

LyondellBasell
Second Quarter 2025 Earnings Call Teleconference
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Presenters

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Q&A Participants

Aleksey Yefremov - KeyBanc Capital Markets

Dave Begleiter - Deutsche Bank

Frank Mitsch - Fermium Research

Hassan Ahmed - Alembic Global Advisors

Jeff Zekauskas - JPMorgan Chase & Co

John Roberts - Mizuho Securities USA

Josh Spector - UBS Investment Bank

Kevin McCarthy - Vertical Research Partners

Matthew DeYoe - Bank of America

Michael Sison - Wells Fargo Securities

Patrick Cunningham - Citigroup Inc.

Vincent Andrews - Morgan Stanley

Operator

Hello, and welcome to the LyondellBasell Teleconference. At the request of LyondellBasell, this conference is being recorded for instant replay purposes. Following today's presentation, we will conduct a question-and-answer session. I would now like to turn the conference over to Mr. David Kinney, Head of Investor Relations. Please go ahead, sir.

David Kinney

Thank you operator, and welcome, everyone, to today's call. Before we begin the discussion, I would like to point out that a slide presentation accompanies the call and is available on our website at investors.lyondellbasell.com. Today, we will be discussing our second quarter results while making reference to some forward-looking statements and non-GAAP financial measures.

We believe the forward-looking statements are based upon reasonable assumptions, and the alternative measures are useful to investors. Nonetheless, the forward-looking statements are subject to significant risk and uncertainty. We encourage you to learn more about the factors that could lead our actual results to differ by reviewing the cautionary statements in the

presentation slides and our regulatory filings, which are also available on our Investor Relations website.

Comments made on this call will be in regard to our underlying business results using non-GAAP financial measures, such as EBITDA and earnings per share, excluding identified items. Additional documents on our investor website provide reconciliations of non-GAAP financial measures to GAAP financial measures, together with other disclosures, including the earnings release and our business results discussion.

A recording of this call will be available by telephone beginning at 1:00 p.m. Eastern Time today until September 1 by calling (877) 660-6853 in the United States, and (201) 612-7415 outside the United States. The access code for both numbers is 13746-206.

Joining today's call will be Peter Vanacker, LyondellBasell's Chief Executive Officer; our CFO, Agustin Izquierdo; Kim Foley, our Executive Vice President of Global Olefins and Polyolefins; Aaron Ledet, our EVP of Intermediates & Derivatives; and Torkel Rhenman, our EVP of Advanced Polymer Solutions.

With that being said, I would now like to turn the call over to Peter.

Peter Vanacker

Thank you, Dave, and welcome to all of you. We appreciate you joining us, today, as we discuss our second quarter results. Let's begin with Slide 3, where we highlight our continued leadership in safety performance at LYB.

Our operational success starts with our core focus on safety. This is demonstrated by our June year-to-date top decile total recordable incident rate of 0.12, and we're proud of our improving safety record. Having maintained this track record during one of our largest turnarounds at our Channelview complex, despite significantly higher staffing levels, underscores our commitment to safety and the fantastic performance of our team. Our robust safety performance enables our employees and contractors to return home safely, day after day, keep our operations reliable and underpins financial value.

On Slide 4, we highlight the strategic criteria to grow and upgrade the core, which we outlined at our Capital Markets Day in March 2023. You may recall that growing and upgrading our core businesses is one of the three pillars of our strategy. To earn a place in our growth portfolio, assets should have leading market positions, exposure to growing end markets and offer an attractive rate of return.

We're focusing our portfolio around assets with low-cost feedstocks in the United States and the Middle East, while increasing our access to circular and renewable feedstocks in Europe and other regions to support our strategy to grow a profitable Circular and Low Carbon Solutions business.

Over the past three years, we have established a track record of shaping our portfolio through acquisitions, divestitures and shutdowns, in line with these consistent strategic priorities. We have been steadily transforming our company, and we are confident we are taking the appropriate steps to build a stronger and more resilient LYB.

On Slide 5, we give an overview of how we are repositioning our portfolio to enhance our cost advantage across key global regions, through focused investments that increase our efficiency, while preserving our long-term competitiveness and optionality.

As shown in the chart on the top right, North America and the Middle East enjoy structural advantages with access to low-cost NGL feedstocks and energy costs that can serve global markets supporting attractive returns, throughout the cycle.

And the bottom right chart illustrates that operating rates are expected to remain high and stable in these advantaged regions. This is where LYB is growing its capacity in a disciplined way. We expect our capacity share in these regions will continue to increase and exceed 70%, as we begin the next decade.

In Europe, high feedstock and energy costs, coupled with insufficient regulatory support has challenged the region's global competitiveness. Closures amounting to more than 20% of European ethylene capacity have been announced since the beginning of the decade. Capacity rationalization will help improve regional supply and demand balances, but will not change the fundamentals.

LYB's strategy in Europe is to increasingly focus our production on recycled and renewable feedstocks to produce profitable and sustainable solutions to serve the local markets. Recycled and renewable feedstocks sourced in Europe are expected to be cost-advantaged, relative to other regions in the world. We also expect markets for circular plastics to be dominated by local drivers rather than global ones.

