the second half of 2001 accelerated the decrease in selling prices to levels below those of the comparable period in 2000. Reduced demand for acetic acid and vinyl acetate monomer resulted in lower volumes, which were partially offset by higher volumes in acetate esters, particularly in North America and Asia. Celanese was able to produce higher volumes of acetate esters in 2001 as the acetic acid plant in Singapore became fully operational.

The Acetyl Products segment recorded special charges of €125 million in 2001 compared to €68 million in 2000. These 2001 special charges were largely taken to reduce costs and increase operational efficiency by closing high-cost production facilities and streamlining administrative and operational functions under the Focus and Forward initiatives as well as other programs. See "Summary of Consolidated Results – 2001 Compared to 2000 – Special Charges."

The 2001 special charges related to 2001 restructuring initiatives of €121 million and fixed asset impairments of €18 million relating to the acetyl derivatives and polyols business line. These special charges were offset by a €14 million favorable adjustment to prior year restructuring activities. The €121 million in restructuring initiatives included €78 million for the shutdown of the acetic acid, pentaerythritol, and vinyl acetate monomer units in Edmonton, Alberta and €43 million relating primarily to employee severance costs at plant and administrative offices as well as closure costs associated with a research and development center in the United States. The closure of the research and development center resulted from the decision to relocate the functions to production sites. The €18 million fixed asset impairment related to a reassessment of the expected long-term value of the polyols product line. The €14 million favorable adjustment related to lower than expected demolition and decommissioning costs associated with the closure of the Knapsack, Germany site in 2000. This adjustment resulted from a third party site partner assuming ownership of the existing facilities and obligations. In 2000, the Acetyl Products segment recorded special charges of €68 million, which included €53 million for the closure of acetyl units in Knapsack, Germany. The remaining €15 million was primarily associated with employee severance costs from restructuring at an administrative office and a production facility in Texas.

The operating loss for the Acetyl Products segment increased to €73 million in 2001 from €10 million in 2000. The increase in operating loss in 2001 resulted primarily from the special charges described above and from margin pressure, as selling prices declined at a greater rate than raw material costs. This was partially offset by the benefits of aggressive cost reduction efforts. In addition, 2001 was positively affected by the receipt of non-recurring compensation payments associated with operational problems experienced by the carbon monoxide supplier to Celanese's Singapore facility from July 2000 through May 2001. Total compensation payments, related to the carbon monoxide supplier, received in 2001 were €43 million, of which €4 million was recognized in 2000.

EBITDA excluding special charges for the Acetyl Products segment increased by €8 million to €208 million in 2001 as compared to €200 million in 2000.

Chemical Intermediates

Net sales for the Chemical Intermediates segment decreased by 3% to €1,020 million in 2001 from €1,048 million in 2000, primarily due to price decreases (–5%) and favorable currency movements (+2%). For 2001, sales prices were lower than 2000 in most products, including acrylic acid, butanol, butyl acrylate and 2-ethyl hexanol, due to global industry capacity outpacing market growth and the pass through of falling raw material costs, primarily propylene. Volumes in the Chemical Intermediates segment were higher with increases in the oxo business line and specialty business line offset by decreases in the acrylates business line. The oxo business line volume improvement resulted from temporary market shortages in Asia. In the acrylates business line, difficult business conditions persisted due to continuing price pressure and customer consolidation.

In 2001, the Chemical Intermediates segment recorded special charges of €328 million. These special charges largely resulted from the impairment of most of the segment's goodwill and a portion of its fixed assets, due to a reassessment in the expected long-term value of the segment's underlying businesses. Special charges were also taken to reduce costs and increase operational efficiency by streamlining administrative and operational functions under the Focus and Forward initiatives as well as other programs. See "Summary of Consolidated Results – 2001 Compared to 2000 – Special Charges."

Of the €328 million in special charges, €243 million related to goodwill impairments and €63 million to fixed asset impairments resulting primarily from the deterioration in the outlook of the acrylates and oxo business lines. The remaining €28 million related to restructuring initiatives, primarily for employee severance costs at both plant and administrative sites. These charges were partially offset by recoveries due to Celanese of €6 million from third party site partners. In 2000, the Chemical Intermediates segment recorded special charges of €2 million, primarily related to administrative restructuring.

The operating loss for the Chemical Intermediates segment increased to €374 million in 2001 from €20 million in 2000. This was primarily due to the special charges previously discussed and higher costs due to plant turnarounds and outages. Additionally, performance of the acrylates business line was negatively affected by unfavorable pricing under an existing supply agreement. Early in the first quarter of 2002, a sharp decline in selling prices in the acrylates business line occurred as a result of weak market conditions and low utilization rates. As a result, the business outlook for the acrylates business line has deteriorated.

EBITDA excluding special charges for the Chemical Intermediates segment decreased to €30 million in 2001 from €48 million in the comparable period.

Acetate Products

Net sales for the Acetate Products segment increased by 1% to €762 million in 2001 from €756 million in 2000. Favorable currency movements (+3%), and slightly higher sales volumes (+1%), were largely offset by a change in the composition of the segment due to the transfer of the high performance polymer (polybenzimidazole or PBI) and Vectran® polymer fiber product lines to Other Activities in July 2000 (–2%), and lower average pricing (–1%). Average acetate prices declined slightly due to changes in the product mix from higher priced filament to lower priced tow. Higher volumes for tow, reflecting increased demand in Europe, were mostly offset by the continuing decline in volumes for filament, primarily caused by the effects of the weakening U.S. economy, the shift in fashion away from filament-based products and increased competition in Asia.

Special charges in the Acetate Products segment amounted to €50 million in 2001 as compared to €8 million in 2000. The special charges were a continuation of the ongoing strategy to improve cost efficiency and align capacity with market

demand. See “Summary of Consolidated Results – 2001 Compared to 2000 – Special Charges.” The charges in 2001 were for the costs associated with the closure of acetate filament operations in Rock Hill, South Carolina and Lanaken, Belgium, as well as costs incurred with the relocation of filament operations within the United States. Additional special charges were incurred in connection with employee severance costs at its production facility in Mexico. The net charge in 2000 represented employee severance costs associated with downsizing across the business as well as relocation costs incurred by moving acetate filament equipment within North America.

Acetate Products recorded an operating loss of €32 million in 2001, compared with an operating profit of €9 million in 2000. Higher special charges, weakening filament volumes, and higher energy costs, primarily for coal, were partially offset by continued cost reductions at all locations.

EBITDA excluding special charges for the Acetate Products segment of €91 million in 2001 decreased slightly from €92 million in 2000.

Technical Polymers Ticona

Net sales for the Ticona segment decreased by 16% to €773 million in 2001 from €923 million in 2000 largely as the result of lower volumes (–18%), as prices (+1%) and currency movements (+1%) remained relatively unchanged. Volumes declined in many products, including liquid crystal polymers, polyesters and polyacetals, due to lower demand, particularly from the global telecommunications and U.S. automotive industries. Sales volumes to the global telecommunications industry declined sharply, particularly during the second half of 2001, as customers depleted their inventory levels in response to lower end user demand. In addition, European sales weakened during the fourth quarter, due to reduced demand in industrial markets and a weakening of automotive exports. Average prices increased slightly as a result of a more favorable product sales mix, but came under pressure in the second half as a result of industry overcapacity and imports of standard grade polyacetal from Asia.

In special charges, the Ticona segment had income of €9 million in 2001 compared to income of €29 million in 2000. The income in 2001 resulted from €31 million of higher than expected insurance reimbursements associated with the plumbing cases, which was largely offset by restructuring expenses for employee severance costs in the United States and Europe. These restructuring initiatives were taken to streamline administrative and operational functions under the Forward initiative. See “Summary of Consolidated Results – 2001 Compared to 2000 – Special Charges.” The favorable adjustment recognized in 2000 was primarily due to €18 million of higher than expected insurance reimbursements associated with the plumbing cases. In addition, an unfavorable tax treatment affected the severance benefits to be received by employees in Germany. Therefore, Celanese modified the timing of payments associated with the 1999 restructuring plan, which resulted in a €10 million favorable adjustment in 2000.

