

LyondellBasell
First Quarter 2026 Earnings Results Conference Call
May 1, 2026

Presenters

David Kinney, Head of Investor Relations

Peter Vanacker, Chief Executive Officer

Agustin Izquierdo, Chief Financial Officer

Kim Foley, Executive Vice President of Global Olefins & Polyolefins

Aaron Ledet, Executive Vice President of Intermediates & Derivatives

Torkel Rhenman, Executive Vice President of Advanced Polymer Solutions

Q&A Participants

David Begleiter - Deutsche Bank

Patrick Cunningham - Citigroup

Duffy Fischer - Goldman Sachs

Jeff Zekauskas - JPMorgan

Vincent Andrews - Morgan Stanley

John Roberts - Mizuho Securities

Kevin McCarthy - Vertical Research Partners

Frank Mitsch - Fermium Research

Mike Sison - Wells Fargo Securities

Josh Spector - UBS Investment Bank

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 call over to Mr. David Kinney, Head of Investor Relations. Sir, you may begin.

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 first 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 p.m. Eastern Time today until May 31, by calling (877) 660-6853 in the United States and (201) 612-7415, outside the United States. The access code for both numbers is 13746217.

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 and 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 all for joining today's call as we discuss our first quarter results, and thank you, Dave.

As some of you know, Dave Kinney is retiring after a decade leading Investor Relations and nearly 35 years with the company. I am sure you will all join me in congratulating Dave for his significant contributions to the company and wishing him well in retirement.

Succeeding Dave is David Dennison, who brings nearly 30 years of industry experience to the role across planning, commercial and strategic functions, including most recently in the Circular & Low Carbon Solutions business. I am confident you will find David to be another great partner as our new Head of Investor Relations.

Before we turn to our performance, I want to acknowledge the human impact of the tragic ongoing situation in the Middle East. The suffering and trauma of war is catastrophic for all involved, and our thoughts are with those affected. Our first priority is the continued safety of our people, and we have already executed on protocols to protect our employees and contractors in the region.

This situation in the Middle East has materially disrupted global energy and petrochemicals markets. We expect the impacts will extend beyond the end of the year with much of the world's petrochemical capacity constrained or shut down.

LYB's U.S. and European production capacity is a critical resource for filling the global gap in supply for our essential products. Supported by our operational excellence and the work from

our value enhancement program, we are increasing production to meet this demand. At the same time, we remain focused on executing our strategy.

Our portfolio transformation has reached another significant milestone with the sale of four European assets. While increased cash generation and profitability will improve our credit metrics, we are maintaining our discipline on capital expenditures. And we are undertaking deliberate actions to further streamline our fixed costs and underpin our ability to generate attractive value during both cyclical highs and lows.

With that being said, let's take a moment to review LYB's safety performance with Slide #3. Safety remains foundational to how we operate. Our year-to-date total recordable incident rate of 0.13 is among the best in our sector and reflects the commitment of our employees and contractors.

Turning to Slide 4, the Middle East conflict and its unprecedented effects on energy prices and global logistics has shifted the paradigm for petrochemicals. At the high end of the cost curve, naphtha-based producers in China and Southeast Asia have faced sharply higher costs, driven by the compound impact of higher crude prices, the loss of sanctioned crude discounts and weak co-product values.

In addition, pre-conflict, approximately half of Asia's imported crude came from the Middle East. The war has impacted security of supply for Asian crude and petrochemical feedstocks, leading to lower production and a substantial reduction of exports from the region.

At the low end of the cost curve, U.S. ethane economics have improved, strengthening the cost advantage of LYB's U.S. Gulf Coast assets with low-cost raw materials and increased production to serve increased global demand.

In Europe, higher prices are now offsetting higher energy and feedstock costs, as imports from the Middle East and China decline. And while this chart focuses on ethylene, we find similar dynamics in play across nearly all LYB products. Clearly, we are operating in a dynamic environment where dramatic changes are possible, within short time periods.

Our global operational and marketing network has already yielded valuable insights, which have enabled us to rapidly adapt to the changing environment. These insights inform our position that the impacts from the war will be long-lasting. We believe the geopolitical risk premium for crude oil will persist even after a resolution to the current conflict, and discounts for sanctioned crude are unlikely to return. Both of these impacts should durably steepen the global cost curve, relative to pre-war conditions.

Across feedstocks and petrochemicals, physical damage from the war and accelerated shutdowns will require time and resources to repair. And some older, smaller and less

economical plants under evaluation for potential rationalization may not restart at all. This could provide a lasting benefit to supply and demand balances.

Of course, we are mindful of the potential for second order impacts like demand destruction for discretionary spending, especially if oil prices remain at recent highs. But we remain confident that our cost-advantaged asset base and deliberate execution will enable LYB to continue to generate value, through the cycle.

Now let's turn to Slide 5, as we discuss the tangible steps we are taking to execute on our strategy to build a more resilient LYB. Over the past three years, we have executed on significant portfolio transformation. This included ceasing refining operations, closing our Dutch PO joint venture, divesting our EO&D business and the ongoing transformation of our APS portfolio.