We are rightsizing our European asset base in alignment with our strategy and focusing our resources on innovation and growth in sustainable solutions that create value. An example of this is our commercial-scale *MoReTec-1* chemical recycling plant, currently under construction in Germany, which uses LYB's proprietary advanced recycling technology to meet the current and growing demand for circular plastics.

The rapid growth of petrochemical capacity in China has created much concern regarding the impact of overproduction on global markets. With a high cost of production, Chinese polyethylene has not been globally competitive, and growing capacity in China has been accompanied by falling local operating rates. We're closely following the latest actions from the NDRC in China that, potentially, could lead to closures of the least competitive assets.

Despite the significant growth in capacity, China has shown, over the past several years, that China remains a net importer of polyethylene from cost-advantaged regions. Our strategy in China is to ensure our access to this important global market by maintaining a strong technical and commercial presence with a relatively light asset footprint that includes APS and circular solutions to effectively support our local customers.

These regional trends reinforce our strategy to maintain and grow our presence in cost-advantaged regions, optimize our European footprint and ensure strong market access in Asia.

Turning to Slide 6, let's review the cumulative cash impact of our actions to conserve and strengthen cash flows into 2026.

During last quarter's call, we introduced our cash improvement plan, which is focused on delivering near-term enhancements to cash flow. For 2025, we are targeting approximately \$200 million of reductions in working capital, driven by the traditional levers of inventory and payables management.

But we also have unique opportunities to improve cash flow, such as the monetization of excess precious metals inventories, made possible by the innovation of a new catalyst for our vinyl acetate production. In parallel, our fixed cost reduction initiatives remain on track to deliver an additional \$200 million, through organizational streamlining.

We've also decided to delay activities on selected growth investments until market conditions improve. For 2025, this will result in an additional \$100 million reduction in capex and bring our 2025 capex guidance down to \$1.7 billion. This reflects a \$200 million reduction from our initial guidance for 2025.

We will continue to invest in sustaining capital to ensure our assets run safely and reliably, when the cycle inevitably rebounds. These actions mean that our cash improvement plan is on track to achieve a run rate of \$600 million in incremental cash flow for 2025, compared to the \$500 million we announced, last quarter.

And we're taking further steps to maximize our cash flows into 2026. We're identifying measures to free up an additional \$200 million through working capital and fixed cost reductions, by the end of 2026. In addition, we expect that the timely and successful closing of the sale of our European assets will further free up cash. We're also reducing our 2026 capex by \$300 million from 2025 levels, down to \$1.4 billion, largely by deferring construction of our Flex-2 project.

Economics for the Flex-2 project continue to be highly attractive, and our strategic rationale remains intact. We will reassess timing, once market conditions inevitably improve, preserving this real option for profitable growth.

In total, these incremental actions, combined with the original cash improvement plan, are expected to increase cash flow by at least \$1.1 billion, during 2025 and 2026, to further protect our resilient balance sheet, navigate the cycle and preserve maximum financial flexibility. Our liquidity position remains strong, and our debt maturity profile is very favorable.

Please turn to Slide 7, as we review the financials for the quarter. Earnings were \$0.62 per share with EBITDA of \$715 million. EBITDA improved sequentially, with less downtime and lower feedstock costs. As expected, cash generation resumed this quarter.

Cash returns to shareholders remained robust at more than \$500 million as we increased our ordinary dividend and continued our opportunistic share repurchases.

I will now hand over the call to Agustin to elaborate on our capital allocation strategy and financial progress.

Agustin Izquierdo

Thank you, Peter, and good morning, everyone. On Slide 8, we start with a longer-term view of our capex. We continually assess our capital allocation strategy as we navigate the ups and downs of the petrochemical cycle. This is not an activity we started this year. These assessments are part of our continual efforts to optimize our business.

As you can see from the chart, we have reduced our cumulative capex budget by approximately \$2.4 billion, relative to the plans we described at Capital Markets Day in March of 2023, supporting cash shareholder returns. Our first priority for capital investment is to always maintain safe and reliable operations across our existing asset base. This commitment ensures we maintain flexibility and readiness to capture the commercial opportunities when market conditions improve.

Following the planned sale of our European assets in 2026, we expect to invest approximately \$1.1 billion per year on sustaining capital for our asset base. In addition, investment in our *MoReTec-1* chemical recycling asset in Cologne, Germany, continues as planned. Construction is going well, and we look forward to operating this innovative technology at scale and contributing to our profitability.

Outside of these two key priorities, we are making significant adjustments to our capex profile. Following Board approval in November last year, we remain confident that Flex-2 is an attractive project that helps address our monomer balances while generating strong returns. However, having finalized front-end engineering and design, but not yet started construction, we have made the decision to defer this project, until market conditions improve.

We have also decided to defer a final investment decision on *MoReTec-2*. This project would be a second commercial-scale chemical recycling plant using our proprietary *MoReTec* technology, to be built on the site where we previously operated the Houston refinery. We continue to

believe that the combination of our proprietary *MoReTec* technology and our existing infrastructure will provide LYB with a material competitive advantage, as we establish ourselves as a profitable leader in the circular economy.

But given uncertainty in the timing of the market recovery, we will postpone this investment decision, until market conditions improve. This delay allows our teams the necessary time to ensure that offtake commitments from brand owners are in place, prior to a final investment decision. Updates to our capital plan and other modeling information are described in the appendix to this slide deck.

