LyondellBasell
Second Quarter 2026 Earnings Conference Call
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Presenters
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Peter Vanacker, Chief Executive Officer
Agustin Izquierdo, Chief Financial Officer
Kim Foley, Executive Vice President of Global Olefins & Polyolefins
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Q&A Participants
David Begleiter- Deutsche Bank
Vincent Andrews - Morgan Stanley
Patrick Cunningham - Citigroup
Jeff Zekauskas - JPMorgan Chase
Josh Spector - UBS Investment Bank
Kevin McCarthy - Vertical Research Partners
Frank Mitsch - Fermium Research
Matthew DeYoe - BofA Securities
John Roberts - Mizuho Securities

Operator
Hello, and welcome to LyondellBasell Teleconference. At the request of LyondellBasell, this conference is being recorded for 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 Dennison, Head of Investor Relations. Sir, you may now begin.

David Dennison
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 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 diluted 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 August 31, by calling (877) 660-6853 in the United States and (201) 612-7415, outside of the United States. The access code for both numbers is 13746218.

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 Redman, 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, David, and thank you all for joining today's call as we discuss our second quarter results. The global disruption in the petrochemical markets from the conflict in the Middle East impacted production, feedstock availability, logistics and trade flows across the industry. It also led to substantially improved earnings performance for LYB in the second quarter.

The LYB team delivered an impressive EBITDA margin of 23%, which clearly demonstrates the power of our value enhancement program and cash improvement plan actions when market conditions are favorable. We continue to believe that market normalization will be a long process extending beyond this year. This is already being demonstrated by the continued volatility of the conflict in the Middle East.

Throughout this dynamic period, we continue to successfully execute our strategy and advance the transformation of LYB, while diligently implementing our cash improvement plan.

During the quarter, we completed the divestiture of four European assets and combined with the intended closure of our Brindisi site for further reshaping our portfolio toward more advantaged assets. These strategic actions are, along with our disciplined capital allocation, support our ability to create long-term value for shareholders.

With that being said, let's take a moment to review LYB safety performance with Slide 3. Safety remains foundational to how we operate. Our year-to-date total recordable incident rate of 0.1% is among best in our sector and reflects the commitment of our employees and contractors. Importantly, this performance continues the improvement we have achieved over the last several years and is a direct reflection of our disciplined operating culture and unwavering focus on conducting every task, safely and reliably, at all of our sites.

Now turning to Slide 4. The conflict in the Middle East has created an unusually large disruption to bulk petrochemical markets, impacting operations, feedstock availability, logistics and trade flows. The scale and duration of the supply loss is unprecedented, and we believe that recovery time will be measured in quarters, not months. Once this rate does open and stays open, we will see some improvement in supply.

However, we estimate approximately 6 million tons of polyethylene capacity, or around 20% to 25% of Middle East supply sustained damage from the conflict and will not restart until at least 2027. Additionally, we expect delays to some plant capacity growth projects.

The conflict has resulted in a shift in buying behavior amid elevated pricing and volatility. We saw a large increase in Asian freight rates, which essentially closed the arbitrage from Asia to Europe and Central America, increasing demand for U.S. and European material.

In China, we saw an unusual shift in trade flows. Despite lower operating rates, Chinese producers reduced imports and increased exports, primarily to Southeast Asia to take advantage of higher export prices and the supply shortfall in that region. As a result, we have seen Chinese polyethylene inventories decline by roughly 30% versus pre-conflict levels, as local operating rates remain in the mid-70% range. The market expects that China may soon have to increase imports again to replenish inventories that have been drawn down, which could provide support for prices.

With inventory buffer still limited across the industry, markets remain vulnerable to additional volatility should we see further setbacks in the Middle East or other supply disruptions emerge. We expect inventories to gradually rebuild as supply chains normalize and purchasing patterns return to more typical levels, though pricing is likely to remain above pre-conflict levels.

Importantly, we continue to see relatively resilient underlying demand. We have not observed broad demand destruction across key end markets with packaging remaining stable and continuing to represent the majority of our polyethylene demand.

Healthcare and infrastructure applications show the growth supported by areas such as pipe, wire and cable and data center-related investments.

Housing and automotive demand remain at subdued levels but are not a new headwind. We expect consumption to return to its pre-conflict trajectory, over the next year. As a result, we believe gradual normalization will be driven primarily by supply recovery and inventory rebuilding, rather than a meaningful change in underlying pre-conflict demands.

Now let's turn to Slide 5. Portfolio transformation is a key enabler of our strategy and is helping reshape LYB into a more advantaged and focused company. We have taken deliberate steps to improve portfolio quality and better position the company for long-term value creation.

We completed the divestiture of four O&P assets in May, and intend to close our Brindisi side by the end of 2026. Importantly, we remain confident in the strength of our remaining European footprints.