And as we announced this morning, we reached another significant milestone in our portfolio transformation by completing the sale of four European assets. This transaction sharpens the focus of our capital allocation towards strategic assets that advance long-term value creation for LYB.

We extend our gratitude to our friends and colleagues that helped accomplish this transaction. We are particularly thankful for those who are transferring to the new organization for their contributions, professionalism and resilience, throughout the process. As they transition to a stand-alone business, we wish them and the new company success in the next chapter ahead.

We continue to benefit from our team's vigorous work on the cash improvement plan. We are making progress toward our target of \$500 million of incremental cash flow this year, which will bring the cumulative total, since 2025, to \$1.3 billion. We remain focused on disciplined management of trade working capital which, despite higher volumes and prices, was \$450 million lower on March 31 than a year prior.

We are also continuing to streamline the organization, including our Executive Committee. The effects will flow through the organization over the coming months to create further efficiencies.

First quarter fixed costs across the company are already under \$50 million lower than first quarter of 2025, including closure costs. And since the end of 2024, we have reduced headcount by approximately 3,000 positions, or 15%, through the combination of fixed cost reductions and portfolio management, including the sale of our European assets, announced earlier this morning. Our initiatives are yielding results and more improvement is underway.

Even with our sharp focus on capital discipline, we remain poised to realize future value creation. We're operating our Channelview PO/TBA plant above benchmark rates, and modest investment in Hyperzone reliability and acetyls debottlenecks will deliver incremental value. Construction on MoReTec-1 continues as planned and is expected to ramp up towards the end

of 2027. Together, we expect these future growth projects will increase our EBITDA by approximately \$400 million. In addition, VEP continues to drive down our costs and increase our reliability and productivity.

Now let's turn to Slide 6, as we discuss our financial performance. During the first quarter, earnings were \$0.49 per diluted share, with EBITDA of \$615 million. EBITDA improved by nearly 50%, supported by both typical seasonal trends and a significant improvement in market conditions during March. Cash and liquidity remained robust with balances of \$2.6 billion and \$7.3 billion, respectively, at quarter end.

I will now hand over to Agustin to discuss our financial performance in more detail. Agustin.

Agustin Izquierdo

Thank you, Peter, and good morning, everyone. Let me begin with Slide 7 as we outline our cash generation. Over the past 12 months, LyondellBasell converted EBITDA into cash at a rate of 111%, well above our long-term target of 80%. This performance reflects our laser focus on optimizing working capital and benefited from the timing of tax payments.

In the second quarter, we expect higher prices and operating rates will result in an intentional build of working capital to capture market opportunities.

As Peter mentioned, in the first quarter, our cash balance was \$2.6 billion, and our available liquidity remains robust at \$7.3 billion.

Now let's turn to Slide 8 and review the details of our first quarter capital allocation. We consumed \$269 million of cash in operating activities. This was expected and consistent with normal patterns for the first quarter. It also reflects the very low inventory levels we accomplished at the end of 2025 and our intentions to profitably capture higher prices and increase demand from the market in 2026.

During the quarter, we funded \$269 million of capital investments.

We took proactive steps during the first quarter to protect our investment-grade balance sheet. Our Board approved a 50% reduction in our quarterly dividend to rebalance our capital allocation and improve financial flexibility. As a result, we returned \$224 million to shareholders through dividends in the first quarter.

With the change in outlook for 2026, we currently expect both our effective and cash tax rates for the year will range between 15% to 20%.

Despite the highly fluid macro environment, our capital allocation priorities remain consistent. We are committed to our investment-grade balance sheet as the foundation of our disciplined capital allocation framework. With the sale of four European assets, we have reached a

milestone in our portfolio transformation. And while we have several attractive projects ready for investment, we will only move forward when the balance sheet and outlook is more secure.

Regardless of the more favorable outlook for 2026, our near-term focus will remain on continuing to invest in safe and reliable operations, to execute our cash improvement plan, to strengthen our investment-grade balance sheet and repay the 2026 and 2027 debt maturities we prefunded in 2025.

Now let's turn to Slide 9, and I'll provide a brief overview of our segment results. Our business portfolio generated \$615 million of EBITDA during the first quarter. Profitability improved across most businesses, led by stronger polyolefin margins and volumes, partially offset by reduced technology licensing activity.

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

Kim Foley

Thank you, Agustin. Let's turn to Slide 10 to discuss the performance of Olefins and Polyolefins-Americas segment. During the first quarter, O&P-Americas EBITDA was \$327 million, double the prior quarter. In polyethylene, integrated margins improved due to favorable feedstock costs and successful contract price increases for polyethylene in both January and March.

In March, export prices for polyethylene significantly increased, as global production was impacted by the Middle East conflict. These benefits were partially offset by the impacts of winter storm Fern and the higher gas prices, earlier in the quarter. Our first quarter operating rate for the segment was approximately 85%, with our crackers running at approximately 95%. During the first quarter, North American polyethylene sales for the industry increased by 6.5%, year-over-year, while inventories fell by 7.6%. March domestic and overall sales volumes for North American polyethylene industry were the strongest since 2020.