Ticona recorded an operating loss of €15 million in 2001 compared to a profit of €96 million in 2000 due to lower volumes, higher raw material and energy costs, and lower income from special charges, which were slightly offset by the benefits of cost reduction efforts. Due to decreased demand from customers who were depleting their inventory, Ticona temporarily reduced production levels, which resulted in higher unit costs.

EBITDA excluding special charges declined to €52 million in 2001 compared to €140 million in 2000.

Performance Products

Net sales for the Performance Products segment, which consists of the Nutrinova food ingredients business, increased by 28% to €159 million in 2001 from €124 million in 2000 largely as the result of higher volumes (27%), as prices remained relatively unchanged (1%). The increase in volumes was driven by higher demand for the high intensity sweetener Sunett® from the beverage and confectionary industries in the United States. Prices declined due to increased volumes to Sunett® customers and continued pressure on sorbates' pricing due to worldwide overcapacity.

Operating profit for the Performance Products segment of €44 million in 2001 improved from €33 million in 2000 mainly as a result of increased market growth of Sunett® as noted above.

EBITDA excluding special charges for the Performance Products segment increased by €10 million to €50 million in 2001 from €40 million in 2000.

Other Activities

In the second quarter of 2000, Celanese acquired 100% of Axiva GmbH, which was renamed Celanese Ventures GmbH, a process technology and engineering business, from Aventis S.A. In the fourth quarter of 2000, Celanese sold 75% of the process technology and engineering business of Axiva GmbH to Siemens and retained selected projects, which it continues to operate in the process technology entity which was renamed to Celanese Ventures GmbH.

Effective July 1, 2000, the PBI and Vectran® product lines were transferred from the Acetate Products segment to Other Activities to reflect the strategic alignment of PBI with the fuel cell project of Celanese Ventures GmbH.

Net sales for Other Activities remained relatively flat at €83 million and €84 million in 2001 and 2000, respectively, as increased sales due primarily to the full year contribution of PBI were offset by a decrease in third party sales by Celanese's captive insurance companies.

In special charges, Other Activities recorded an expense of €2 million in 2001 as compared to income of €28 million in 2000. The €2 million expense primarily consists of corporate employee severance costs, which were partially offset by a €4 million favorable adjustment related to a net reduction in reserves associated with settlements of environmental indemnification and other obligations associated with former Hoechst entities. Other Activities recognized a €28 million favorable adjustment to special charges in 2000, primarily associated with a restructuring reserve recorded in 1999. The reserve was adjusted due to the earlier than expected disposal of the lease obligations for former administrative facilities.

The operating loss of Other Activities increased to €38 million in 2001 from €21 million in 2000. The increase resulted primarily from the net effect of special charges as discussed above partially offset by increased income generated by the full year contribution of the PBI and Vectran® product lines.

EBITDA excluding special charges for Other Activities improved to a loss of €33 million in 2001 from a loss of €56 million in 2000.

Summary of Consolidated Results – 2001 Compared with 2000 ►►

Net Sales

Net sales decreased by 2% to €4,777 million in 2001 as compared to €4,885 million in 2000 primarily as a result of lower volumes and lower selling prices, partially offset by favorable currency movements. Slight increases in the Acetyl Products, Acetate Products and Performance Products segments were more than offset by decreases in the Technical Polymers Ticona and Chemical Intermediates segments. Ticona's sales fell sharply as the result of a significant decline in volumes.

Cost of Sales

Cost of sales decreased by 1% to €4,132 million in 2001 compared with €4,155 million in 2000. Cost of sales as a percentage of net sales increased to 86% in 2001 from 85% in 2000, reflecting higher raw material and energy costs and lower capacity utilization, primarily in Ticona.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 2% to €552 million in 2001 from €541 million in 2000 driven largely by currency effects and increased selling, general and administrative costs associated with the newly acquired PVOH business and increased selling efforts in food ingredients. Selling, general and administrative expenses as a percentage of sales remained flat at 11% in both 2001 and 2000. In 2001, Celanese had favorable adjustments of €12 million relating to a reduction in environmental reserves due to favorable trends in environmental remediation, lower eBusiness spending as compared to 2000 and positive effects

of cost reduction programs throughout the entire company. In 2000, Celanese received a €17 million insurance settlement related to environmental claims.

Research and Development Expenses

Research and development expenses remained flat at €87 million in both 2001 and 2000. Research and development expenses as a percentage of sales also remained flat at 2% for both 2001 and 2000.

Special Charges

In 2001, Celanese recorded special charges totaling €496 million, which consisted of €234 million of restructuring charges, which were reduced by €8 million of income for reimbursements from third party site partners and income from forfeited pension plan assets, €19 million of favorable adjustments to restructuring reserves recorded in 2000 and 2001 and €289 million of other special charges.

The €234 million of additions to the restructuring reserve included employee severance costs of €129 million and plant and office closure costs of €105 million. Employee severance costs consisted primarily of €42 million for the streamlining of chemical production and administrative positions in the United States, Germany and Singapore, €28 million for administrative and production positions at Ticona in the United States and Germany, €22 million for the restructuring of production and administrative positions in Mexico, €8 million for the closure of the acetic acid, pentaerythritol and vinyl acetate monomer units and the elimination of administrative positions in Edmonton, €7 million for the elimination of corporate administrative positions, €6 million resulting from the closure of a chemical research and development center in the United States, €5 million for the shut-down of acetate filament production at Lanaken, Belgium and €11 million for the shut-down of acetate filament production at Rock Hill, South Carolina.

The €105 million of additions to the restructuring reserve related to plant and office closures consisted mainly of €74 million for fixed asset impairments, the cancellation of supply contracts, other required decommissioning and environmental closure costs relating to the closure of the acetic acid, pentaerythritol and vinyl acetate monomer units in Edmonton. Also included in plant and office closure costs were €11 million for fixed asset impairments, contract cancellation and other costs associated with the closure of the chemical research and development center in the United States, €4 million of fixed asset impairments and other closure costs related to the closure of a chemical distribution terminal in the United States, €9 million for fixed asset impairments and shut-down costs at the acetate filament facility in Lanaken, €6 million for equipment shutdown and other decommissioning costs for the acetate filament production facility at Rock Hill and €1 million associated with the cancellation of a lease associated with the closure of an administrative facility in Germany.

The €19 million of favorable adjustments in 2001 of prior year restructuring reserves consisted of a €14 million adjustment to the 2000 reserves and a €5 million

adjustment to the 1999 reserves. The entire 2000 reserve adjustment was due to lower than expected demolition and decommissioning costs for the Acetyl Products segment's production facility in Knapsack, Germany. This adjustment resulted from a third party site partner assuming ownership of the existing facility and obligations. Of the 1999 adjustment, €3 million related to the reversal of a reserve for closure costs for a parcel of land in Celaya, Mexico that Celanese donated to the Mexican government, which assumed the remaining liabilities. The 1999 adjustment also included €2 million relating to less than anticipated severance costs for Ticona employees in Germany.

The other special charges of €289 million in 2001 consisted of Chemical Intermediates segment goodwill impairment of €243 million and fixed asset impairments of €57 million, Acetyl Products segment fixed asset impairments of €18 million and €6 million for the relocation of acetate filament production assets associated with restructuring initiatives.

Also included in other special charges was €31 million of income from the receipt of higher than expected insurance reimbursements linked to the plumbing cases (see Note 24 to the Consolidated Financial Statements) and €4 million of income related to a net reduction in reserves associated with settlements of environmental indemnification and other obligations associated with former Hoechst entities.

In 2000, Celanese recorded special charges totaling €21 million, which consisted of €95 million of additions to the restructuring reserve, €59 million of favorable adjustments to restructuring reserves recorded in 1999, €3 million of costs for the relocation of production assets associated with restructuring initiatives, and €18 million of income from the receipt of higher than expected insurance reimbursements linked to the plumbing cases. (See Note 24 to the Consolidated Financial Statements.)