In O&P, we continue to make two crackers with integrated polyolefins at our Wesseling site in Germany with a Portugal increasingly focused on higher value, less commoditized applications. Construction of our MoReTec-1 facility at Wesseling is also progressing, well, and will benefit from direct integration with the crackers, supporting our circular and low-carbon solution strategy.

In I&D, we retained our 2 PO/TBA sites in Botlek and Fos, which produce propylene oxide derivatives and oxyfuels from a first quartile global cost position. Our catalyst production facilities and innovation centers in Ferrara and Frankfurt continue to support our technology leadership and differentiated product portfolio.

Overall, our remaining European asset base is well-positioned and closely aligned with our long-term strategy. These assets are critical to both our grow and upgrade to core strategy and our ambition to build a profitable circular and low-carbon solutions business.

At our Capital Markets Day in 2023, we laid out criteria for an LYB core business. That included leading market position, growing end markets, attractive returns above the cost of capital, access to advantaged feedstocks and a strategic focus on circular and low-carbon solutions. We continue to shape the portfolio with that framework in mind.

Over the last three years, we have executed a series of significant portfolio actions, including seizing refining operations, the divestiture of our EO&D business, acquisition of a 35% stake in NATPET, Saudi Arabia, with the purpose of expanding capacity, shutdown of our Maasvlakte POSM sites, exiting the Australian polyolefins assets, the sale of four European O&P assets, the planned closure of Brindisi, as well as the asset footprint and product portfolio transformation in APS.

We now have a greater concentration of our portfolio connected to cost advantaged feedstock, including 80% of our global ethylene capacity. This will enable us to achieve higher average margins through the cycle, as already demonstrated during the second quarter, and to focus capital on the areas where we see the greatest opportunity to create long-term value.

Let's now turn to Slide 6 as we discuss our financial performance. During the second quarter, earnings were $4.30 per diluted share with EBITDA of $2.1 billion, which more than tripled sequentially, driven by a significant improvement in margins during the quarter. Cash and liquidity remained robust with balances of $2.6 billion and $7.1 billion, respectively, at quarter end.

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

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 80%, which aligns with our long-term target. This performance reflects our disciplined approach to optimizing working capital, while capturing favorable market opportunities. As a result, higher prices and operating rates drove an intentional build of working capital in the second quarter.

As Peter mentioned, in the second quarter, our cash balance was $2.6 billion, and our available liquidity remains robust at $7.1 billion.

Now let's turn to Slide 8 and review the details of our second quarter capital allocation.

During the quarter, we generated $752 million of cash from operating activities. This performance reflects our continued focus on strengthening financial flexibility to capture higher prices, while improving cash generation through the quarter. Capital allocation remained balanced as we funded $270 million of capital investments and returned $224 million to shareholders through dividends in the second quarter.

Despite the highly dynamic market environment, our capital allocation priorities remain unchanged. We are committed to our investment-grade balance sheet as the foundation of our disciplined capital allocation framework. We continue to maintain our 2026 CapEx plan of $1.2 billion and expect sustaining CapEx to decrease by approximately $100 million, following the divestiture of four European assets.

While we have many attractive growth opportunities across the portfolio, we will remain disciplined in how and when we deploy capital by prioritizing high return, low-cost investments that strengthen our competitive position, while preserving the flexibility to advance larger growth projects once we see sustained improvement in market conditions.

We continue to make progress on our cash improvement plan and are on target to achieve $500 million of incremental cash flow by the end of 2026, driven primarily by fixed cost reductions and lower capital expenditures. We have reduced headcount by approximately 3,400 employees, or 17% of the workforce, since the beginning of last year, driven by portfolio changes and streamlining of our organization. These actions are enhancing financial flexibility while positioning LYB to create value across the cycle.

Look ahead, our near-term focus continues to be investing in safe and reliable operations, executing our cash improvement plan and maintaining our investment-grade balance sheet.

Now let's turn to Slide 9, and I'll provide a brief overview of our segment results. During the second quarter, our business portfolio generated $2.1 billion of EBITDA. We delivered strong profitability across all segments, reflecting stronger margins and continued focus on operational execution.

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 the Olefins and Polyolefins Americas segment. During the second quarter, O&P-America EBITDA was $1.3 billion, approximately 4x higher than the same quarter, last year. In polyethylene, integrated margins expanded substantially. This was primarily a result of a $0.30 per pound increase in polyethylene contract prices in April, the largest increase on record, driven by the global supply disruptions from the conflict in the Middle East.

June contract prices settled $0.15 per pound lower but for the year, polyethylene pricing remained shorter than 2025. Integrated polyethylene margins further benefited from higher coproduct pricing.