In the second quarter, we expect higher margins and volumes, given the global supply tightness. Our order books are strong with April orders for polyethylene 20% above pre-war averages. We have announced substantial price increases to capture this momentum, including a cumulative \$0.50 per pound in polyethylene across April and May, in addition to the gains realized in the first quarter and \$0.10 per pound polypropylene spread increases in both months. With ongoing supply constraints, North America is positioned to move from net importer to net exporter to meet stable global demand for polypropylene.

We are focused on maximizing operating rates to meet the gap in global supply and expect 90% utilization of our nameplate capacity across the segment, during the second quarter. The hard work in our value enhancement program and cash improvement plan is starting to add value through higher productivity and reliability at lower costs.

Moving on to Slide 11 earlier, Peter showed the dramatic impact of the ongoing war in Iran on the ethylene cost curve. And here, we outlined the direct and indirect effects of the war on the production of ethylene, polyethylene and polypropylene.

In the Middle East, production has faced three principal challenges during the conflict. First, some plants have been hit directly, immediately impacting production with time to repair and restart unclear. Secondly, feedstock availability has been challenged, impacting plant operating rates or ability to operate, at all. And thirdly, for plants where the normal route to market included passage through the Strait of Hormuz prior to the conflict, these plants have faced logistical bottlenecks resulting in the increased cost and time to market and in some cases, reduced operating rates.

Production in Asia has been primarily impacted by reduced feedstock availability. In China, which sources as much as 50% of its crude and substantial share of its naphtha from the Middle East, we hear the government has instructed refiners to prioritize limited feedstock availability towards the production of transportation, fuels instead of chemicals.

Ethylene cracker operating rates have steadily declined over the course of the conflict. Overall, this has meant that more than 20% of the global capacity for ethylene, polyethylene and polypropylene is currently impacted by the ongoing conflict, as shown in the red bars on the chart. This dwarfs the expected capacity additions, this year, and takes each of these markets from oversupplied to tight.

These production impacts have led to higher prices to incentivize additional production from regions with stable supply, principally North America and Europe. LYB's portfolio is optimally positioned to take advantage of these commercial opportunities, with 90% of our PE capacity and 70% of our PP capacity within North America and Europe.

Lastly, I wanted to highlight that although the outlook is more positive than we expected earlier in the year, we remain mindful of the second order effects of higher prices. A structurally short market is usually resolved through demand destruction, which we see no evidence of, currently, or higher production. History has shown packaging demand remains robust in such scenarios.

Demand for durable goods has already been consistently at a low level since 2022, and prices are still well below peak levels in 2021. We remain watchful and we will adapt to how the market develops. We are confident that our actions to grow and upgrade the core, which has driven significant portfolio transformation, will continue to generate value in a range of macroeconomic scenarios.

With that, let's turn to Slide 12, as we review the results of the Olefins and Polyolefins-Europe, Asia, International segment. We reduced our first quarter EBITDA loss to \$6 million, driven by higher volumes, improved reliability and lower fixed costs. While higher raw material prices

pressured cracker margins during the first quarter, product pricing began to catch up during March and higher volumes and improved utilization rates are improving our fixed cost coverage.

Our Middle East joint ventures operated largely as planned during the quarter. While the region represents a relatively small portion of our global capacity, these cost-advantaged assets remain an important part of our portfolio, over the long term.

After the end of the quarter, LYB reached an important milestone in our portfolio transformation with the completion of the sale of four European assets. We are now better positioned with increased resilience and greater flexibility to capture market upside by leveraging a greater proportion of low-cost capacity.

Looking ahead to the second quarter, polymer margins are improving as our team passes through higher costs for energy and raw materials. Feedstock costs are likely to remain dynamic, as the market adapts to the ongoing conflict. We are seeing improved regional demand in Europe due to lower imports from the Middle East and China. We are increasing our operating rates to approximately 80% across the segment during the second quarter.

And with that, I'll turn the call over to Aaron.

Aaron Ledet

Thank you, Kim. Please turn to Slide 13, as we look at the Intermediates and Derivatives segment. In the first quarter, segment EBITDA sequentially increased to \$224 million, driven by stronger volumes supported by improving market conditions, partially offset by unplanned downtime at our La Porte and Bayport facilities in Houston. Margins strengthened in propylene oxide with improved adders and increased demand for glycols into deicers. In oxyfuels, results declined during the quarter to reflect typically low winter, seasonal demand and margins.

Margin pressures for oxyfuels were compounded by higher butane costs in Europe, with improving oxyfuels prices amid Middle East tensions providing only a partial offset towards the end of the quarter. Unplanned downtime at our Bayport PO/TBA asset, beginning in March, reduced EBITDA by approximately \$40 million in the quarter.

Crude oil remains the single largest variable affecting oxyfuel margins. As a rule of thumb, a \$1 change in crude oil prices translates to roughly a \$20 million annualized impact on oxyfuel earnings, assuming full production and all other factors remain constant.