Now let's continue with Slide 9 and examine a broader overview of our capital allocation in the second quarter. We are navigating this prolonged cyclical downturn, while continuing to advance our strategic initiatives to build a stronger and more resilient LYB.

As Peter mentioned, we made significant progress on our portfolio management in Europe. The value enhancement program remains on track, and our cash improvement plan is on target to add \$600 million of cash flow to fund our progress.

During the quarter, positive cash from operations helped fund capital investments, dividends and share buybacks, as we continued to repurchase our shares at attractive prices. We are taking clear actions to ensure that we can continue to navigate the cycle, successfully, with a commitment to our investment-grade credit rating as the foundation of our disciplined capital allocation framework.

Please turn to Slide 10, as we outline our cash generation. Our team converted EBITDA into cash at a rate of 75%, over the past 12 months, close to our long-term target of 80%, while our average since 2020 remains well above our through-cycle target.

In the second quarter, we maintained strong shareholder returns with dividends and share repurchases totaling \$2.1 billion, over the last 12 months. At the end of the second quarter, our cash balance was \$1.7 billion. This is higher than our target cash balance of \$1.5 billion, and we have sufficient financial flexibility to navigate lower levels, if necessary.

Now let's turn to Slide 11, and I'll provide a brief overview of our segment results. Our business portfolio generated \$715 million of EBITDA during the second quarter. Lower feedstock costs provided a modest tailwind for our Global Olefins and Polyolefins and Intermediates and Derivatives segments. Profitability in Olefins and Polyolefins Americas improved with less downtime, following the successful completion of several turnarounds at our Channelview complex in the second quarter.

With that, I will turn the call over to Kim.

Kim Foley

Thank you, Agustin. Let's begin the segment discussions on Slide 12 with the performance of Olefins and Polyolefins Americas segment.

Second quarter O&P Americas EBITDA was \$318 million, a more than 25% improvement relative to the first quarter, largely due to the higher integrated polyethylene margins, following less downtime. Planned maintenance continued in the second quarter as we completed safe and successful turnarounds at our Channelview complex, on time and on budget in April.

Our second quarter operating rate was in line with guidance at 85%, with our crackers running at approximately 90%.

During the second quarter, the North American polyolefins industry experienced volatility as markets adapted to an evolving tariff landscape. Tariff announcements pressured export volumes and drove a decrease in April polyethylene contract prices.

In May, higher domestic demand, declining inventories and improving export volumes generated positive momentum resulting in a successful price increase during June. Second quarter domestic sales for the U.S. and Canada polyethylene industry rebounded to the highest volumes since the second quarter of 2022, effectively bridging this prolonged downturn. And despite rising production, producers' inventories for the North American PE industry declined by three days of sales, during the second quarter.

In the near term, we expect continued steady demand and a June price increase to provide tailwinds for integrated polyethylene margins, during the third quarter. Our operating rates are expected to remain strong with higher cracker operating rates following our Channelview turnaround, and we are targeting 85% utilization across the segment, during the third quarter.

Please turn to Slide 13 as we review the results of our Olefins and Polyolefins Europe, Asia and International segment. During the second quarter, the segment generated EBITDA of \$46 million. Segment EBITDA improved as lower naphtha and LPG feedstock costs drove margin improvements and rising seasonal demand provided pricing support. We continue to make progress on our strategic objectives, and we're pleased to announce the proposed sale of our four European O&P assets in June.

This significant milestone is another example of our progress over the past three years to optimize our portfolio, as we grow and upgrade the core.

In the early weeks of the third quarter, our order books reflect steady summer demand for Olefins and Polyolefins. Nevertheless, we remain watchful for the potential effects of volatile trade policies. We are targeting operating rates at approximately 75%, during the third quarter.

With that, I will turn it over to Aaron.

Aaron Ledet

Thank you, Kim. Please turn to Slide 14, as we look at the Intermediates and Derivatives segment. In the second quarter, segment EBITDA was \$290 million, an increase of \$79 million, primarily driven by improved margins for styrene and propylene oxide. Styrene margins benefited from lower benzene feedstock costs, as well as short-term supply disruptions across the industry.

In contrast, oxyfuel margins remain near winter lows as low crude prices, weak gasoline crack spreads and trade volatility limited typical summertime seasonal improvements. As we move through the third quarter, planned industry outages in oxyfuels could provide some margin improvement, although margins are likely to remain low, compared to normal summertime levels.

Styrene margins are likely to decline, as industry operating rates return to typical levels, following unplanned downtime.

In September, we will begin a planned turnaround of our La Porte acetyls assets. The turnaround includes initiatives to begin converting our vinyl acetate monomer, or VAM, production to an innovative LYB catalyst that improves margins and reduces our utilization of costly precious metals.

Sales of precious metal inventories have contributed at least \$50 million towards our cash improvement plan, during 2025. As we continue to match our production with market demand and start our planned maintenance, we expect to operate our I&D assets at a weighted average rate of approximately 80% during the third quarter.

With that, I will turn the call over to Torkel.

Torkel Rhenman

Thank you, Aaron. Please turn to Slide 15 as we review results for the Advanced Polymer Solutions segment.

Second quarter EBITDA was \$40 million, similar to the improved profitability levels we have delivered in the first quarter, despite ongoing challenges in automotive markets. Automotive production volumes remained sluggish and our volumes slightly declined, due to lower demand from construction and electronics.