North America demand for polyethylene remained strong in the quarter, with domestic sales volumes up approximately 3.5%, marking the highest domestic sales quarter since the first quarter 2022.

Polypropylene demand also grew for the quarter, helped by a reduction in imports with the spreads to propylene increasing by $0.07 per pound, beginning in April. Our second quarter operating rates for the segment was approximately 90%, with our crackers operating at approximately 95% during the quarter. This strong reliability and operating performance allowed us to maximize production and capture favorable market conditions.

The investments and operating improvements delivered through our value enhancement program over the last three years continue to support higher productivity, improved reliability and strong asset performance across the portfolio.

Looking into the third quarter, we anticipate resilient demand in segments such as packaging, healthcare and infrastructure. We are closely monitoring developments in the Middle East and the potential impact to polyolefins pricing from crude oil and supply chain disruptions. As a result of these dynamic market conditions and limited global inventory buffer, we have announced a $0.10 per pound price increase for polyethylene in August.

We plan to operate our assets in line with market demand and conduct planned maintenance activities at our Clinton and Lake Charles facilities. The outage at Clinton began its turnaround in July and is expected to last approximately 70 days, while the Lake Charles outage will begin in the second half of the third quarter and extend into the fourth quarter. As a result, the third quarter operating rates across the segment are projected to be approximately 85% of nameplate capacity.

With that, let's turn to Slide 11, as we review the results of the Olefins and Polyolefins, Europe, Asia and International segment. During the second quarter, the segment generated EBITDA of $331 million, a $337 million increase over the first quarter. These results also reflect a gain on the sale of the European emissions credits of approximately $50 million. It is the strongest quarterly result of the segment, since 2021.

Market conditions improved significantly during the quarter, as supply chain disruptions stemming from the conflict in the Middle East reduced product availability and supported both Olefins and polymer margin expansion. To capture the improved margins, we increased operating rates to approximately 75% for the quarter, with our olefins crackers operating at approximately 85% utilization.

Our Middle East joint ventures continued to operate safely through the period but at times, were limited by feedstock impacting operating rates.

As Peter previously mentioned, we completed the divestiture of four European assets during the quarter, marking an important milestone in our portfolio transformation. These actions further strengthen the competitiveness of our portfolio, while improving our resilience through the cycle.

Looking ahead into the third quarter, demand is expected to soften due to the typical summer seasonality. While geopolitical uncertainty may continue to contribute to market volatility, we remain focused on disciplined commercial and operational execution.

Additionally, we continue to monitor the Rhine water levels in the region as they remain low and are, proactively, managing operating rates, as needed. We continue to adapt production plans and minimize disruptions to our customers. As we align production with market demand, we expect to operate the segment at approximately 70% utilization during the third quarter, though prolonged low Rhine water levels could further impact operating rates. With a more focused and competitive asset base, we are better positioned to navigate market volatility, while capturing value.

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

Aaron Ledet

Thank you, Kim. Please turn to Slide 12 as we look at the Intermediates & Derivatives segment. During the second quarter, segment EBITDA sequentially increased to $386 million, driven by stronger margins across several businesses supported by improving market conditions, despite unplanned downtime at our Bayport PO/TBA asset in Houston.

Global supply tightness from the conflict in the Middle East drove margin expansion in most of our businesses.

Oxyfuels further benefited from strong seasonal demand and near record level refinery gasoline crack spreads. Methanol gained from lower Gulf Coast natural gas prices in the quarter. These favorable conditions were partially offset by unplanned downtime at our Bayport PO/TBA asset. The outage had an estimated EBITDA impact of approximately $250 million, during the quarter. As a result, overall I&D operating rates were impacted and ran at approximately 65% utilization.

I'm pleased to report that our team safely restarted the Bayport asset and ramped to full rates in June. The successful restart reflects the dedication of our operation and maintenance teams and positions us to capture improved market opportunities, moving forward.

Looking ahead to the third quarter, we expect Oxyfuels and PO&D volumes to improve following the restart of the Bayport asset. Oxyfuels margins should benefit from seasonal demand strength and ongoing elevated crack spreads.

In PO&D, we continue to see soft but stable demand for durables, while our market share gains and margin improvements from industry rationalizations should continue to support future earnings.

Across the segment, we are targeting approximately 85% operating rates during the third quarter as we align production with market demand, while maximizing the value of our integrated portfolio.

On Slide 13, I'd like to spend a moment on our Oxyfuels business and why we continue to view it as a differentiated advantage within the portfolio. Oxyfuels are a clean burning, high octane gasoline blend stock. They are used to increase the octane level in gasoline and to help meet increasing fuel quality standards in global markets. Our proprietary PO/TBA technology allows us to produce oxyfuels, including MTBE and ETBE produced with bioethanol, as well as a range of high-value C4 chemical products.