Historically, oxyfuel margins in the U.S. and Europe have been comparable. However, this year, we are seeing a divergence. In the U.S., butane and methanol prices have increased far less than crude. In Europe, butane prices are near record highs relative to crude, compressing margins. Additionally, the outage at our Bayport PO/TBA facility has temporarily limited our ability to fully capture the favorable U.S. market environment.

In acetyls, we saw improved seasonal demand, as we move through the quarter. However, this improvement was more than offset by unplanned downtime due to a delayed restart of the La Porte acetyls assets, following winter storm Fern. Despite this, the methanol business continued to run throughout the quarter, providing a stable earnings contribution that underscores our benefits from the integration across the I&D portfolio.

Overall, underlying demand trends and market fundamentals continue to improve, positioning the segment for favorable performance during the second quarter. In oxyfuels, we expect meaningful margin improvement in the second quarter, from stronger seasonal demand and reduced supply from the Middle East and China.

The Bayport PO/TBA asset is expected to restart toward the end of the second quarter with an estimated earnings impact of approximately \$25 million per week, while down. Taken together, these elements position us well for improved oxyfuels margins in the coming quarters.

In acetyls, volumes and margins are expected to improve, following the La Porte asset restart, supported by seasonal demand recovery and tight global supply. Across the segment, we are targeting approximately 75% operating rates during the second quarter.

I will now turn the call over to Torkel.

Torkel Rhenman

Thank you, Aaron. Please turn to Slide 14, as we review results for the Advanced Polymer Solutions segment. First quarter EBITDA was \$58 million. APS volumes increased across most business, driven by typical seasonal demand. Our customer focus continues to deliver tangible results, contributing to volume momentum. Margins declined given rising raw material costs, following the start of the Middle East conflict.

Looking ahead, we expect soft near-term demand in automotive and other durable goods markets. We expect higher costs for raw materials, energy and logistics to persist and we are, proactively, passing these higher costs along our value chain. Nonetheless, we expect contractual limits on pricing velocity will pressure margins over the near term.

Despite the changes in macro environment, we continue to transform our APS segment to a customer-centric growth business. Our focus on customer centricity, cost, productivity and portfolio changes over the past couple of years has contributed to the continued earnings improvement as seen by the 55% increase in EBITDA in 2025 and now a 26% improvement, year-over-year, for the first quarter. We are confident the work we are doing will profitably transform the APS business and enable us to achieve our long-term goals.

With that, I will return the call to Peter.

Peter Vanacker

Thank you, Torkel. Please turn to Slide 15, and I will discuss the results for the Technology segment. First quarter EBITDA of \$18 million was lower than our prior guidance, due to declining licensing activity with slower global polyolefins capacity growth and lower catalyst sales volumes following shipping constraints associated with the Middle East war.

We expect improved results in the second quarter, as revenue from timing of shipments are recognized and licensing revenue milestones increase. As a result, we estimate that the second quarter Technology segment results will be only slightly lower than our fourth quarter 2025 results.

Let me share our views on our key regional and product markets on Slide 16. Ongoing supply disruptions across multiple value chains were tightening availability and supporting improved pricing and margins. These dynamics are favoring regions with stable access to energy, raw materials and logistics, where LYB and other producers are being called on to fill the gap in global supply.

In North America, pricing initiatives are supported by improving seasonal demand, increased emphasis on security of supply and rapidly rising export prices with margins reinforced by the U.S. cost advantage.

In Europe, higher costs are being offset by higher product prices, supported by increased demand for local production, as imports from the Middle East and Asia decline. With fewer imports entering the region, profitability is improving.

In Asia, feedstock disruptions continue to constrain supply, forcing lower operating rates. While capacity additions in China persist, prolonged shutdowns and technical issues with restarts could accelerate capacity rationalization, across the region.

Within packaging markets, demand remains resilient, supported by essential needs for food, health care and nondurable consumer goods. Demand in building and construction remains muted amid broader macro uncertainty.

Inflationary pressures from the war are likely to delay potential benefits from lower interest rates and the inevitable recovery in durable goods demand.

In automotive, global production is expected to decline slightly, year-over-year, with additional risk tied to the ongoing Middle East war only offset by modest growth in South Asia and South America.

Finally, in oxyfuels, geopolitical volatility is driving price and margin upside in the U.S. As we conclude today's call, I would like to acknowledge that, throughout the first quarter, our team continued to make smart decisions to successfully navigate a rapidly changing

environment. We maximize commercial opportunities with discipline, agility and a clear vision to position LYB as the leader in our industry and deliver lasting value for all our stakeholders. Now with that, we're pleased to take your questions.

Operator

Thank you, sir. Ladies and gentlemen, at this time, we will 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 David Begleiter with Deutsche Bank. Please proceed with your question.

David Begleiter

Thank you, good morning. Peter, the consultants have a pretty sharp erosion of polyethylene price increases in the back half of the year. I suspect you differ with that forecast. Can you talk to why that you think they were probably being too bearish on PE prices in the back half of the year? Thank you.