Looking ahead, we expect demand in our key regions and sectors to remain soft. Auto production is expected to decline, due to typical third quarter downtime. However, we expect our cost-saving measures will improve cash generation during the third quarter.

Despite the challenging market backdrop, we remain steadfast in transforming our APS business. We have already made strong progress on increasing win rates with customers and gaining new project qualifications.

Additionally, we are focusing on cost reductions to improve the resilience of the business. We are on the right track to deliver on our long-term goals to, profitably, transform the APS business.

With that, I'll return the call to Peter.

Peter Vanacker

Thank you, Torkel. Please turn to Slide 16, and I will discuss the results for the Technology segment on behalf of Jim Seward.

Second quarter EBITDA of \$34 million was lower than the guidance we provided during our first quarter call. Catalyst volumes improved, but margins declined, due to inventory cost adjustments and changes in sales mix.

Second quarter licensing profitability remained flat, as polyolefin licensing activity across the industry remained subdued, showing a substantially lower buildup of new petrochemical capacities.

We expect third quarter results for the Technology segment will be similar to the second quarter results, as margins improve on catalyst sales mix, offset by the low activity in licensing markets.

Now let me share our views on our key regional and product markets on Slide 17. As we enter the third quarter, we expect global trade flows will continue to adapt to a dynamic tariff and trade policy landscape. We're hopeful that the trade environment will stabilize and enable higher consumer confidence and trade flows.

In the Americas, solid domestic and export demand is expected to drive improved pricing. Notably, polyethylene prices rose in June, reflecting the strengthening market environment and providing tailwinds for third quarter profitability.

Second quarter U.S. and Canada domestic sales volumes for the polyethylene industry were the highest since the beginning of this downturn in the second quarter of 2022. And producer inventories are falling, as we enter the peak months of the U.S. hurricane season.

Within Europe, favorable costs for naphtha and other feedstocks, coupled with steady summertime seasonal demand, are supporting modest improvements in integrated polyethylene margins. Additionally, capacity rationalizations across the region continue to improve supply and demand balances across the industry.

In Asia, near-term capacity additions are still pressuring regional supply and demand balances. That said, we're cautiously optimistic on China's stimulus programs and longer-term rationalization efforts, which could provide support in future quarters.

In packaging markets, global demand remains steady even amid broader economic uncertainty, as consumer needs for packaged foods and other essential products support underlying resilience. However, in building and construction markets, demand remains constrained with new housing starts and existing home sales showing continued weakness.

Within automotive markets, we continue to monitor the impact of tariff volatility, which is contributing to ongoing uncertainty. Late summer downtime across the industry typically pressures third quarter production volumes.

Finally, in oxyfuels, this summer's driving season has not generated expected margin improvements. Margins are expected to remain low for the remainder of the summer season, due to low crude prices and weak gasoline crack spreads.

Our disciplined approach to optimizing operations across our global network ensures we are well positioned to capitalize on market dynamics. We are closely monitoring evolving tariffs and global trade flows, and we continue to evaluate both the risks and opportunities they present to our business.

Now as we turn to Slide 18, let me summarize how we continue to navigate the cycle, while executing on our long-term strategy. As we move through the cycle, we are focused on execution and staying disciplined in how we operate. Last quarter, we introduced our cash improvement plan, and we are now on track to deliver \$600 million in 2025, above our original target of \$500 million. We are achieving this by optimizing our organizational structure, improving working capital efficiency and reducing capex.

This disciplined approach extends to the actions we are taking into 2026, as we make purposeful decisions to preserve cash and protect our balance sheet, while supporting shareholder returns. As I previously mentioned, we have made the decision to delay building our Flex-2 project to reduce near-term capital outlays while preserving real options for future growth. At the same time, we continue to prioritize sustaining capital and reliability investments. These are nonnegotiable and ensure the stability of our operations and the safety of our people.

We've also taken strategic actions across our portfolio to strengthen long-term profitability. Our VEP continues to remain on track to meet our 2025 targets. And in addition, the planned sale of our four European assets will reduce recurring capex and other costs in the region.

We are rebalancing our global footprint towards more cost-advantaged regions, while aligning our growth investments with market realities. Together, these steps reflect our discipline, as we navigate the cycle.

I am proud to lead this dedicated team, as we continue taking strategic actions to create value, reshape LYB and position our company for sustainable future success. Now with that, we're pleased to take your questions.

Operator

Thank you. Ladies and gentlemen, at this time, we'll begin the question-and-answer session. As a reminder, if you have a question, please press the "*", followed by the "1" on your touchtone phone. If you would like to withdraw your question, please press the "*", followed by the "2". We do ask you to limit to one question. Our first question comes from the line of Patrick Cunningham with Citi. Please proceed with your question.

Patrick Cunningham

Hi, good morning, and thanks for taking my question. So, the first half in O&P Americas was affected by planned and unplanned downtime, some price declines in polyethylene. And given the operating leverage and price increases, lower feedstock costs running through, what sort of sequential lift should we be triangulating based on current visibility? And does anything, in your view, support additional price increases that are out in the market?