The €95 million of restructuring charges in 2000 included employee severance costs of €44 million and plant and office closure costs of €51 million. Employee severance costs of €31 million related mainly to the reduction of approximately 170 positions at two U.S. chemical facilities and the closure of a European Acetyl Products plant. Additionally, severance costs of €11 million were associated with the planned reduction of approximately 115 positions in the Acetate Products business. The plant and office closure charges of €51 million consisted mainly of contractual obligations and asset impairments for the closure of an Acetyl Products plant in Europe (€47 million). Annual cost savings from all of the 2000 restructuring initiatives are estimated to be in excess of €35 million upon completion of these initiatives.

The 2000 restructuring initiatives identified approximately 300 positions to be eliminated, all of which had been eliminated as of December 31, 2001.

The €59 million of favorable adjustments in 2000 to the 1999 restructuring reserves consisted of employee termination benefits (€24 million) and plant and office closures (€35 million). Employee termination benefits were adjusted by

€11 million due largely to unplanned voluntary resignations and by €10 million due to a modification in Ticona's employee severance plan resulting from an unfavorable tax treatment which affected the severance benefits to be received by our employees in Germany. In addition, a delay in the scheduled closure of a U.S. acetate filament production facility led to a net adjustment of €3 million in restructuring reserves. This facility was closed in 2001. The adjustments associated with plant and office closures resulted mainly from the earlier than expected disposals of lease obligations of former administrative facilities in the U.S. and Canada (€28 million). As a result of the need for additional office space due to the acquisition of PVOH, Celanese cancelled previous plans to rationalize the U.S. chemical administrative building (€4 million). The closure costs of a Canadian acetate filament facility were lower than estimated (€3 million).

Non-restructuring special charges of €3 million in 2000 were related to the cost of transferring acetate filament equipment within North America resulting from restructuring initiatives.

Foreign Exchange Gain

Foreign exchange gain decreased to a gain of €2 million in 2001 from a gain of €5 million in 2000. This change is primarily attributable to the fluctuation of the U.S. dollar against the euro.

Operating Profit (Loss)

An operating loss of €488 million was incurred in 2001 compared to a profit of €87 million in 2000. The main reason for this change was the increase in special charges, which increased from €21 million in 2000 to €496 million in 2001. The effects of lower volumes, mainly at Ticona, and higher raw material and energy costs, throughout the segments, also contributed to the decrease.

EBITDA excluding special charges totaled €398 million in 2001 compared to €464 million in 2000.

Equity in Net Earnings of Affiliates

Equity in net earnings of affiliates decreased to €13 million in 2001 from €19 million in 2000. This decrease was mainly attributable to decreased earnings from Polyplastics Co. Ltd., which was affected by a weak Asian economy.

Interest Expense

Interest expense increased by 8% to €80 million in 2001 from €74 million in 2000, mainly as a result of interest associated with the time value of call options and lower capitalization of interest in 2001 as compared to 2000 resulting primarily from the completed construction of Celanese's plant in Singapore, partially offset by a lower average debt level in 2001 compared to 2000.

Interest and Other Income, Net

Interest and other income, net decreased to €65 million in 2001 from €110 million in 2000, mainly due to lower transaction gains on foreign currency financing, write-offs of certain investments, including eBusiness interests, and lower interest income, partially offset by higher dividend income from our investments in Saudi Arabia and China. In 2001, Celanese received gross proceeds of €10 million and recorded a gain of €6 million relating to the sale of its ownership interests in InfraServ GmbH & Co. Münchsmünster KG, Hoechst Service Gastronomie GmbH, and Covion Organic Semiconducters GmbH.

Income Taxes

In 2001, Celanese recognized an income tax benefit of €126 million as compared to a provision of €88 million in 2000. The effective tax rate was 26% in 2001 as compared to 62% in 2000. The effective tax rate in 2001 was favorably affected by the full recognition of previously reserved deferred tax assets of a subsidiary in Germany , the utilization of certain net operating loss carryforwards, offset by non-deductible goodwill amortization and impairment charges.

Net Earnings (Loss)

As a result of the factors mentioned above, the net earnings (loss) of Celanese decreased by €443 million to a net loss of €385 million in 2001 from net earnings of €58 million in 2000.

Liquidity and Capital Resources ►►

Cash Flows

Net Cash Provided by Operating Activities

Net cash provided by operating activities was €387 million, €522 million, and €48 million for the years ended December 31, 2002, 2001 and 2000, respectively.

The decrease in net cash provided by operating activities of €135 million in 2002 as compared to 2001 is primarily due to changes in cash generated by trade working capital. In 2002, trade working capital increased slightly due to an increase in trade receivables resulting from higher sales in the fourth quarter of 2002 as compared to the fourth quarter in 2001, which was partially offset by lower inventory and increased trade accounts payable. In 2001, cash generated by trade working capital improvements, related to the Project Focus initiatives, was €325 million. Partially offsetting this trade working capital effect was a reduction in the cash outflow for special charges of €34 million, a lower pension contribution to our U.S. Qualified Pension Plan of €101 million in 2002 compared to €161 million in 2001 and an increase in dividends from equity investments of €48 million.

The increase in net cash provided by operating activities of €474 million in 2001 as compared to 2000 was primarily attributable to a decrease in the net cash outflow for special charges of €261 million and an increase in the cash generated through a reduction in trade working capital of €174 million. The trade working capital improvement resulted from initiatives chartered under Project Focus, which substantially exceeded the target of reducing trade working capital by €100 million. Trade working capital was reduced from €902 million at the end of 2000 to €605 million at the end of 2001, the lowest level since the demerger. The special charges of €496 million recorded in 2001 included €309 million of noncash items and net cash items amounting to €187 million. Cash provided by operating activities was affected by weaker operating results and the funding of pension obligations in 2001.

Net Cash Used in Investing Activities

Net cash used in investing activities was €150 million, €121 million and €489 million for the years ended December 31, 2002, 2001 and 2000, respectively.

The increase in cash outflows of €29 million in 2002 compared to 2001 is mainly due to a €125 million cash outflow for the fourth quarter purchase of the net assets of the Emulsions business, which, including liabilities assumed, was valued at €147 million. Additionally, a net outflow of €18 million for the purchase of marketable securities in 2002 compared to a net inflow of €50 million on the sale of marketable securities in 2001 and an outflow of €25 million related to a long-term raw material supply contract increased the cash used compared to the prior year. Partially offsetting these effects were €201 million in proceeds from the disposal of discontinued operations in 2002 as compared to €38 million in 2001 and €41 million in distributions from investments in InfraServ companies. Capital expenditures in 2002 remained consistent with 2001 spending levels.

Capital expenditures on property, plant and equipment remained relatively flat at €218 million in 2002, compared to €217 million in 2001. The spending in 2002 included the start of construction on a new production facility for synthesisgas, a primary raw material at the Oberhausen site in Germany. The new plant is scheduled to come on stream in the second half of 2003. In addition, major projects included the completion of the new GUR® plant at the Bishop, Texas facility and the capacity expansion for Vectra® at Shelby, North Carolina. The Vectra expansion is needed to supply the projected long-term demand of the telecommunications industry and to develop and grow emerging markets.

Net cash used in investing activities amounted to €121 million in 2001 compared to €489 million in 2000. The decrease in cash outflows of €368 million was primarily a result of outflows relating to the PVOH (€359 million) and Axiva GmbH (€38 million) acquisitions in 2000 partially offset by lower proceeds from the disposal of discontinued operations in 2001. In 2001, capital expenditures of €217 million were partially offset by other proceeds of €58 million from the collection of a note related to the sale of a

business divested in 1999 and other proceeds from the disposition of assets. In addition, net proceeds from the purchases and sales of marketable securities resulted in a net cash inflow of €50 million in 2001.