Peter Vanacker

Thank you, David. Good question to start with. I think four weeks ago, nobody expected or predicted that we would get a \$0.30 per pound price increase for polyethylene and a \$0.07 per pound spread increase for polypropylene. Just I continue to be a bit skeptical, I mean, about those outlooks.

Anyhow, if you look at our view, and we said it in the prepared remarks, we see that this disruption is not to be measured in quarters. It's probably going to be multiple quarters, definitely not months. It's a very large shock that we are experiencing; it's very global. It's driven by both asset impacts and logistics. And these things normalize very slowly.

Preference as we hear, will be given, first of all, if you talk about the supply disruptions to crude oil, then after that, fertilizers, I mean, for foods. And how fast will that actually move, I mean, to petrochemicals remain to be seen. So our view that we continue to have is that there will be a sustained geopolitical risk premium that will continue to steepen the cost curve. And even after a resolution, the market may retain a higher risk premium for crudes. Steeper global cost curve can persist also versus the pre-war conditions.

As you know, physical damage is not something that can be recovered very quickly. So from that perspective as well, I mean, restart timing is uncertain. Rerouting logistics, as I talked about, I mean, the common view that we currently have in the market is until that rerouting logistics will be somehow stable, is probably going to be more like, I don't know, nine months, 12 months. And then in addition to that, if you have all these outages, these outages can become permanent. They can eventually also accelerate, I mean, the rationalization.

So with regards, I mean, to more specific polyethylene pricing, let me hand over to Kim.

Kim Foley

So Peter, thanks for kind of sharing the view of the impacts of the shock effect. I think the other thing to remind everybody is we, yesterday, got confirmation on the \$0.30 in April. We've got \$0.20 out there in May. If you think about history and you look back at kind of peak pricing in 2021, the pricing there was still \$0.10 to \$0.15 per pound higher.

So in 2021, that pricing could clearly go through the economies. I think it can again, as we go forward. And without any correction to the supply-demand imbalance, I'm not sure why pricing would go down, as Peter alluded to in his opening remarks. So I politely disagree with the consultants.

Operator

Thank you. Our next 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. Maybe just on I&D, I guess, if you could walk through any of the structural changes you've seen from a cost curve and supply and demand standpoint given the conflict. And then just related, if the conflict persists and the Bayport turnaround does wrap up, where would you anticipate operating rates and margins to trend in the back half?

Aaron Ledet

Yeah, thank you for the question. I would start by saying, generally, we have pricing power across the board in almost all of our products. We've seen, as examples in methanol pricing, it's doubled in the last three months from \$300 a ton to \$600 a ton, really, across all regions. And you take that through the acetyls chain. We've seen acid pricing up 50% over that same time frame. We've seen VAM pricing up 100% over that same time frame. So as I said, we've got pricing power really across the board, from an acetyls perspective.

Cost curve in acetyls, relatively flat in both acid and VAM. But when you look at our methanol cost curve, U.S. natural gas pricing is the lowest across all regions, right now. So obviously, we're advantaged in that spot.

When I shift over to the PO business, both of our technologies, we actually just ran the cost curve, last month, both of our technologies, PO/TBA and POSM are in the first quartile of the cost curve. So, it obviously puts us in an advantaged position. As you heard in my planned remarks, we currently plan to run our capacities at 75% utilization in the second quarter. A lot of that is due to the unplanned downtime in Bayport. As that site gets back up and running towards the end of the quarter, we do expect to run closer to 95% to 100% full rates.

Peter Vanacker

And I think one may say, I've been there, I mean, at Bayport about 10 days ago. And what I witnessed is all hands on deck. People are working very diligently, different work streams so that we get the site back up and running, latest by the end of Q2. Isn't it, Aaron?

Aaron Ledet

That's correct, yeah.

Operator

Thank you. Our next question comes from the line of Duffy Fischer with Goldman Sachs. Please proceed with your question.

Duffy Fischer

Yeah, good morning. Two questions, maybe on OP Americas. So if the situation in the Middle East persists, it seems like we're consuming more molecules every day than we're producing today. What happens if we have to try to price polyethylene to destroy demand? I don't think we've ever done that. How high do you think that needs to go to balance supply/demand? And then the second one is, other than the starting point was lower for polypropylene versus polyethylene, how are you seeing those two chains play out, relative to each other? Is one benefiting from this more than the other?

Peter Vanacker

Hi, Duffy, good question. And before I answer the question, I mean, on OPAM and how high does the polyethylene price actually have to go before you see demand destruction, let me remind everybody, I mean, that the vast majority of polyethylene is going into consumables. A lot of that, as you know, is going into packaging.

So if you go in a market environment, just like we have seen, I mean, in the pandemic and during the financial crisis in 2008, 2009, behavior of people changes. So people don't go as much to restaurants, but they consume at home, which means more packaging. That's one element. So not necessarily because one goes into a recession, that leads, I mean, to destruction of demand for polyethylene.