Peter Vanacker

Thanks, Patrick. Very good question to start the Q&A session with. As you rightfully said, and we said it in the prepared remarks as well, in O&P Americas, we will have less downtime because we had the scheduled turnaround in Channelview that was extremely well executed. Actually, there were three turnarounds, which had an impact of \$85 million. So you may expect that \$85 million improvement to see in Q3.

We mentioned also the operating rates that we are planning for North America, which is 85%. So we continue to navigate in a prudent way in the markets. We expect improved olefins margins, also, that are benefiting from higher co-product contributions. On the pricing level, I will hand over to Kim.

Kim Foley

Thank you, Peter, and thanks for the question. Let me start by, historically, this industry does not see back-to-back price increases, unless there's a major supply disruption. So think of like a winter storm or hurricane. That being said, there are a lot of positive indicators in the market today. You've seen export demand improve significantly over the last two months, as some trade and tariff uncertainty has been resolved or paused.

Domestic demand is up, year-on-year, quarter-on-quarter, and month-on-month, hence, the support for the June increase. You see GDP numbers that are higher than we thought in China

and in the U.S., though there may be some noise in the U.S. number. And most importantly, you also see global inventories very low, and we are in the middle of hurricane season.

So for me, there are several signs of positive momentum. And if these tariff uncertainties get resolved in the next few weeks, there's absolutely potential for price increase in the third quarter.

Operator

Thank you Our next question comes from the line of Frank Mitsch with Fermium Research. Please proceed with your question.

Frank Mitsch

Hi, good morning. It's becoming fashionable in the chemical industry, given this extended downturn, to -- for companies to cut their dividends. Obviously, I saw that you had raised your dividend not that long ago and then you're doing some buybacks. I'm curious, given that you're not really earning in terms of operating cash flow, the shareholder returns in form of dividend and buybacks, if you could expand upon your thoughts on the dividend and the safety of it at LyondellBasell?

Peter Vanacker

Hi, Frank, I hope you are doing well. Thank you for your question. A good one, of course. Let me just be clear. I mean, first of all, I mean, that we will pay out our Q3 dividend of \$1.37 per share. And that is, of course, consistent with Q2, and that payout will be on September 2.

Now to your general question, with a sharp focus on cash conversion and disciplined investments, we were able to start, as you remember, 2025 with very high levels of cash on hand. I still remember, I mean, a couple of years ago that people actually were challenging us why we had such a high level of cash on hand. It's a good thing to have in today's environment. So we started with \$3.4 billion, which is the same amount we held at the beginning of 2024.

Now we continue to target also a minimum cash balance of \$1.4 billion, but we can and we have managed that lower balances through the cycle. Our total liquidity, as we outlined, remains strong at \$6.35 billion. And the foundation of our capital allocation strategy has also not changed, and that is our investment-grade rating.

So in that context, we continue to recognize the importance of the dividend as a significant component of our returns to shareholders, and our actions continue to focus on securing our dividend, while maintaining the benefits of our investment-grade rating. We're also not planning any further share buybacks over 2025 and 2026. We did some, as you know, in Q1. We did some in Q2. And our cash improvement plan is on track to improve our cash flow over the years 2025 and 2026 by at least \$1.1 billion.

In addition to that, we believe the cycle will eventually rebound. I've mentioned that in earlier calls as well, this is the longest downturn in my 35 years in the industry. And with our strategic and also intentional portfolio management, as well as our proactive cash management, we remain confident that we will navigate this cycle and emerge even stronger as a more sustainable and a more profitable leader for our industry.

Operator

Thank you. Our next question comes from the line of Vincent Andrews with Morgan Stanley. Please proceed with your question.

Vincent Andrews

Thank you. Good morning. Could you just quickly clarify whether the 2026 capex forecast of 1.4 billion, does that include the potential benefit of the EUR 110 million reduction that you would get if the European asset sale closes? And then my actual question is if you could talk a little bit about the precious metals opportunity in I&D.

It seemed like it was a benefit of maybe 35 million in the quarter and some of the comments on this call seem to suggest that the new VAM technology would allow some type of benefit to continue. So if you could just talk about what that continuation benefit would be and potentially size it, I'd appreciate it.

Peter Vanacker

Thank you, Vincent. Good questions. The first one, I'm going to give to Agustin.

Agustin Izquierdo

Sure, Peter. Thank you, Vincent, for the question. Yes, to clarify, the 1.4 billion capex for 2026, this is with our existing base. As you properly mentioned, the 110 million that is associated with the European asset, we will see that happening or that reduction further, once that transaction closes and going forward. I'll turn on to Aaron for precious metals.

Aaron Ledet

Thanks, Agustin, and thanks for the question. Maybe from a VAM perspective, we are in the process of transitioning to a silica-based catalyst. We have three reactors at our VAM unit in La Porte, and we will start that process towards the end of this year with our turnaround in La Porte, and then we'll continue transitioning the other reactors, through 2028. So you won't see that, materially impact, us in 2026. And yes, just to clarify, it was \$35 million of precious metal sales in the second quarter.

Operator

Thank you. Our next question comes from the line of Jeff Zekauskas with JPMorgan. Please proceed with your question.

Jeff Zekauskas

Thanks very much. Your cash flow from operations for the first six months was a deficit of a little less than 230 million. And last year in the first half, I think you generated 1.2 billion in cash flow from operations. Now, I understand that you wish to improve your cash flow generation. But can you comment on the general level of cash flow generation that you expect for 2025? I don't know, assuming 3 billion in EBITDA or a little bit less than that.