Capital expenditures on property, plant and equipment decreased slightly to €217 million in 2001, as compared to €218 million in 2000. Celanese achieved the financial target under its Focus initiative to limit capital expenditures so as not to exceed the 2000 level. Celanese made focused capital investments which included the on-going construction of the new GUR® plant at the Bishop, Texas facility and a major capacity expansion for Vectra® at Shelby, North Carolina.

Net Cash Provided by (Used in) Financing Activities

Net cash provided by (used in) financing activities was €(156) million, €(376) million and €77 million for the years ended December 31, 2002, 2001 and 2000, respectively.

The net cash used in financing activities in 2002 is primarily due to debt repayments aggregating €150 million (see "Short-term and Long-term Borrowings"). In addition, Celanese repurchased 284,798 of its shares, to be held in treasury, for approximately €6 million.

Net cash used in financing activities amounted to €376 million in 2001 compared to a cash inflow of €77 million in 2000. The net cash used in financing activities in 2001 was primarily due to debt repayments aggregating €356 million (see "Short-term and Long-term Borrowings"). In addition, Celanese paid a cash dividend of €20 million, €0.40 per share, in 2001.

Liquidity

Cash generated from divestitures and operating activities in 2002 was primarily used to repay debt, to fund pension obligations and to fund capital expenditures and acquisitions. In addition, net current assets (defined as total current assets, less total current liabilities) excluding assets and liabilities of discontinued operations increased to a net current asset position of €37 million in 2002 from a net current liability position of €262 million in 2001.

As of December 31, 2002, Celanese had €615 million of total debt, of which €195 million is due in 2003. We expect that our primary source of liquidity for 2003 will be cash from operations. In the event of a significant decrease in customer demand for our products, coupled with prolonged unfavorable industry conditions, cash generated from operations could be materially reduced. If necessary, Celanese has unused credit facilities available to fund its cash flow needs (as discussed below under "Short-term and Long-term Borrowings"). In addition, Celanese has in place an asset securitization program which allows participating operating subsidiaries to sell up to U.S. $120 million of eligible U.S. trade receivables, through a consolidated special-purpose entity, as long as the performance of the receivable portfolio meets certain

ratios and Celanese maintains an investment grade debt rating. As of December 31, 2002, Celanese was in compliance with the required ratios under the program. There were no outstanding sales of receivables under this program as of December 31, 2002 and December 31, 2001. Average monthly proceeds from collections reinvested in the continuous sale program were approximately U.S. $47 million in 2002. Celanese has no other similar arrangements with special purpose entities.

Based on Celanese's current financial situation and current industry conditions, we believe the funding available from operations, committed credit facilities and the asset securitization program will be sufficient to satisfy our capital expenditures, investments and working capital requirements for the foreseeable future.

At December 31, 2002, Celanese had fixed contractual cash obligations as follows:

in € millions	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Fixed Contractual Cash Obligations					
Total Debt	615	195	209	9	202
of which Capital Lease Obligations	13	3	5	2	3
Operating Leases	316	48	79	56	133
Unconditional Purchase Obligations	1,092	175	213	128	576
Other Contractual Obligations	36	30	6	–	–
Fixed Contractual Cash Obligations	**2,059**	**448**	**507**	**193**	**911**

Unconditional Purchase Obligations include take or pay contracts and fixed price forward contracts. Celanese does not expect to incur any material losses under these contractual arrangements. In addition, these contracts may include variable price components.

Other Contractual Obligations includes committed capital spending and fines associated with the U.S. antitrust settlement described in Note 24 to the Consolidated Financial Statements.

At December 31, 2002, Celanese has contractual guarantees and commitments as follows:

		Expiration per period			
in € millions	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Contractual Guarantees and Commitments					
Financial Guarantees	97	37	13	14	33
Standby Letters of Credit	118	118	–	–	–
Contractual Guarantees and Commitments	**215**	**155**	**13**	**14**	**33**

Celanese is secondarily liable under a lease agreement pursuant to which Celanese has assigned a direct obligation to a third party. The lease assumed by the third party expires on April 30, 2012. The lease liability for the period from January 1, 2003 to April 30, 2012 is estimated to be approximately €66 million (U.S. $69 million). Additionally, Celanese has issued a payment guarantee to a bank to secure the repayment of a loan by Celanese's former affiliate Vintron GmbH. Celanese's obligation under the guarantee amounts to €31 million plus interest and additional costs. Celanese expects to be released from this guarantee during the first quarter of 2003. Standby letters of credit of €118 million at December 31, 2002 are irrevocable obligations of an issuing bank that ensure payment to third parties in the event that certain Celanese subsidiaries fail to perform in accordance with specified contractual obligations. Celanese believes the likelihood is remote that material payments will be required under these agreements.

At December 31, 2002, Celanese has available sources of liquidity, net of amounts used, as follows:

in € millions	Total	Expiration per period: Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Available Sources of Liquidity					
Unused Lines of Credit	1,241 [1]	483	562	5	191
Asset Securitization Program	120	–	120	–	–
Available Sources of Liquidity	**1,361**	**483**	**682**	**5**	**191**

[1] Total committed lines of credit are €1,580 million, of which €339 million were utilized at December 31, 2002 (€167 million for less than 1 year; €167 million for 1-3 years, and €5 million for 4-5 years).

In addition to the items noted in the tables above, Celanese expects to continue to incur costs for the following significant obligations. Although we cannot predict with certainty the annual spending for these matters, such matters will affect future cash flows of Celanese.

in € millions	2002 Actual Spending (Receipts)	2003 Projected Spending
Other Obligations		
Environmental Matters	102	104
Pension and Other Benefits	185	185
Special Charges, net	92 [1]	60
Plumbing Actions and Sorbates Litigation, net	(28)	– [2]
Other Obligations	**351**	**349**

[1] Excludes insurance receipts and payments relating to plumbing actions, which are included in "Plumbing Actions and Sorbates Litigation, net" below.

[2] Payments associated with the sorbates litigation of €5 million for 2003 are included in "Fixed Contractual Cash Obligations" above. The remaining 2003 spending cannot be reasonably estimated.

Environmental Matters

Celanese's worldwide environmental expenditures, including expenditures for legal compliance, internal environmental initiatives and remediation of active, orphan, divested and U.S. Superfund sites, totaled €102 million, of which €4 million was for capital projects, in 2002 and €106 million, of which €8 million was for capital projects, in 2001.

It is anticipated that stringent environmental regulations will continue to be imposed on the chemical industry in general. Although Celanese cannot predict with certainty future environmental expenditures, especially expenditures beyond 2003, management believes that spending will continue at the current year level.

Due to its industrial history, Celanese has the obligation to remediate specific areas on its own sites as well as on divested, orphan or U.S. Superfund sites. In addition, as part of the demerger agreement with Hoechst, a specified proportion of the responsibility for environmental liabilities from a number of pre-demerger divestitures was transferred to Celanese. Celanese has provided for such obligations when the event of loss is probable and reasonably estimable. Management believes that the environmental costs will not have a material adverse effect on the financial position of Celanese, but they may have a material adverse effect on the results of operations or cash flows in any given accounting period. (See Note 25 to the Consolidated Financial Statements.)

Pension and Other Benefits

Celanese's funding policy for pension plans is to accumulate plan assets that, over the long run, will approximate the present value of projected benefit obligations. In 2002 and 2001, Celanese made pension contributions to the U.S. Qualified Pension Plan of €101 million and €161 million, respectively. Also in 2002 and 2001, payments to Celanese's other non-qualified plans totaled €20 and €25 million, respectively. Celanese expects to make pension contributions and cash payments of approximately €125 million in 2003. Actual contributions in 2004 and future years may vary based on a number of factors including prevailing interest rates and return on plan assets.

Spending associated with other benefit plans, primarily retiree medical, defined contribution and long-term disability, amounted to €64 million and €73 million in 2002 and 2001, respectively. Celanese expects spending to continue at comparable levels in 2003. (See Note 19 to the Consolidated Financial Statements.)