Secondly, it continues to be the lowest cost alternative and most efficient alternative compared to other materials if you want to package or if you want to produce piping, et cetera. And let's not forget, these other alternatives also get more expensive in the current market environment. So with that, Kim?

Kim Foley

Yeah, I'd just make a couple of other comments. We've had at least three years, maybe four years of, I'd say, tempered durable demand. And so, you've got pent-up demand for durables. You saw these pricing levels pull through for polyethylene for sure, in 2021. And then when you

talked about, you asked the question about polypropylene. Polypropylene price, today, is \$0.60-ish, call it, lower than it was in 2021.

So you have a lot of pricing power there, and we are well positioned to capitalize on that. From a polypropylene perspective, between the Middle East production and then think of the LPG that feeds some of the PDH units in the Asia region, probably 70-plus percent of that market is impacted, right now. So I think the sleeping giant will be polypropylene as this continues to progress.

Peter Vanacker

And talking to a lot of my friends in Europe, I see already that their behavior is starting to change. So, instead of taking a weekend trip somewhere or taking a long holiday, I see that they are thinking about, oh, so we not refurbish, so we not stay at home, take a shorter holiday, locally, a couple of day trips. We've seen that behavior in 2021, as well, as we came out of the pandemic. So, quite a lot of moving elements that we have here that I think one should consider.

Operator

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

Jeff Zekauskas

Thanks very much. The export price of polyethylene is maybe \$1,640 a ton, and the price of polyethylene in Asia is maybe \$1,285 a ton, so at least from our point of view. So maybe Asia is lower by \$350 a ton. Why is that? And naphtha values in Asia have really jumped from about \$600 a ton to \$1,100 a ton, but we really haven't seen that kind of raw material inflation echoed or covered in the polyethylene prices. Can you give us an idea of what's going on?

Kim Foley

Jeff, I'll take that question. I think there's a couple of different components to that. From a China perspective, they have a much bigger built-in pricing buffer than a lot of the other regions. They had significant crude inventories coming into pre-war. You've heard anything from four months to six months, do let's just generically call it five. You also have different buying behaviors and you have different inventory positions, throughout. So let's walk through some of that.

Many of the sites are integrated refineries that are processing the crude, naphtha to naphtha crackers to polyethylene. So that inventory, today, two months into this war, is still crude that was bought at a discount to \$60, pre-war. Then you've got coal to olefins production, which sets the floor for the pricing in China. Coal price hasn't changed significantly throughout this, similar to kind of North American ethane. So you've got the floor being set by the lowest cost production, which is CTO. You've got relatively low-priced crude flowing through those crackers.

And then you've got inventory that they had in the system. When the war first broke out, you saw their pricing increase. And then recently, you've seen their pricing hold or decrease, as they're depleting the inventory that they have on hand, selling it to other parts of Southeast Asia. So their buffer, the way they operate their system is slightly different than the rest of the world, but they are not exporting to regions that we are competing with in North America or in Europe.

Peter Vanacker

And maybe enhancing a little bit from a more conceptual point of view, Jeff, in especially what we are all waiting for on the outcome of the anti-involution measures. We continue to see that focus on replacement of old assets, instead of newly developed projects. You saw the results in Q1 of our technology business. This is the lowest since, what, 15 years that we have seen in terms of demand, I mean, for licenses. We've also seen that some priorities are changing.

So, even projects that already have been approved by the NDRC for the previous five-year plan, priorities are changing and targets for the replacement of the old assets is 2028, 2029. That's what we hear, I mean, on the ground. Which, as a consequence, of course, could also mean reducing availability of cash for new projects, which again explains why we don't see a lot of demand for new licenses.

So, it has definitely not disappeared because at those price levels in China, you see that the operations are running in crackers and polyethylene at lowest technical capacity. And you see that players that are not integrated, eventually, have idled, have shut down their capacities. So that's the picture on polyethylene. On polypropylene, it's even more stringent because a lot of PDH/PP plants, it's about 50%, Kim, of the capacity?

Kim Foley

Correct.

Peter Vanacker

Yes, that is currently not operating.

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 and good morning. First of all, congratulations to Dave Kinney on a great run. Best wishes in your retirement. If I could ask you, Peter, on EAI, you're bringing operating rates up, which I assume means you're expecting profits. And then you've sold the assets, and that's going to improve the cost structure. So what level of profitability, and you can give us a wide range, would you expect for the second quarter as you see markets improve, your production

levels come up, maybe you're selling out of some inventory as well? So how should we be thinking about EAI in 2Q and maybe 3Q to the extent you can comment that far?

Peter Vanacker

Yeah, thanks, Vincent. And of course, also thanks for your congratulations, I mean, to Dave. It has been quite a run in my four years working with him, together. So on EAI, I mean, let me first focus here then on Europe. Everybody saw that we closed, during the night. So early morning, Houston time on Velogy, the sale of our four assets. If I put that a bit in context as well, with regards to the contribution that that part of the business portfolio has made to the overall LYB, well, pretty much the numbers, it was small or even negative in 2025 and even in Q1.