Unlike traditional gasoline components produced from crude oil, oxyfuels are manufactured using butane and methanol, creating a structural feedstock advantage, particularly in the United States, where we make roughly 75% of our oxyfuels. This positioning is further enhanced by our integrated production of methanol derived from low-cost natural gas.

There are four primary drivers of oxyfuel profitability: butane and methanol feed costs relative to crude oil; gasoline crack spreads; and octane values or blend premiums. Together, these factors determine the economics of supplying oxyfuels into the gasoline pool.

During the second quarter, market conditions were exceptionally favorable as higher crude oil prices supported attractive feedstock differentials. As we have previously disclosed, a $1 per barrel change in crude oil has approximately $20 million of annualized earnings impact to Oxyfuels with butane to Brent spread being the primary driver.

Adding to that rule of thumb, gasoline crack spreads are near record levels as the conflict in the Middle East and refinery disruptions stemming from the Ukraine war, which have idled approximately 40% of Russian refining capacity have tightened global supplies of refined products.

The chart on the right highlights how each of the key profitability drivers improved, materially, from February to the second quarter levels, creating one of the strongest oxyfuel margin environments we have seen in recent years. Importantly, with Bayport PO/TBA back in operation, we are able to capture the full benefits of our integrated value chain.

With that, I will 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. Second quarter EBITDA was $78 million. APS margins improved through disciplined pricing actions and cost optimization.

Automotive demand remained stable despite geopolitical uncertainty, while our customer focus continued to generate tangible results through new business wins, across the portfolio.

Looking ahead, we expect seasonal demand to moderate across automotive and other end markets, including the typical third quarter down time at automotive OEMs. We also expect higher raw material costs related to global supply disruptions to persist. Nonetheless, we remain focused on disciplined pricing execution and cost management to mitigate these impacts, where possible.

Despite these near-term market dynamics, we continue to transform APS into a more customer-centric and resilient business. Our focus on customer centricity, cost optimization and portfolio improvement continues to strengthen our earnings profile. With these changes, we have seen EBITDA for the first half of 2026 increased by over 50% compared to the same period last year.

We remain confident that the actions we are taking will continue to improve competitiveness, profitability and transform the APS business, over the long term.

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. Second quarter EBITDA of $74 million was relatively in line with our prior guidance. Profitability improved over the quarter, driven by licensing revenue milestones and improved catalyst demand. Revenue increased as a greater number of higher-value contracts reached significant milestones, while catalyst sales benefited from strong demand during the quarter.

Looking ahead, we expect catalyst demand to normalize, following the high number of shipments during the first half of the year. In addition, new licensing opportunities are almost nonexistent amid substantially slower global polyolefins capacity growth towards the end of this decade. As a result, we estimate that third quarter technology EBITDA will moderate from second quarter levels, while remaining more in line with typical run rate results.

Let me share our views on our key regional and product markets on Slide 16. The conflict in the Middle East will continue to shape the near-term outlook for our products. As we mentioned earlier, the scale and duration of this supply disruption is unprecedented. Inventories have been depleted, particularly in China, which is the global buffer in the case we have further setbacks in the Middle East or other unforeseen supply disruptions, such as weather events.

We're best positioned in North America with our cost-advantaged assets and where we saw sequential improvement in demand in both polyethylene and polypropylene in the second quarter. We anticipate demand to remain resilient into the third quarter. While we did see prices come off to April peak, we're still well above pre-conflict levels. Both Europe and Asia are entering a typically weaker seasonal demand periods. Additionally, rising naphtha prices could pressure margins in those regions.

From an end markets perspective, we see a differentiated demand environment. Packaging and other consumable applications remain resilient, supported by food, healthcare and stable everyday consumer demand.

Infrastructure-related demand also remains a bright spot, while building and construction is stable but subdued as any housing recovery remains delayed. Automotive is softer, reflecting affordability and broader macroeconomic pressures.

On fuels, we are experiencing a consistently strong U.S. driving season, despite higher gasoline prices. We expect gasoline cracks to remain elevated through the summer, while crude price fluctuates with the conflict in the Middle East.

The overall takeaway is that constrained global operating rates, lean buffers, further risk of setbacks in the Middle East and resilient consumable demand should support elevated margins through the third quarter, with any eventual market recovery taking quarters, not months, to resolve.

As we conclude today's call, I would like to acknowledge that throughout the second quarter, our team continued to make smart decisions to successfully navigate a rapidly changing environment and ensure that we continue to serve our customers. We remain heavily focused on delivering lasting value for all our stakeholders.

Now with that, we're pleased to take your questions.

Operator
Thank you. 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 phone. If you would like to withdraw your question, please press the “*”, followed by the “2”. We do ask that you limit yourself to one question.