Special Charges

The special charges of €1 million of income recorded in 2002 include €14 million of income for noncash items and net cash items amounting to €13 million. During 2002, Celanese made cash payments of approximately €5 million relating to current year special charges and €50 million in spending related to special charges recorded in prior years. Celanese expects cash outflows relating to special charges of approximately €60 million in 2003 related to 2002 and prior year initiatives. Celanese does not anticipate significant payments in periods beyond 2003.

Plumbing Actions and Sorbates Litigation

Celanese is involved in a number of legal proceedings and claims incidental to the normal conduct of its business. During 2002, Celanese had litigation-related net cash inflows of approximately €28 million primarily in connection with the plumbing actions and sorbates litigation. At December 31, 2002, Celanese had reserves of €111 million for these matters. In addition, Celanese previously recorded receivables from insurance companies and Hoechst in connection with the plumbing and sorbates matters. Celanese received recoveries of €51 million in 2002.

Although it is impossible at this time to determine with certainty the ultimate outcome of these matters, management believes, based on the advice of legal counsel, that adequate provisions have been made and that the ultimate outcome will not have a material adverse effect on the financial position of Celanese, but could have a material adverse effect on the results of operations or cash flows in any given accounting period. (See Note 24 to the Consolidated Financial Statements.)

Capital Expenditures

Celanese's capital expenditures were €218 million for the year ended December 31, 2002. Capital expenditures consisted primarily of capacity expansion, investments to reduce future operating costs and environmental, health and safety initiatives. Capital expenditure remained below depreciation levels as Celanese continued to make selective capital investments to enhance the market positions of its products.

Capital expenditures were financed principally with cash from operations. Celanese anticipates spending in 2003 to be approximately €230 million. At December 31, 2002, there were approximately €31 million of outstanding commitments related to capital projects, which are included within the fixed contractual cash obligations table above.

Short-term and Long-term Borrowings

Celanese's total debt primarily consists of bank loans, notes due affiliates, commercial paper, term notes, and pollution control and industrial revenue bonds. The loans are principally denominated in U.S. dollars and euro. Total debt decreased to €615 million at December 31, 2002 from €880 million at December 31, 2001. Celanese used the cash generated from divestitures and operations to repay bank loans and notes with affiliates. Celanese had a U.S. $700 million (€667 million) commercial paper program at December 31, 2002. As of December 31, 2002, there were no borrowings under the commercial paper program. Celanese maintains committed backup facilities, revolving credit lines and term loans with several banks aggregating €1,580 million at December 31, 2002; the aggregate unused part thereof amounted to €1,241 million, of which U.S. $310 million (€296 million) was available for use as credit backup for Celanese's commercial paper program. These credit backup facilities for the commercial paper program are 364 day facilities which are subject to renew annually.

Celanese had outstanding letters of credit amounting to €118 million at December 31, 2002 and €110 million at December 31, 2001.

Several non-consolidated affiliates pool their excess cash with Celanese, and the excess cash is loaned to Celanese under a revolving credit agreement. The outstanding payables for these agreements from Celanese to its affiliates of €96 million and €240 million at December 31, 2002 and 2001, respectively, are included within short-term borrowings and current installments of long-term debt. Celanese expects to continue these arrangements at a comparable level in 2003, depending on the level of liquidity of the non-consolidated affiliates.

A number of Celanese's bank loan agreements have ratio or credit rating covenants. At December 31, 2002, Celanese was in compliance with these covenants. Based on Celanese's financial situation, we believe that the risk is minimal that Celanese will not be in compliance with the terms and conditions of its loan agreements. Approximately one-third of total debt outstanding at December 31, 2002 is subject to repayment in the case of a specified downgrade in our credit rating. Should Celanese fail to meet the ratio or credit rating covenants of a particular loan, we believe that Celanese has adequate liquidity sources, as noted above, to meet its ongoing requirements.

Total Shareholders' Equity

At December 31, 2002, shareholders´ equity amounted to €2,005 million, compared to €2,210 million at December 31, 2001. The decrease was primarily attributable to the impact of foreign currency translation adjustments of €173 million and the recognition of an additional minimum liability adjustment for pensions of €220 million due to pension plan asset valuation losses and a reduction in the discount rate used to calculate pension plan obligations. These reductions were partially offset by current year net earnings.

At December 31, 2001, shareholders´ equity amounted to €2,210 million, compared to €2,843 million at December 31, 2000. The decrease was primarily attributable to the 2001 net loss and dividends, which were offset by the positive impact of foreign currency translations. In addition, equity was reduced by €255 million associated with the recognition of an additional minimum liability adjustment for pensions due to pension plan asset valuation losses and a reduction in the discount rate used to calculate pension plan obligations. (See Note 19 to the Consolidated Financial Statements.) The 2001 net loss and dividends contributed to a retained deficit of €313 million at December 31, 2001.

Related to the impairment charges described in "Summary of Consolidated Results – 2001 Compared with 2000 – Special Charges" and following a valuation review under German GAAP, the Celanese AG parent company substantially lowered the carrying value of certain of its consolidated subsidiaries on its statutory books as of December 31, 2001. These charges did not affect Celanese's consolidated results under U.S. GAAP. Under German law, dividends and share buy-backs can only be paid for out of distributable reserves or net income (on a parent company basis). The 2001 distributable reserves were depleted by these charges. Lack of such reserves precluded Celanese from proposing a dividend to its shareholders for the year 2001. For the year 2002, Celanese is recommending a dividend of €0.44 per share to be paid

in 2003, subject to shareholders' approval at Celanese's annual general meeting in April 2003. Celanese plans to repurchase shares in 2003, but will continue to evaluate its options consistent with its overall financial priorities.

Market Risks ►►

Celanese is exposed to market risk through commercial and financial operations. Celanese's market risk consists principally of exposure to currency exchange rates, interest rates and commodity prices. Celanese has in place policies of hedging against changes in currency exchange rates, interest rates and commodity prices as described below. These contracts are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, which Celanese adopted on January 1, 2001. (See Note 3 to the Consolidated Financial Statements.)

Foreign Exchange Risk Management

Celanese's reporting currency is the euro. Celanese has receivables and payables denominated in currencies other than the functional currencies of the various subsidiaries of Celanese, which create foreign exchange risk. With the introduction of the euro on January 1, 1999, the exposure to exchange rate fluctuations is eliminated in relation to the euro zone countries that have adopted the euro as their common currency, leaving the U.S. dollar, Mexican peso, Japanese yen, British pound sterling, and Canadian dollar as the most significant sources of currency risk. Accordingly, Celanese enters into foreign currency forwards and options to minimize its exposure to foreign currency fluctuations. The foreign currency contracts are designated for recognized assets and liabilities and forecasted transactions. The terms of these contracts are generally under one year. Celanese's centralized hedging strategy states that foreign currency denominated receivables or liabilities booked by the operating entities will be used to hedge the exposure on a consolidated basis. As a result, Celanese's foreign currency forward contracts relating to this centralized strategy did not meet the criteria of SFAS No. 133 to qualify for hedge accounting. During the years ended December 31, 2002 and December 31, 2001, Celanese hedged all of its dollar denominated intercompany loans held by euro denominated entities. Therefore, there was no material net effect from foreign exchange gains or losses in interest and other income, net. During the year ended December 31, 2000, these contracts hedged only a portion of Celanese dollar denominated intercompany loans held by euro denominated entities during 2000. As a result, a net gain of approximately €30 million from foreign exchange gains or losses was recorded to interest and other income, net in 2000.

A substantial portion of Celanese's assets, liabilities, revenues and expenses is denominated in currencies other than the euro zone currencies, principally the U.S. dollar. Fluctuations in the value of these currencies against the euro, particularly the value of the U.S. dollar, can have, and in the past have had, a direct and material impact on Celanese's business and financial results. For example, a decline in the value of the U.S. dollar versus the euro, results in a decline in the euro value of

Celanese's sales denominated in U.S. dollars and earnings due to translation effects. Likewise, an increase in the value of the U.S. dollar versus the euro would result in an opposite effect. Celanese estimates that the translation effects of changes in the value of other currencies against the euro decreased net sales by approximately 3% and increased net sales by approximately 2% in 2002 and 2001, respectively. Celanese estimates that the translation effects of changes in the value of other currencies against the euro decreased total assets by approximately 12% in 2002. Celanese's exposure to transactional effects is further reduced by a high degree of overlap between the currencies in which sales are denominated and the currencies in which the raw material and other costs of goods sold are denominated.