The focus, of course, for us, strategically, has been that we really have the right portfolio moving forward, the portfolio in Europe that helps, let's say, on increasing our mid-cycle EBITDA margins. I remember once I have shown a slide in an earnings call with historic mid-cycle EBITDA margins, globally for LYB, of around 18%. And then with all the portfolio measures increasing that to 21-plus percent, which is quite attractive.

Now this helps, of course, by doing so because we can pull our CapEx to the assets that really have mid-cycle margins, above mid-cycle margins, much more profitable assets. Which, as a consequence, means a reduction in the scope of Velogy for us, LyondellBasell, of about EUR 110 million per year in CapEx. And what we have said in the past, as well, a reduction in fixed costs directly related to that scope of about EUR 400 million per year.

And if margins, what we wish, of course, also to the new owner of the business, if margins continue to go up in Europe, we have, remember the potential of an earn-out of EUR 100 million, as well. Of course, we still will have a very interesting but more differentiated portfolio of products in Europe with an ethylene capacity, which is a bit more than 1 million tons, 1.5 million tons of polyethylene capacity and a bit more on polypropylene capacity.

And into that global concept, we also have the investments in Saudi Arabia at the West Coast in our polypropylene joint venture, where we continue to work on the second phase to expand and double the capacity of that joint venture. So moving forward, with a different portfolio, we should be able, over time, including that, of course, our MoReTec investments, we should be able over time to again have very attractive mid-cycle margins in Europe and not having a business approach whereby margins are being diluted.

Kim Foley

Maybe just to make a couple of quick comments. Europe typically sees 25% import on the polymer side. With the problem with the Strait of Hormuz, they're not seeing that, so the supply/demand is very tight, continues to give you pricing power on the polymer side.

The wildcard, as everybody has alluded to, is the price of feedstocks. So for example, some people have asked us, pre-call, why we're only operating 80% in Europe because we want to

make sure the decisions that we make in Europe are based on sound integrated margin pull-through.

And in some cases, we also face the same challenge that others do about the monomer availability at an affordable price point to run through some of our smaller assets that are nonintegrated at the moment. So, we continue to see positive momentum. And just as a rule of thumb, \$100 per ton increase on an annualized basis is about \$280 million.

Operator

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

John Roberts

Thank you. In the APS segment, how long do you think it will take to get your pricing to get spreads back with the underlying polyolefin cost increases that are being passed through there? And will the tightness in the polyolefins market at all tighten the engineered plastics industry, as well?

Torkel Rhenman

For the non-contracted business, we have aggressively moved and we see actually a pretty good acceptance of the price increases because the whole market is moving up. So, it's really the contracted, and some of those are monthly and some of them are quarterly. And it's mostly the quarterly part where there is a delay.

What we see in our segment is actually market demand is surprisingly strong and we see some movement in particularly packaging and durable goods where demand is strong in the Western world, so Americas region and Europe.

From what we see is that, basically, our customers demand is strong because there's less import of finished goods coming in from Asia, as well as from plastics films, packaging films, that's helping our customers with actually pretty strong demand. And we'll see how long that lasts, but that's a positive sign in terms of the market for our business.

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 I'd echo my congratulations to Mr. Kinney, very much appreciate your partnership over the years and best of luck to you. My question relates to O&P-Americas. If we look back at history, that business earned quarterly EBITDA between \$1.5 billion and \$1.6 billion at the last peak in the middle quarters of 2021. And so, my question would be, is that sort of level, in your mind, realistic or unrealistic in today's environment if the conflict were to

persist? Maybe you could compare and contrast what you're seeing today versus what you saw back then.

Peter Vanacker

Let me start with a couple of comments on your very good question, Kevin, and then hand over also to Kim to give you a little bit more details on this. Well, Kim already said, I mean, that we have now a settlement of \$0.30 per pound in April, after we have \$0.10 per pound in March.

So, if you take that settlement into consideration, then we're still, in terms of margins, \$0.10, \$0.15 per pound in terms of pricing -- sorry in terms of pricing, we're still \$0.10 to \$0.15 per pound below what we have seen in 2021, but it's only \$0.10 to \$0.15 per pound. So that means, as a consequence, with the price increase announcements that we continue to feel very strong about for the next month, we would get on that level or above that level of 2021. Now that is just the pricing element.

If you look at it from a margin perspective, then, of course, we know that the margins are going up because ethane is currently much lower than it was at the end of last year, beginning of this year which, of course, also has to do with the fact, I mean, that there is such a huge demand for natural gas. So you see that the spreads actually are going up. So, as a consequence, I would say, sure, I mean, nothing is impossible if you look at what is currently going on, and we alluded to the fact that polyethylene is very robust also in inflationary scenarios.

Kim, anything you want to add?

Kim Foley

I'll just go back to a couple of the comments that I made, earlier, to try to connect a few of the dots. I think as it relates to North American polyethylene margins, what we see is -- and CMA's forecast is similar, this is where we do agree with the consultants -- that mid-cycle margins will be there in the second quarter. So if you go back and look at 2021 mid-cycle margins for PE, yes, I think we're going to be in a very similar situation.