And can you talk about the factors that are pushing down your cash flow generation, whether it's the refinery or it's accounts payable or whatever it is? And then, how is the price increase in polyethylene for July looking?

Peter Vanacker

Okay. Great. I mean, good questions, of course, Jeff. Thanks for the question. I hand over immediately to Agustin on the first question. And then Kim can also further elaborate, already to the previous question that she answered on polyethylene North American prices.

Agustin Izquierdo

Sure. Thank you. And Jeff, happy to take your question. So I think that the main difference, as you correctly point out, in the first half of 2024, our cash flow from operations was much stronger. Now if you recall what happened here in the first quarter of 2025 when our cash flow from operation was negative, this was a couple of factors. One, there was a big working capital build, but we also had the effect of having the additional tax payments from Hurricane Beryl. And that's mainly what brought us down to that 579.

Now for second quarter, our cash flow from operations is positive at 35, so that's a swing of 930 million. And our working capital, this was also a release of \$117 million. So we're trending in the right direction. And I would also further point that our cash generation and cash conversion is usually much stronger in the second half of the year. So we are expecting -- if you recall, last year, the second half had a cash generation or cash conversion of 167% and just in Q4 alone, more than 280%.

So, we are on target for strong cash conversion, as well on the second half of the year. We expect positive cash flow from operations also in the second half of the year, and we are still on target to have our 80% cash conversion full year.

So, we'll continue to be very disciplined on working capital, as you have heard before from the cash improvement plan, not only on this year, but the next. And then you should also see the positive effects of the fixed cost reduction, both the run rate this year and what we will accomplish in '26.

Kim Foley

I think as it relates to price, I'll just reiterate, historically, the industry hasn't seen back-to-back price increases, unless there's been a major supply disruption.

Operator

Thank you. Our next question comes from the line of Michael Sison with Wells Fargo. Please proceed with your question.

Michael Sison

Hey, good morning, guys. I guess, when you put the puts and takes, you do have some pricing momentum in polyethylene at least in June, might get some in July. Oxyfuel seems a little bit challenged, sequentially. Do you think earnings could be up or down or just general direction, given everything that you see now?

And then longer term, I guess, mid-cycle potential for EBITDA, has it changed? Is it just simply delayed; probably delayed, given what the difficult trough here. But just your general thoughts there longer term, what Lyondell's earnings potential can get back to over time.

Peter Vanacker

Thank you, Michael, for your question. Let me go through the different segments. I mean, first of all, as we mentioned, we start already Q3 with that \$85 million of improvements in O&P Americas from less downtime, and that is following the successful completion of the Channelview turnaround. We also started Q3 in O&P Americas with improved polyethylene chain margins. Remember, the successful price increase that was implemented.

And also, you may expect to see, already, the results out of our cash improvement plan in fixed cost reductions, that not just, of course, in O&P but across the portfolio. If I switch -- and then in O&P Americas, what we continue to see is we see a resilient packaging business. We see strong export demand.

What we also start seeing actually is something that you saw in the pandemic, as well, is that consumer behavior is changing. So people are going less out for dinner or lunch in restaurants, but there is more consumption at home, which automatically also supports packaging business, packaging demand.

If I shift gears to the European region, also here, I mean, improved polymer chain results, favorable naphtha prices, still, I mean, a favorable exchange rate. We also will have, in addition to that, the operating rates increased because in Q2, we had in Wesseling, I mean, the large cracker OM6, we had an outage there. We had some operational constraints at that facility. So we believe that is now behind us.

In the I&D business, yeah, we don't expect, just like Aaron said in the prepared remarks, we don't expect that margins would improve if you look at where low crude is currently and where cracks are. Operating rates, I mean, 80%, which is a bit lower, but that is mainly related to a scheduled turnaround that we have in La Porte. And then on the other side, we also alluded to the fact that APS business and the technology business, Q3 over Q2, should be pretty much flat.

Operator

Thank you. Our next question comes from the line of Kevin McCarthy with Vertical Research Partners. Please proceed with your question.

Kevin McCarthy

Yes, thank you and good morning. Maybe for Aaron, can you talk through the third quarter dynamics that you see in the Intermediates and Derivatives segment? You had a nice earnings improvement, sequentially, in the second quarter. But as I listen to your commentary around MTBE and styrene, it does sound a little bit more cautious, margin-wise. And you do have the turnaround. So, maybe frame that out. Do you expect a step down, sequentially? And how would you put that into the context of your view of the cycle shape for the segment?

Aaron Ledet

Yeah, thank you, Kevin. I appreciate the question. I guess I'd go back to the first quarter to second quarter increase that you're referring to in your question. And really, that included some onetime costs associated with our exit of the PO11 asset, the JV that we have with Covestro in Q1. So, that was one of the reasons for the big step-up in the second quarter.

I would say, as I look ahead to the third quarter, I don't see any material improvements over, really, any of our businesses. If you look at the PO and derivative chain, most of our customers, specifically in the polyols segment, are quoting year-over-year declines of at least 10%, at this point. If I look at our acetyls business, you referred to our turnaround, which begins really in the middle of September, so it will include both third quarter and fourth quarter impacts.