Celanese's policy with respect to limiting its exposure to transactional effects of variations in exchange rates is to use financial instruments that reduce such exposure. The principal instruments used are forward exchange contracts generally with terms of less than one year. (See Note 23 to the Consolidated Financial Statements.)

Interest Rate Risk Management

Celanese enters into interest rate swap agreements to reduce the exposure of interest rate risk inherent in Celanese's outstanding debt. Celanese's interest rate derivative policy is to lock in borrowing rates to achieve a desired level of fixed/floating rate debt based on market conditions. Celanese had open interest rate swaps with a notional amount of €286 million and €340 million at December 31, 2002 and 2001, respectively. Celanese believes its credit risk exposure related to counterparty default on instruments is not material. Celanese recognized net interest expense from hedging activities relating to interest rate swaps of €13 million in 2002 and €6 million in 2001. As of December 31, 2002, Celanese's interest rate swaps, designated as cash flow hedges, resulted in an increase in total assets and total liabilities and a decrease in shareholders' equity of €4 million, €17 million and €8 million, net of related income tax of €4 million, respectively. During the year ended December 31, 2002, Celanese recorded a net loss of €3 million in interest and other income, net for the ineffective portion of the interest rate swaps. As of December 31, 2001, Celanese's interest rate swaps resulted in an increase in total assets and total liabilities and a decrease in shareholders' equity of €2 million, €11 million and €4 million, net of related income tax of €2 million, respectively. During the year ended December 31, 2001, Celanese recorded a net loss of €5 million in interest and other income, net for the ineffective portion of the interest rate swaps. The amount of losses expected to be reclassified from accumulated other comprehensive income (loss) into earnings within the next twelve months is not currently determinable.

Commodity Risk Management

Celanese's policy allows the purchase of up to 80 percent of its natural gas and butane requirements generally up to 18 months forward using forward purchase or cash-settled swap contracts to manage its exposure to fluctuating feed stock and energy costs. Throughout 2002, Celanese had entered into natural gas forward and cash-settled swap contracts for slightly less than 50 percent of its natural gas requirements, generally for up to 6 months forward. The fixed price natural gas forward contracts are principally

settled through actual delivery of the physical commodity. The maturities of the cash-settled swap contracts correlate to the actual purchases of the commodity and have the effect of securing predetermined prices for the underlying commodity. While these contracts are structured to limit Celanese's exposure to increases in commodity prices, they can also limit the potential benefit Celanese might have otherwise received from decreases in commodity prices. These cash-settled swap contracts are accounted for as cash flow hedges. Realized gains and losses on these contracts are included in the cost of the commodity upon settlement of the contract. Celanese recognized losses of less than €1 million and €2 million from natural gas swap contracts in 2002 and 2001, respectively. There was no material impact on the balance sheet at December 31, 2002 and December 31, 2001. The effective portion of unrealized gains and losses associated with the cash-settled swap contracts of €1 million and less than €1 million at December 31, 2002 and December 31, 2001 are recorded as a component of accumulated other comprehensive income (loss) until the underlying hedged transactions are reported in earnings. The notional amount of the outstanding swaps at December 31, 2002 is not material.

As a substantial portion of Celanese's products and raw materials are commodities whose prices fluctuate as market supply/demand fundamentals change, in addition to the use of derivative instruments and forward purchase contracts for commodity price hedging, Celanese enters into long-term supply agreements. Celanese tries to protect against fluctuations in its raw material prices through various business strategies including selling price increases as well as entering into multi-year purchasing and sales agreements. In addition, in 2002, Celanese prepaid U.S. $25 million (€24 million) for a long-term cost-based supply agreement and anticipates additional payments approximating €70 million over the next three years.

Critical Accounting Policies and Estimates ►►

Our Consolidated Financial Statements are based on the selection and application of significant accounting policies. The preparation of these financial statements and application of these policies requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. However, Celanese is not currently aware of any reasonably likely events or circumstances that would result in materially different results.

Celanese's senior management has reviewed these critical accounting policies and estimates with the Finance and Audit Committee of the Supervisory Board.

Celanese believes the following accounting polices and estimates are critical to understanding the financial reporting risks present in the current economic environment. These matters, and the judgments and uncertainties affecting them, are also essential to understanding our reported and future operating results.

See Note 2 to the Consolidated Financial Statements for a more comprehensive discussion of Celanese's significant accounting policies.

Recoverability of Long-Lived Assets

Our business is capital intensive and has required, and will continue to require, significant investments in property, plant and equipment. At December 31, 2002, the carrying amount of our property, plant and equipment was €1,621 million. As discussed in Note 2 to the Consolidated Financial Statements, recoverability of property, plant and equipment to be held and used, is assessed in accordance with SFAS No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*" by a comparison of the carrying amount of an asset or group of assets to the future net undiscounted cash flows expected to be generated by the asset or group of assets. If such assets are considered impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Prior to January 1, 2002, Celanese assessed the recoverability of the carrying value of its intangible assets in the same manner as for property, plant and equipment. Upon adoption of SFAS No. 142 on January 1, 2002, Celanese assesses the recoverability of the carrying value of its goodwill and other intangible assets with indefinite useful lives at least annually or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be fully recoverable. Recoverability of goodwill is measured at the reporting unit level based on a two-step approach. First, the carrying amount of the reporting unit is compared to the fair value as estimated by the future net discounted cash flows expected to be generated by the reporting unit. To the extent that the carrying value of the reporting unit exceeds the fair value of the reporting unit, a second step is performed, wherein the reporting unit's assets and liabilities are fair valued. The implied fair value of goodwill is calculated as the fair value of the reporting unit in excess of the fair value of all non-goodwill assets and liabilities allocated to the reporting unit. To the extent that the reporting unit's carrying value of goodwill exceeds its implied fair value, impairment exists and must be recognized.

As of January 1, 2002, Celanese had goodwill with a net carrying value of €1,162 million that was subject to the transition provision of SFAS No. 142. During the first half of 2002, Celanese performed the required impairment tests of goodwill as of January 1, 2002 and determined that there was no impairment.

A prolonged general economic downturn and, specifically, a continued downturn in the chemical industry could intensify competitive pricing pressure, create an imbalance of industry supply and demand, or otherwise diminish volumes or profits. Such events, combined with changes in interest rates, could adversely affect our estimates of future net cash flows to be generated by our long-lived assets. Consequently, it is possible that our future operating results could be materially and adversely affected by additional impairment charges related to the recoverability of our long-lived assets.

Restructuring and Special Charges

Special charges include provisions for restructuring and other expenses and income incurred outside the normal course of operations. Restructuring provisions represent costs related to severance and other costs incurred in connection with a decision to exit non-strategic businesses. These measures are based on formal management decisions, establishment of agreements with the employees' representatives or individual agreements with the affected employees as well as the public announcement of the restructuring plan. The related reserves reflect certain estimates, including those pertaining to separation costs, settlements of contractual obligations and other closure costs. We reassess the reserve requirements to complete each individual plan under our restructuring program at the end of each reporting period. Actual experience has been and may continue to be different from these estimates. (See Note 26 to the Consolidated Financial Statements for further discussion of special charges.)

Environmental Liabilities

Celanese manufactures and sells a diverse line of chemical products throughout the world. Accordingly, Celanese's operations are subject to various hazards incidental to the production of industrial chemicals including the use, handling, processing, storage and transportation of hazardous materials. Celanese recognizes losses and accrues liabilities relating to environmental matters if available information indicates that it is probable that a liability has been incurred and the amount of loss is reasonably estimated. If the event of loss is neither probable nor reasonably estimable, but is reasonably possible, Celanese provides appropriate disclosure in the notes to its Consolidated Financial Statements if the contingency is material.