Our first question comes from the line of David Begleiter with Deutsche Bank.

David Begleiter
Thank you, good morning. Peter, on polyethylene, the consultants are calling for a $0.10 decline in July. I suspect you disagree with that forecast and maybe you can tell us why you disagree with that forecast. Thank you.

Peter Vanacker
Hi, David, good question, of course, I mean to start the call with. As I mentioned in the prepared remarks, the backdrop remains exceptionally dynamic. We look forward to a peaceful resolution to the conflict, but the timing of that remains, of course, difficult to predict.
Let me point out that, clearly, normalization isn't a straight line. As you know, we've seen the conflict cool down, heat back up again a few times over the past months, and prices have reacted in response.

The last few weeks we've seen increasing prices for crude oil, feedstocks, polymers, as the conflict seems to be ongoing. And the traffic through the Strait of Hormuz is still far below pre-conflict levels with the conflict spreading to other areas, such as the Red Sea.

So let me point out, as you know, that our global cost advantage asset base and the commercial expertise, as was demonstrated in our second quarter results, enable us to generate attractive margins in a range of different scenarios.

Now to your specific question around the pricing outlook, let me hand over to Kim.

Kim Foley

Thank you, Peter. I think as it relates to July, as you know how this works, the consultants send out their forecast and they do create a sentiment. But to Peter's comments, we've seen a lot of movement in the month of July. We've seen export pricing increase. We've seen export volumes increase, not only in the U.S., we've seen it all around the world.

So, I think as we think about the outlook and this potential escalation or reescalation, we see higher crude, we see higher demand. We do not see China exporting, which is what they had done in the second quarter. Typically, they have stronger demand or seasonal demand in the third quarter, so we see them importing.

I think the other thing that you have to think about from a global supply perspective are things that could constrain global supply. You've got a Rhine water level in Europe now, and you are still in hurricane season in the U.S. Gulf Coast.

So I hear them, but I also think there's a lot of factors that say that there's the potential for price settlement to be flat and potentially move up, throughout the quarter.

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

Vincent Andrews
Thank you, and good morning, everyone. Wondering if you could talk a little bit about the feedstock mix. It looked like both in the U.S. and in EMEA, EAI, there was some flexibility on the feedstock mix to capture what I believe were attractive co-product values. So if you could maybe talk about that and what you think is going to happen in the third quarter, to date, and where the best co-product opportunities are, that would be great. Thank you.

Peter Vanacker
Yes. Thank you, Vincent, for your question. Before I hand over to Kim to talk about more specifics, you know that we have flexible crackers. And of course, we have also done all our work in terms of the consolidation in Europe. So Europe is mainly focused now on our Wesseling operations in O&P, but we continue to optimize our feedstock mix based upon the flexibility that we have in our crackers. Now with that, Kim.

Kim Foley
Yeah, I'll just add a little bit more color. Particularly in Channelview and investing where they were naphtha crackers and we've added some flexibility to them, as you have a rising crude environment, you have the increase in your carbon value, whether that's propylene, butadiene or other fuel components. So that's where you're seeing the co-product credits and the rising crude environment. Thank you.

Operator

Our next question is from the line of Patrick Cunningham with Citi. Please proceed.

Patrick Cunningham
Hi, good morning. Thanks for taking my question. I wanted to dig into a little bit more on supply disruption. I think the ability for China to sell out of inventory and some of the buyer behavior were bigger factors than we had previously anticipated. And now we're starting to see some reescalation strengthen the export markets.

Do you expect any higher prices could potentially be met with higher operating rates in China in relatively short order? Or do you see additional constraints on crude and feedstock inventory and their ability to produce? I guess what I'm driving at is is there a risk that there may be additional production, demand destruction and perhaps they don't have to import as much in the second half?

Peter Vanacker
Yes. Thank you, Patrick. Good question around China. If you would have asked the question differently what surprised us the most during the second quarter, it is definitely China because China did not just endure the conflict, it actually did structurally adapt in ways that surprised even the most conservative forecasters, external consultants, players in the industry because what they were effectively doing is decoupling the chemical production from Middle Eastern oil volatility.

Just starting inventory in China of crude, refined energy products and petrochemicals were likely higher than what everybody would have anticipated before the conflict. The China CTO production, so coal to olefins, increased more than everybody anticipated, despite the fact that CTO technology is the upper end of the cash cost curve.

But coal costs were unaffected by the conflict and it offset some reduction in naphtha crackers. Everybody on the call knows that China is traditionally a net importer of polyethylene. But it has shown in the second quarter a greater-than-expected ability to increase exports and reduce its apparent consumption. We believe that that is temporary, than everybody would have anticipated. But also, just like Kim already said, it led to three consecutive months of China inventory drawdowns and materially lower inventories versus the pre-conflict levels.