However, I do expect the Channelview methanol unit, which was down for the majority of the second quarter for unplanned outages to be back up and running. So that should help offset some of that impact that we're going to see with the turnaround in La Porte. And then with oxyfuels, no different than most petchems. It's an oversupplied market right now, specifically in the U.S. Gulf Coast.

Some of that is related to our own capacity. We're now running our PO/TBA unit at above benchmark rates. And with additional volume coming out of China to the West Coast of Latin America, that is displacing some of the U.S. Gulf Coast volume that is having to be cleared into other markets. So if I look from the second quarter to the third quarter, again, relatively flat.

Peter Vanacker

Yeah, relatively flat, and that means your expectation, Aaron, on oxyfuel margins is relatively flat, I mean, for Q3 compared to Q2.

Operator

Thank you. Our next question comes from the line of John Roberts with Mizuho Securities. Please proceed with your question.

John Roberts

Hi, team. You mentioned China's new program to help improve their chemical industry. You've got a number of joint ventures there, both polyethylene and propylene oxide. Do you expect any of your JVs are going to get merged with other companies or some other restructuring?

Peter Vanacker

Thank you, John, for your question. And you're probably also here talking about these what is being called today, the China anti-involution measures. Yes, of course, I mean, we've noticed that the NDRC, I mentioned it in the prepared remarks, is asking for detailed information on older chemical assets. And that, of course, includes also petchem. Still a large, relatively large number of nonintegrated, nonflexible, older and smaller crackers in China.

We expect that it will take some time to get more visibility and real actions taken, something we've also witnessed in several chemical sectors in China in the past, but we do expect that it will lead to real actions since the majority of petchem assets are losing cash in China. Of course, I mean, and as you can see from our actions, we don't speculate on what is going to happen. I mean, in China, we focus on what we can control. That means that, for example, our Bora asset is running at minimum technical rates, as we speak.

Operator

Thank you. Our next question comes from the line of Dave Begleiter with Deutsche Bank. Please proceed with your question.

David Begleiter

Thank you. Peter, on *MoReTec-2* and the decision to delay FID, was that due solely to the market dynamics, or is the element of trying to conserve cash as well? And secondly, what does this do to your targets in your circular strategy here in terms of realizing those EBITDA numbers you put out there? Thank you.

Peter Vanacker

Thank you, David, for your question. Remember, I mean, *MoReTec-1* continues to move ahead. So construction is proceeding, well. That is a unit that we're building in our site in Wesseling. We also see that regulation in Europe with the PPWR, as well as the current discussions around the SUPD mass balancing is moving in the right direction, creating an attractive market.

That capacity in Europe in Wesseling, *MoReTec-1* is 50,000 tons. *MoReTec-2*, just to remind everybody, is planned to be built in our sites, the refinery site in Houston, and that would have a capacity of 100,000 tons. So, we will complete the front-end engineering and design of the *MoReTec-2* project, by the end of this year. We continue to be excited about the project's potential.

We're also continuing to collaborate with brand owners to understand, I mean, their needs in North America and ensure that we have their commitment, before moving forward with a final

investment decision. But we have adopted and adapted our development plans to the pace of development in the market and especially also the prudent allocation of capital.

We believe completing front-end engineering and design and stopping the project taking a hold. After that phase, we can then relatively quickly activate it again if on one hand side, we see that it fits with our capital allocation plans. And then on the other hand side, we see that commitment is coming, firm commitments from brand owners.

Operator

Thank you. Our next question comes from the line of Aleksey Yefremov with KeyBanc Capital Markets. Please proceed with your question.

Aleksey Yefremov

Hi, good morning. I just wanted to follow up on the pyrolysis market. Can you just describe the current state of it? How have margins changed sort of in the middle of this more stressful environment? And any expectations on how pyrolysis-based economics for recycling could change, over the next 12, 18 months?

Peter Vanacker

Yeah, thank you, Aleksey. I mean, pyrolysis margins continue to be extremely high, above what we have seen or what we have communicated at our Capital Markets Day in 2023, and that is simply due to the fact that there is more demand than there is supply. There has been a lot of delays. I mean, in start-up companies, some start-up companies actually went belly up, as well. And therefore, we continue to believe that this will be a growth market.

I alluded already, I mean, to the regulation environment -- regulatory environment in Europe. We see positive momentum also in the regulatory environment in the United States, which is mainly on a state level. So, as we have said in the past, I mean, this is a business that we continue to believe in that will have price setting based upon value-based pricing and not so much supply and demand, simply because supply is going to lag, I mean, demand for quite a long period of time.

Operator

Thank you. Our next question comes from the line of Matthew DeYoe with Bank of America. Please proceed with your question.

Matthew DeYoe

Good morning and thank you for taking my question. I actually kind of have two, if you'll allow me. So, you ran O&P Americas at like 90% rates in the second quarter, but are targeting 85% in 3Q. At the same time, you're expecting better rates in the third quarter. So can you just flesh this out and why you'd be running rates like below what looks like 90% for the industry, at least the end of June?

And then in technology, EBITDA declined \$19 million quarter-over-quarter -- year-over-year, despite what looked like higher volumes. And there's some -- is that just margins are down, or is there a mix shift? And then why would Catalyst margins be down, if that's the case?

Peter Vanacker

The first question, I mean, Kim, on utilization rates.