Total environmental liabilities were €199 million at December 31, 2002. Measurement of environmental reserves is based on the evaluation of currently available information with respect to each individual site and considers factors such as existing technology, presently enacted laws and regulations and prior experience in remediation of contaminated sites. An environmental reserve related to cleanup of a contaminated site might include, for example, provision for one or more of the following types of costs: site investigation and testing costs, cleanup costs, costs related to soil and water contamination resulting from tank ruptures, postremediation monitoring costs. These reserves also do not take into account any claims or recoveries from insurance. Environmental liabilities in which the remediation period is fixed and associated costs are readily determinable are recorded at their net present value. Changes to environmental regulations or other factors affecting environmental liabilities are reflected in the Consolidated Financial Statements in the period in which they occur. (See Note 25 of the Notes to the Consolidated Financial Statements for further discussion of environmental liabilities.)

Realization of Deferred Tax Assets

Total net deferred tax assets were €616 million at December 31, 2002. Celanese regularly reviews its deferred tax assets for recoverability and establishes a valuation

allowance based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Such evaluations require significant management judgments. Celanese has established valuation allowances primarily for U.S. state and capital loss carryforwards, German trade income tax loss carryforwards and Mexican net operating loss carryforwards, which may not be realizable. Based on Celanese's projected pretax earnings, management believes it is more likely than not that Celanese will realize the benefit of the remaining net deferred tax assets existing at December 31, 2002. (See Note 13 to the Consolidated Financial Statements for further discussion of deferred tax assets.)

Benefit Obligations

Celanese sponsors pension and other postretirement benefit plans covering substantially all employees who meet eligibility requirements. With respect to its U.S. qualified defined benefit pension plan, minimum funding requirements are determined by the Employee Retirement Income Security Act. For the periods presented, Celanese has not been required to contribute under these minimum funding requirements. However, Celanese chose to contribute €101 million, €161 million, and €81 million for the years ended 2002, 2001 and 2000, respectively. Benefits are generally based on years of service and/or compensation. Certain assumptions are used in the calculation of the actuarial valuation of Celanese-sponsored plans. These assumptions include the weighted average discount rate, rates of increase in compensation levels, expected long-term rates of return on plan assets and increases or trends in health care costs. In addition to the above-mentioned assumptions, Celanese's actuarial consultants also use subjective factors such as withdrawal and mortality rates to estimate the projected benefit obligation. The actuarial assumptions used by Celanese may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may result in a significant impact to the amount of pension expense recorded by Celanese in future periods.

The amounts recognized in the Consolidated Financial Statements related to pension and postretirement benefits are determined on an actuarial basis. A significant assumption used in determining our pension expense is the expected long-term rate of return on plan assets. In 2002, we assumed an expected long-term rate of return on plan assets of 9.0% for Celanese's U.S. Qualified Plan, which represents greater than 90 percent and 80 percent of Celanese's pension plan assets and liabilities, respectively. On average, the actual return on plan assets over the long-term has exceeded 9.0%; however, in the past two years, the plan's assets have experienced overall market related losses.

For 2002, we lowered our expected long-term rate of return assumption for our U.S. plans from 9.25% to 9.0%, reflecting the generally expected moderation of long-term rates of return in the financial markets. We estimate a 25 basis point decline in the expected long-term rate of return for our U.S. Qualified Plan to increase pension

expense by an estimated €4 million. Another estimate that affects our pension and postretirement benefit expense is the discount rate used in the annual actuarial valuations of pension and postretirement benefit plan obligations. At the end of each year, we determine the appropriate discount rate, which represents the interest rate that should be used to determine the present value of future cash flows currently expected to be required to settle the pension and postretirement benefit obligations. The discount rate is generally based on the yield on high-quality corporate fixed-income securities. At December 31, 2002, we lowered our discount rate to 6.75% from 7.25% at December 31, 2001 for our U.S. plans. We estimate that a 25 basis point decline in the discount rate for our U.S. pension and postretirement medical plans will increase pension and postretirement benefit expense by an estimated €1 million and less than €1 million, respectively, and our liabilities by €56 million and €7 million, respectively.

Celanese sponsors other postretirement benefit plans. These plans provide medical and life insurance benefits to retirees who meet minimum age and service requirements. The accrued postretirement benefit cost at December 31, 2002 and 2001, includes €41 and €33 million in accrued expenses and €310 and €373 million, respectively, in other noncurrent liabilities. The key determinants of the accumulated postretirement benefit obligations ("APBO") are the discount rate and the healthcare cost trend rate. The healthcare cost trend rate has a significant effect on the reported amounts of APBO and related expense. For example, increasing the healthcare cost trend rate by one percentage point in each year would increase the APBO at December 31, 2002, and the 2002 postretirement benefit cost by approximately €23 and €2 million, respectively, and decreasing the healthcare cost trend rate by one percentage point in each year would decrease the APBO at December 31, 2002 and the 2002 postretirement benefit cost by approximately €11 million and €1 million, respectively. (For further information, see Note 19 to the Consolidated Financial Statements.)

Accounting for Commitments & Contingencies

Celanese is subject to a number of lawsuits, claims, and investigations, incidental to the normal conduct of its business, relating to and including product liability, patent and intellectual property, commercial, contract, antitrust, and employment matters, which are handled and defended in the ordinary course of business. (See Note 24 to the Consolidated Financial Statements.) Celanese routinely assesses the likelihood of any adverse judgments or outcomes to these matters as well as ranges of probable and reasonably estimable losses. Reasonable estimates involve judgments made by management after considering a broad range of information including: notifications, demands, settlements which have been received from a regulatory authority or private party, estimates performed by independent companies and outside counsel, available facts, identification of other potentially responsible parties and their ability to contribute, and prior experience. A determination of the amount of loss contingency required, if any, is assessed in accordance with SFAS No. 5 "*Contingencies and Commitments*" and recorded if probable and estimable after careful analysis of each individual matter. The required reserves may change in the future due to new developments in each matter and as additional information becomes available.

CNA Holdings, Inc. ("CNA Holdings"), which is a U.S. subsidiary of Celanese, includes the U.S. business now conducted by Ticona, along with Shell Chemical Company ("Shell") and E. I. du Pont de Nemours ("DuPont"), among others, have been the defendants in a series of lawsuits, alleging that plastics manufactured by these companies that were utilized in the production of plumbing systems for residential property were defective or caused such plumbing systems to fail. CNA Holdings has accrued its best estimate of its share of the plumbing actions. At December 31, 2002, Celanese had accruals of €81 million for this matter, of which €22 million is included in current liabilities. Management believes that the plumbing actions are adequately provided for in the Consolidated Financial Statements. However, if Celanese were to incur an additional charge for this matter, such a charge would not be expected to have a material adverse effect on the financial position, but may have a material adverse effect on the results of operations or cash flows of Celanese in any given accounting period. Celanese has recorded receivables relating to the anticipated recoveries from third party insurance carriers relating to this product liability matter. These receivables are based on the probability of collection, an opinion of external counsel, the settlement agreements reached with a majority of Celanese's insurance carriers whose coverage level exceeds the receivables and the status of current discussions with other insurance carriers. As of December 31, 2002, Celanese had recorded €70 million in outstanding insurance claim receivables. Collectibility could vary depending on the financial status of the insurance carriers. (For further information, see Note 24 to the Consolidated Financial Statements.)

Captive Insurance Companies

Celanese consolidates two wholly owned insurance companies (the "Captives"). The Captives are a key component of Celanese's global risk management program as well as a form of self-insurance for property, liability and workers compensation risks. The Captives issue insurance policies to Celanese to provide consistent coverage amid fluctuating costs in the insurance market and to lower long-term insurance costs by avoiding or reducing commercial carrier overhead and regulatory fees. The Captives issue insurance policies and coordinate claims handling services with third party service providers. They retain risk at levels approved by the Board of Management and obtain reinsurance coverage from third parties to limit the net risk retained. One of the Captives also insures certain third party risks.