I also said earlier that in 2021, that we had a \$0.60 higher price of polypropylene. So, I think it really depends how much polypropylene runs up. I don't think it will run up as fast as polyethylene has, but I do think the spreads will continue to increase. So I would look at those two components differently when you're trying to look at how we performed in 2021, versus how we might perform in 2026.

Operator

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

Frank Mitsch

Thank you, and I need to come clean, Mr. Kinney. On the PPG call, I told Vince on the occasion of his retirement that he was the best IR, ever. But to be frank, it was always you. So best wishes, my friend. I'm sure we'll stay in touch.

Aaron, I want to come back on the I&D operating rates for the second quarter. You said 75% given the outages that you have. But you said that you're going to end it at 95% to 100%, when you get everything back up and running. So is that sort of the run rate that we should be expecting in the third quarter as you see -- as you can look out into the future? And then also, for the first quarter, I think you guys guided to 85% operating rate in I&D. And I was curious as to what that actually came in at, given the outages. Thanks.

Aaron Ledet

Yeah, thanks for the question. And I guess I have to be careful about what I promise in these calls, 95% to 100%. Obviously, anything that we have available to us, we're going to be running full. We still have some limitations at our La Porte site in the acid unit that's limiting us to get to full rates. But obviously, once Bayport is back up and running, we will be running everything that we have at full capacity, moving forward. So, 95% to 100%, I wouldn't necessarily use that, but we will be running at benchmark rates, across the board.

Operator

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

Mike Sison

Hey, good morning, and congrats to Dave, as well. In terms of polypropylene, you've talked about it a couple of times. Margins have been not a lot for the last couple of years. Is that business or can that product line turn positive? And you used to generate a good amount of EBITDA for polypropylene. How do you think that shapes up, this year, if the pricing outlook sort of holds?

Peter Vanacker

Yeah I mean, the possibility, of course, I mean, Kim said it, we have the biggest upside, I mean, the sleeping giant. We have the biggest upside on the polypropylene side. And the market dynamic has completely changed. Normally, the cash cost curves in polypropylene are very flat between the different regions. But of course, now that is changing the dynamic that we are having in the United States, where, as you know, we have a lot of our assets.

Normally, polypropylene stayed in the markets where it was produced. But now, of course, there is a lot of demand because of the loss of propane to Asian polypropylene producers, a lot of demand, globally, to export polypropylene which, of course, uplifts the markets -- the margins, I mean, in the markets. Kim?

Kim Foley

No, I would agree with you, Peter. I think we've been operating polypropylene in Europe and in the U.S., call it, 70% to 75% for the last two years. So you've got a 15% to 20% operating rate improvement opportunity, as well as spread. So, the longer this goes on, the better.

Peter Vanacker

And I think approximately what, 70%?

Kim Foley

From a polypropylene perspective.

Peter Vanacker

I think probably what, 70% of supply is impacted by the Strait of Hormuz closure?

Kim Foley

Directly or indirectly, absolutely, yes. You've got the volume you lose out of the Middle East plus the LPG feed to the PDH.

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 just wanted to ask a comment about licensing revenue and technology. I mean, I know you've been at a low level for some time here, and you've kind of highlighted there's been little activity in terms of looking at new projects, but your near-term outlook comment says that you expect that to increase. So, is that a lag of just some existing kind of maybe discussions coming to fruition? Or are you seeing actually more interest in certain of the product chains about adding more capacity now?

Peter Vanacker

Yeah, thank you, Josh. I mean, it is a lag, yes. So it's simply because of some milestones that are being accomplished and therefore, on the licensing. So not the catalyst sale, but on the licensing. Q2 should be better than Q1, as I said in the prepared remarks. But it is definitely not related to having a higher demand. I said it before, demand is historically at the lowest level. We see projects that already were progressing, let's say, around a couple of milestones that are now, as they call it, I mean, in the reserved status.

So they're not moving forward. They're being looked at, again. And all that will delay, let's say, the investments from already, let's say, last year low licensing; the year before, we saw reduced licensing. So all that will come to fruition then in, let's say, two, three, four years from now. That means that there will not be a lot of investments that will come on stream.

Operator

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

Peter Vanacker

Thank you again for all the thoughtful questions. The events of the past two months have transformed the global cost curve for petrochemicals and created a massive gap in supply for LYB's essential products. While we all look forward to peace and the normalization of traffic through the Strait of Hormuz, the economic and logistical impacts of this conflict will persist many quarters beyond the eventual end of the disruption.

And of course, at LYB, we're ramping up our cost advantaged U.S. capacity to address the global supply gap for both domestic and export customers. In Europe, we're passing through higher costs for energy and raw materials so that local production can once again profitably serve local customer needs.

And our global polypropylene capacity, as we alluded to before, the sleeping giant within LYB is increasingly needed to serve global demand. You can be confident LYB will remain focused on our strategic priorities and long-term value creation in this dynamic environment.

We hope you all have a great weekend. Stay well and stay safe. Thank you.

Operator

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