Kim Foley

Absolutely. And this is one of the things that always gets confusing a little bit in OPAM. So the 90% operating rate that you're referring to is the crackers, okay? The 85% is the segment. So you have to think crackers, olefins, polyethylene and then polypropylene. So what we're saying is we're going to run the third quarter higher olefins and maybe lower polypropylene.

So that's why you see the average the same, but we think we'll have higher earnings. The other thing I would say on olefins earnings, and Peter alluded to it earlier, you've got new derivative capacity in North America that just came online. You've got ethylene exports that have been reestablished and you have high polyethylene demand.

So you're seeing ethylene price already start to increase early in the quarter, and we're just beginning hurricane season. So I think a lot of the upside could also be on the olefins side in the third quarter.

Peter Vanacker

On the technology question, I mean, first of all, if you look at the technology business units, something that we have forecasted, already last year, is that I would call it dramatically lower demand, for licenses. So you see across the world, there are hardly any demand for licenses, which is normal because if you see how much has been built and is in process of being built, especially, in China, then it's logical that there is a correction that is now coming.

Now on the catalyst side, there was an impact that we had on an inventory correction, as well as an exchange rate correction that influenced the results that we had in Q2. So you're not -- we're not expecting to see that for the future. It's approximately, if you ask how much, I would say it's a low double million EBITDA impact in Q2.

Operator

Thank you. Our next question comes from the line of Josh Spector with UBS. Please proceed with your question.

Josh Spector

Yeah, hi, good morning. I was wondering if you could talk a little bit about or share your thoughts around some of the European frameworks that have been coming out there. It's maybe some recycling of some older frameworks, but around energy support, reducing regulatory burden and other things to protect the industry. Do you see any of that as

meaningful for the industry? And just given the shift in your portfolio, is any of that meaningful for Lyondell, at this point? Thank you.

Peter Vanacker

Thank you, Josh. Good question on Europe. I mean, on one hand side, what we do see in terms of a circular market being built up, not just, I mean, the general statements that you may expect coming out of the European Commission, but you see detailed regulation that has already been put in place.

And the implementation act on the mass balancing is now in its final steps to then be finally agreed upon and as such, not just the PPWR creating that market with high percentages of recycled material, but then you also have clarity on what kind of regulation will be there, what is accounted for on the mass balancing side.

So there, I see clear actions. I see quite a lot of progress, and there is documentation, which is then in about, what, 16 months from now is going to be legally enforceable in the member states. We've seen more attention also coming on the general support for the chemical industry from the European Commission. We see that as a positive sign, but the devil is in the details.

So we're going to have to see that being articulated in much more details with respective regulation, with respective support, I mean, for energy costs and so on. So it does not change our strategy and view that we have on Europe. So it does not change our view and pushing forward on closing the sale of the four respective assets in the context of our European assessment.

Operator

Thank you. Our next question comes from the line of Hassan Ahmed with Alembic Global Advisors. Please proceed with your question.

Hassan Ahmed

Good morning, Peter. I completely understand, it's a tough macro. And right now, the focus for you guys and much of the industry is conserving cash. But over the last couple of years, you guys embarked on sort of acquiring sort of smaller recycling companies. So, with valuations having come down across the board, are there more of those things that you could potentially look at in the near to medium term? And generally speaking, what is your thought process, today, about expanding further in that arena?

Peter Vanacker

Thank you, Hassan. Actually, your question allows me then eventually to actually present a bit of bigger picture than just on the recycling side. Remember during the last five years, LYB has invested above depreciation levels. So we've invested in a new PO/TBA plants.

We've embarked on profitable growth for the APS business. We've invested in Hyperzone, the Sasol joint venture. We've launched our value enhancement program. We are well underway in building up that profitable CLCS business, investing in *MoReTec-1*.

We have our investments in Saudi Arabia with our joint venture with Alujain, the NATPET joint venture with a potential to further expand that joint venture. We've embarked on joint venture discussions and have the allocation for a big investment that then is a smart, from a capex point of view and cash point of view, a smart investment with our partner in Sipchem.

And Aaron also mentioned on the acetyls business by including new technology, which leads also to some de-bottlenecking of the existing capacity. So we also, based upon where we are in the cycle, we have not fully run our assets at nameplate capacity. So that gives us a lot of potential for growth even if for now, we have delayed an investment in Flex-2, and we have delayed an investment in *MoReTec-2*. Of course, we continue to monitor the markets, but there is nothing concrete that I can say in terms of M&A.

Operator

Thank you. Ladies and gentlemen, this concludes our time allowed for questions. I'll turn the floor back to Mr. Vanacker for any final comments.

Peter Vanacker

Great. Thank you again for all your thoughtful questions. LYB continues to be financially well-positioned to progress with the implementation of our strategy and that despite the challenging market conditions. Our sharp focus on cash conversion, disciplined investments, strategic portfolio management and our strong balance sheet are key to successfully navigate this prolonged downturn and ensure that we emerge even stronger.

We remain confident that the cycle will eventually rebound. LYB is well-positioned to capture market tailwinds and create durable long-term value for our shareholders, through a consistent execution of our strategy. We hope you all have a great weekend. Stay well and stay safe. Thank you.

Operator

Thank you. This concludes today's conference call. You may disconnect your lines at this time. Thank you for your participation.