So yes, the market adapted faster than the physical system recovered. We do believe that that cannot be something that is going to continue. Kim pointed it out. I mean, China, and we see already indications of that is coming back to the market. That means they start importing again.

We didn't see a lot of the exports coming out of China in the second quarter in the global value chain, but it was mainly geared to Southeast Asia, which could have a side effect, and you see some indications of that as well already, especially in South Korea. It increases the pressure on naphtha-based production to actually accelerate the consolidation. Kim, anything you want to add?

Kim Foley
No, I think you covered it. I think that's good. Thank you.

Operator
Our next question is from the line of Jeff Zekauskas with JPMorgan. Please go ahead.

Jeff Zekauskas
Thanks very much. Can you update us on the status of *MoReTec*? It is the initial facility complete, or do you expect it to be complete this year and selling product? And can you update us on your acetyl assets in the United States? How are they functioning in acetic acid and VAM?

Peter Vanacker
Thank you, Jeff. Good question. Let me cover the first one on *MoReTec*-1, and Aaron will cover your specific assets question. So *MoReTec*-1 continues to be progressing as planned, and that is the investments in Wesseling. Start-up is expected towards the end of 2027. As said, is scheduled as planned; we're progressing quite well. The commercial team has done a fantastic job, so quite a big part of that capacity, actually, the vast majority of that capacity is already being presold through agreements with brand owners.

The regulation, as you know, is advancing very positively in Europe, as well. With plastic and plastic waste regulation, as well as a mass balancing regulation, the so-called SUPD. We're very confident about our strategy because new markets are being created. The value that we are able to capture is actually higher than what we have anticipated and communicated in March, 2023, in our Capital Markets Day.

When I shift gears to the United States, with *MoReTec*-2 investments, as you know, in the context of the Cash Improvement Plan but even more so because we saw that regulation was not as advanced as in Europe, we have delayed the project to build the second *MoReTec*-2 units. Aaron on acetyls.

Aaron Ledet
Yeah, thanks, Peter. And thanks for the question, Jeff. On acetyls, we continue to experience reliability issues in our syngas unit which is affecting both of our acid production and our VAM production at our La Porte site. Remember this, though, as part of our acetyls business, methanol is included and at La Porte, we are running beyond benchmark rates right now in our methanol business which, as I mentioned in some of my planned remarks, benefited us tremendously in the second quarter as we saw pricing peak in April.

And while prices have come off their peak levels in methanol, they still remain elevated, certainly from the beginning of this year. As we look ahead to the third quarter, we do hope to get both acid and VAM back to full rates and the teams are working diligently to do so.

Peter Vanacker
So let me then also summarize this. If you look at our excellent results that we had in the second quarter, and I will keep on repeating, a 23% EBITDA margin, which fantastic work that our teams have done. But we didn't have the full benefits out of our acetyls production units, investments. And we didn't have the benefits in PO/TBA because everybody knows that we had this fire incident in Bayport, which had a drastic impact on our second quarter results.

So it shows also the potential that we have in our business portfolio after all the work that we have done on portfolio rationalization, value enhancement program and cash improvement plan because Q2 was exceptional in terms of EBITDA, but it was not perfect.

Operator
The next question is from the line of Josh Spector with UBS. Please go ahead.

Joshua Spector
Yeah, hi, good morning. I just wanted to follow up on the Americas Olefins margin improvement, specifically. I think when we looked at the spreads movements, we thought EBITDA up, call it, like $600 million-ish, plus or minus. You did a few hundred million better than that, and I'm just wondering if you could help decompose that between what you'd attribute that to in terms of cost savings versus co-products and trying to think about what's structural in there versus temporary? Thank you.

Peter Vanacker
Well, Josh, there was definitely an element, and you can see a bit of that in the SG&A. You saw clearly that our SG&A is coming down, and these are the results that are coming out of our Cash Improvement Plan. Let me maybe also take the chance to point out that with the latest phase in streamlining our organization, we are talking about a 30, so 30% of reduction in management, not just in the executive committee but in the entire management structure. And that was possible because we have done this portfolio changes.

We have delegated authority deeper in the organization based upon our value enhancement program. So that entire streamlining, we've done quite a lot of training during the last three years in executive development programs. So that actually, that delegation of authority, that our management knows what it actually means and how to take up more responsibility and work together along the value chains, work together inside of the company along processes.

So that part, you only see a part of that in SG&A because, of course, another big part is actually in our total fixed costs.

Kim Foley
Yeah, and Peter, I would just reiterate, our volumes were up, ethylene price was up, propylene price was up, ethane was down, natural gas was down. It was a very perfect alignment.