The liabilities recorded by the Captives relate to the estimated risk of loss recorded by the Captives, which is based on management estimates and actuarial valuations, and unearned premiums, which represent the portion of the premiums written applicable to the terms of the policies in force. The establishment of the provision for outstanding losses is based upon known facts and interpretation of circumstances influenced by a variety of factors. In establishing a provision, management considers facts currently known and the current state of laws and litigation where applicable. Liabilities are recognized for known claims when sufficient information has been developed to indicate involvement of a specific policy and management can reasonably estimate their liability. In addition, liabilities have been established to cover additional exposure on both known and unasserted claims. Estimates of the liabilities are reviewed and updated regularly.

The Captives use reinsurance arrangements to reduce their risk of loss. Reinsurance arrangements however do not relieve the Captives from their obligations to policy holders. Failure of the reinsurers to honor their obligations could result in losses to the Captives. The Captives evaluate the financial condition of their reinsurers and monitor concentrations of credit risk to minimize their exposure to significant losses from reinsurer insolvencies and establish allowances for amounts deemed non-collectable.

Premiums written are recognized as based on the terms of the policies. Capitalization of the Captives is determined by regulatory guidelines.

Revenue Recognition

Celanese recognizes revenue when title and risk of loss have been transferred to the customer and collection of the resulting receivable is reasonably assured, generally at the time of shipment of products. Celanese recognizes revenue in accordance with SEC Staff Accounting Bulletin ("SAB") No. 101, *Revenue Recognition in Financial Statements (SAB 101)*, as amended by SAB 101A and 101B. SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed and determinable; and (4) collectibility is reasonably assured. Should changes in conditions cause management to determine revenue recognition criteria are not met for certain future transactions, revenue recognition would be delayed until such time that the transactions become realizable and fully earned. Revenues are recognized net of discounts, cash sales incentives, customer bonuses and rebates granted. Cash sales incentives are recorded as a reduction of revenue when the related revenue is recorded. Payments received in advance of revenue recognition are recorded as deferred revenue.

New Accounting Standards ►►

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No.143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. The statement applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and normal operation of long-lived assets. The statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred. The asset retirement obligations will be capitalized as part of the carrying amount of the long-lived asset. The statement is effective on January 1, 2003, with earlier adoption permitted. The estimated after-tax transition charge of €5 million will be recorded as a cumulative effect of an accounting change in 2003. The on-going expense on an annual basis resulting from the initial adoption of the statement is estimated to be approximately €2 million.

Outlook ►►

At the start of 2003 visibility remains low and economic growth has been slow and uneven. We expect higher raw material and energy costs and a strong euro exchange rate versus the dollar to continue during the first six months of 2003.

In this environment, we continue our emphasis on productivity, cost reduction and financial soundness. We expect further progress in the implementation of our operational excellence programs and increased cost savings from the completion of our Focus and Forward initiatives.

In the Acetyl Products segment, the supply / demand balance is expected to normalize following temporary industry production outages and maintenance turnarounds in the second half of last year. We are confident that the newly acquired emulsions businesses will contribute to profitability in this segment. We remain cautious with respect to demand in the Technical Polymers Ticona segment, as end-use markets are affected by the uncertain outlook for consumer spending.

Based on current hydrocarbon conditions, our current assumptions of a continued slow economic recovery and ongoing cost reduction and productivity improvements, we expect EBITDA excluding special charges for the first half of 2003 to be as or slightly better than first half of 2002.

Risks of Future Development ►►

Celanese's business activity is subject to general economic and political risks in the countries and regions in which it does business. In addition, changes in the economic conditions in many of its markets (e.g. automotive, electrical/electronic, construction and textile industries), as well as cyclicality in the basic chemicals industry could have an effect on the company's economic performance. In particular, the markets for basic chemicals are characterized by significant economic swings, during which periods of low prices and overcapacity could lead to reduced profit margins and lower operating profits.

Celanese is subject to risks associated with the increased volatility in raw materials prices and the availability of key raw materials such as natural gas, propylene, ethylene and wood pulp, as well as the company's ability to pass on increased raw materials costs to its customers by increasing the prices of its products, or to offset such increased raw materials costs by reducing costs. In this context, the company will intensify the practice it started in 2000 to lock in some prices for some important raw materials by entering into hedging arrangements, which are customary in the industry. This practice could also lead to negative effects, should unforeseen developments occur with respect to raw material prices.

The safe operation of Celanese's plants is subject to risks associated with the production of chemicals, including the storage and transport of raw materials, products and wastes, and in particular environmental risks. The company carries appropriate property, business interruption and casualty insurance in accordance with customary industry practice. The environmental, health and safety regulations pertaining to Celanese's business are subject to continuous legislative review, which could result in stricter regulations and trigger increased costs for the Company.

Moreover, in connection with the demerger, certain environmental liabilities, including those resulting from the former business activities of the Hoechst Group at various sites, were allocated among Celanese AG and Hoechst AG, regardless of the responsibility for the cause of such environmental liabilities. In some instances this could lead to Celanese having to compensate third parties, as well as to indemnification payments between Celanese and Hoechst, the amounts of which cannot at present be determined. Celanese has already created reserves for this contingency where needed.

Depending on their categorization as to their dangerousness resulting from risk assessment by the relevant authorities, the products of the chemicals industry are subject to restrictions regarding production, handling and use. The applicable regulations and the resulting restrictions are under constant review by the relevant authorities. Therefore, a change in the risk assessment of Celanese's products can affect demand for these products. Currently, the European Union evaluates potential health risks associated with a number of chemical products including vinyl acetate monomer. In case such evaluation should result in a reclassification this could adversely affect the respective business.

Additionally, fluctuations in market rates of return and interest rates affect the value of Celanese's pension assets and liabilities. An extended period of decline in rates of return and interest rates could cause a material financial impact on Celanese's financial position or cash flows in any given year. (See "Critical Accounting Policies and Estimates" and Note 3 to the Consolidated Financial Statements.)

Forward-Looking Information ▸▸

This section covers the current performance and outlook of the company and each of its operating segments. The forward-looking statements contained in this section and in other parts of this document involve the risks and uncertainties that may affect the company's operations, markets, products, services, prices and other factors as more fully discussed elsewhere and in filings with the U.S. Securities and Exchange Commission. These risks and uncertainties include, but are not limited to, economic, competitive, legal, governmental and technological factors. Accordingly, there is no assurance that the company's expectations will be realized.

Report of the Board of Management

The Board of Management of Celanese AG is responsible for the preparation, the completeness, and the integrity of the consolidated financial statements as well as for the information contained in the management report of Celanese AG and subsidiaries ("Celanese").

Celanese has prepared the consolidated financial statements in accordance with United States generally accepted accounting principles and has applied the exemption of article 292a HGB.

The companies included in the consolidated financial statements are required to maintain orderly accounting records and to establish effective control systems. These control systems, which our corporate auditing function reviews for reliability and effectiveness, are intended to enable the Board of Management to recognize the potential impact of negative factors on Celanese's assets and developments in a timely fashion. This ensures that the underlying accounting records correctly reflect all business developments, thereby creating a reliable basis for the consolidated financial statements.

The Board of Management runs the company in the interests of its stockholders and in awareness of its responsibility towards employees and society. Our declared aim is to employ the resources entrusted to us so as to increase the value of Celanese.

Pursuant to a resolution passed at the last General Meeting, the Supervisory Board has engaged KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft as independent auditors to audit the consolidated financial statements. A separate long-form audit report in accordance with German requirements is being prepared by the independent auditors. The Finance and Audit Committee of the Supervisory Board will examine the consolidated financial statements including the management report as well as the audit report during its meeting on the annual financial statements, which will be attended by the members of the Board of Management and the independent auditors. Thereafter, the Supervisory Board will review the information relating to the consolidated financial statements. The results of this review can be inferred from the report of the Supervisory Board.

Kronberg im Taunus, February 5, 2003
The Board of Management

Claudio Sonder

Andreas Pohlmann　　Perry W. Premdas　　David N. Weidman