Peter Vanacker
And actually, 36% EBITDA margin in O&P Americas, excluding identified items, fantastic work.

Operator
The next question is from the line of Kevin McCarthy with Vertical Research Partners. Please go ahead.

Kevin McCarthy
Yeah, thank you and good morning. I appreciate the detail you offered on Slide 4 regarding polyethylene asset damage and other constraints due to the Middle East conflict. Welcome any comments that you have on other pieces of the portfolio, whether it's the propylene chain or other assets that have been dislocated by the conflict. Perhaps tough to quantify off the cuff, but certainly would welcome how you're thinking about that in this structure.

Kim Foley
Excellent question. This is Kim. I'll try to give you a quick answer on that one. As we think of the polypropylene markets, we think of the LPG that comes out of the Middle East that goes to Asia, I'll just say Asia generically, whether that's China or North or Southeast Asia. And what we saw at the beginning, I think you'll remember in last quarter, we were probably even more bullish about the amount of capacity impacted but what we have seen is we have seen the U.S. imports or exports of LPGs into the region temper that impact.

So we've seen operating rates in North and Southeast Asia, excluding China, at about 50% versus we probably thought a quarter ago that it would be more like 0 or 25. So, there is an impact there and the longer the Strait stays closed, the U.S. can only partially close that gap. I hope that answers your question.

Peter Vanacker
Let me add on polypropylene as well, one needs to take into consideration is, again, also that portfolio management that we have undertaken because especially in Europe, with the sale that we concluded successfully in the second quarter, that means that also, not just in polyethylene, but also in polypropylene, we have moved up, let's say, or moved down actually in the cash cost curve, so our portfolio in polypropylene is more in the low-cost delivered area.

In addition to that, of course, we have our NATPET joint venture in Yanbu which has, during the conflict, very steady, very high performance, continued to run and continues to run as we speak. We continue to work on the expansion of that project. So we remain committed because we do believe that helps us in either further advancing our lowest cost delivered portfolio in polypropylene. But let me also ask Aaron to add some color in his business units.

Aaron Ledet
Yeah, from an I&D perspective, I'd maybe point to two specific areas, methanol being the first. You heard my commentary just with the pricing peaking really in the second quarter. Twenty

percent of global methanol capacity is served out of the Middle East with 50% of that volume coming from Iran. So obviously, that is a significant impact. And while there's plenty of disruption, we don't know exactly how long it's going to take to get that capacity back online.

Most of that Iranian capacity goes into China for a variety of different products, methanol to olefins or even MTBE. So we've seen that disruption.

I also mentioned in my planned remarks, with Ukraine targeting Russian refining capacity, over 40% of Russian refining capacity is now off-line and we are not seeing exports of distillate out of Russia. They're the largest exporter of diesel today and so that's impacting refinery rates and runs globally.

Peter Vanacker
And we pointed it out on Slide 4 - we do not see that demand is getting weaker. So packaging demand continues to remain strong. Certain areas, healthcare, infrastructure, data centers, very strong demand. And the areas where we have weak demand, it hasn't actually weakened even further. So here, I'm talking about housing and automotive, for example.

Operator
The next question is from the line of Frank Mitsch with Fermium Research. Please proceed.

Frank Mitsch
Thank you. Good morning. Aaron, I wanted to come back to the $250 million negative impact in 2Q from the Bayport outage. I'm assuming that's at the elevated oxyfuel margins that were in the second quarter. So I'm just trying to figure out couple of things in terms of a jumping off point as we start thinking about the third quarter in I&D. I mean, if you just add that $250 million to the -- what you reported, you're around $630-ish million of EBITDA in the third quarter. Now obviously, there's movement in pricing, etc., although it sounded like you might be a little bit more optimistic on the acetyl side.

So how should we be thinking about, A, the jumping off point for the third quarter and some of the puts and takes relative to the second in I&D? Thank you.

Aaron Ledet
Sure. Thanks, Frank, and I appreciate the question. Maybe a couple of things just to start. As Bayport PO/TBA was down, we ramped up Channelview POSM rates to help satisfy some of the PO demand that was being displaced as a result of the outage. Keep in mind that POSM is a second quartile asset on the cost curve, so we displaced a first asset with a second quartile asset.

So as Bayport has come back online, we reduced the rates of our POSM unit, and we are now running Bayport PO/TBA full. So the TBA margins are far greater than the styrene margins. We'll see that impact in the third quarter. You can't just simply take the 250 and add it to the second quarter, for a variety of different reasons. It's tough to predict where Crude oil prices are going to go for the balance of this quarter where gas cracks are going to go for the balance of this quarter. We will, however, see improved volumes, specifically in the derivatives chain from a PO perspective, as well as with MTBE.

Peter Vanacker
And I would like to add on that, Frank, as well, the fantastic work. You remember when we invested in Channelview in this holy grail of PO/TBA facilities, our so-called SKU units, that ran at 112% Aaron.

Aaron Ledet
Yes, in Channelview, we were able to push rates. So I've mentioned in the past, we've demonstrated 108% of benchmark rates in Channelview. We've actually tested those rates and demonstrated that we can run now 112%, so that's CapEx-free capacity creep.

Operator
Our next question is from the line of Matthew DeYoe with Bank of America. Please go ahead

Matthew DeYoe
Thanks, I have two. One, why did you only take operating rates to 90% in 2Q? Why not more? And as you ramp down from 2Q to 3Q, what's the headwind to EBITDA just from operating rates? And then, if I could, the comments on China that has burned through like 30% of its inventories, can you give us an idea how you got to this number and your confidence in it? But candidly, I kind of would have thought it would have been more than 30% but also, you probably can't functionally go to 0, either. So just some framework is helpful.

Kim Foley
Okay. This is Kim. So let's start with the 30% Chinese operating rate, first, or inventory pull, sorry. The inventory we get that is published is from the two biggest SOEs in the region and we get that inventory every two weeks in arrears. So when we captured that snapshot, it was about a week ago, and it was a pull of about 30%. And remember, that's coming off the high that they had coming out of Chinese New Year's.

As it relates to operating rates, are you asking me about second quarter or third quarter? Could you clarify, and you're talking about OPAM correct, the Americas?

Matthew DeYoe
Maybe it's hard to run the whole fleet flat out. But you just talked about Channelview running above 100, etc. So why weren't the rates better in the second quarter, or why didn't you run them better? And as you move from 2Q, 3Q, there's a planned rate reduction. I'm just kind of wondering what the headwind is, incrementally, from 2Q to 3Q, just given lower operating rates.

Kim Foley
Yeah, right. So, the quarter-on-quarter sequential decrease is the Clinton turnaround, which is a 70-day outage, which would include an olefins unit and a cracker, which as you heard from ourselves and from our competitors, that some of the increase in inventory in the second quarter in the U.S. system was just that. We were building inventory to support our customers' needs during these third quarter turnarounds.

Peter Vanacker
The crackers ran in Q2, at full capacity. So in OPAM, we were running at 95%, if I remember well, of cracker capacity.

Kim Foley
Cracker capacity, yes.

Peter Vanacker
So the 90% is not the cracker capacity.

Kim Foley
Correct.

Operator
Thank you. Our last question is from the line of John Roberts with Mizuho. Please go ahead.

John Roberts
Thank you. I believe one of your large competitors in Europe on their call talked about all the increased industry M&A and their interest in bolt-on acquisitions. As your balance sheet improves here, is that something Lyondell might be interested in, as well?

Peter Vanacker
John, thank you. Good question. That allows me also to lead to Agustin so that Agustin can talk about our capital allocation strategy.

Agustin Izquierdo
Sure, John. Thank you very much for your question. Yeah, really, our capital allocation strategy remains unchanged. Investment grade continues to be paramount and then we'll obviously focus on maintenance CapEx to run safely and reliable, our dividends, as well, continues to be an important piece of it, then any growth CapEx. And at the end, we would look very opportunistically, if there's anything on the M&A front.

But priority for now is to rebuild the balance sheet, improve our credit metrics and fortify. That’s our position as we go here through the cycle. We've had a nice deleveraging for this quarter, and we'll keep strengthening our balance sheet as we go through the year.

Peter Vanacker
Remember, we navigated very well through this down cycle, net by having $3.4 billion in cash, on the bank, So you can take that number as what we are actually aspiring building up again.

Operator
Thank you. I'll now turn it back to Mr. Vanacker for closing comments.

Peter Vanacker
Thank you, again, for all your thoughtful questions. The events over the past months have transformed the global landscape with the economic and logistical impact of this conflict persisting many quarters beyond the eventual end of the disruption. While volatility and uncertainty remain part of the current environment, our focus continues to be on the actions we can control. Through disciplined capital allocation, active portfolio management and relentless focus on operational excellence, we're building a strong and more resilient LYB.

Our LYB team demonstrated this impressively, by delivering 23% EBITDA margin during the quarter. Clearly shows that the margin potential of the renewed LYB portfolio and lean organization set up, all our actions through our portfolio measures, our value enhancement program and our cash improvement plan results in a stronger operating leverage. You can be confident LYB will remain focused on our strategic priorities and long-term value creation in this dynamic environment.

We thank you for your questions, your interest, continued support of our company. Hope that you have a great and safe weekend. Stay well. Thank you.

Operator
Ladies and gentlemen, you may now disconnect at this time. Thank you for your participation.