Stora Enso Oyj – Q1 Earnings Presentation 2024 | GCS | April 25, 2024

Hans Sohlström

Good morning, everyone, and welcome to Stora Enso's First Quarter 2024 Results Presentation. Thank you for joining us today. I am Hans Sohlstrom, the President and CEO of Stora Enso. I'm here with CFO, Seppo Parvi, to take you through our performance and outlook before we take your questions.

Let's start the presentation by looking at this image of the newly opened World of Volvo Experience Center in Gothenburg, Sweden. It's a prime example showcasing the possibilities of wooden construction where the latest mass timber techniques and materials from Stora Enso was used. For every ton of wood we use in buildings, we tie up 1 ton of carbon and avoid at least another ton of carbon dioxide emissions from alternative construction materials.

But let's now shift our focus to the key highlights of the quarter. Before we dive into the details, let's start by reviewing some of the most important highlights for the quarter. Despite a weaker year-on-year performance compared to the relatively strong Q1 of last year, we achieved a sequential improvement in EBIT, a tripling of EBIT from Q4, which is encouraging and a good sign of progress. Unfortunately, the political strike in Finland have impacted our results negatively by about EUR 25 million.

I'm pleased to say that we have managed to reduce our operating working capital by a significant amount with a reduction of EUR551 million from the corresponding quarter last year. And in light of additional cost savings, we have raised our profit improvement target and program -- savings program to EUR 120 million from EUR 80 million, which will take full effect in 2025.

However, this cost reduction program may unfortunately result in a reduction of around 1,000 employees. Laying off people is a last resort, but it's necessary to improve our financial performance.

We are proud to have been awarded the green bond of the year corporate EMEA, which recognised our commitment to sustainability. And as a part of this commitment to sustainability, we are partnering with IUCN to advance positive impacts on biodiversity.

During the first quarter, we focused on continuous efforts to improve profits, competitiveness and cash flow. Group sales decreased by 20% to EUR 2.2 billion. This was largely due to the inclusion of divested paper sites and the closed mills of De Hoop, Sunila as well as closed production lines in Ostroleka and Anjala in last year's Q1 2023 results. Additionally, lower sales prices across all divisions, except for forest contributed to decreased profitability.

Our group adjusted EBIT fell to EUR 156 million, with the negative impact from the Finnish political strikes of approximately EUR 25 million being more than offset by positive one-off compensation of electricity costs in packaging materials. Excluding the structural impact, the volumes were higher, supported by lower maintenance activity, which also include fixed costs in addition to our fixed cost reduction measures. Thanks to systematic and determined sourcing and operational efficiency actions, we were able to achieve cost savings in many variable cost categories, apart from fiber costs, mainly wood.

Cash flow from operations amounted to EUR 269 million, and we were able to improve this by reducing our operating working capital. In fact, we were able to significantly reduce it by EUR 551 million compared to the same period of last year. We were able to reduce operating working capital in relation to sales by almost 3 percentage units from 12.6% of sales last year Q1 to 9.7% of sales this year's Q1.

Through our cost-saving efforts and reductions in many variable cost categories, we were able to achieve lower costs apart from fiber costs, mainly wood, which continued to increase. Compared to last year's first quarter, the group's adjusted EBIT decreased by 1/3 to EUR 156 million, down from EUR 234 million. This was primarily due to lower sales prices across all divisions, except the forest.

Despite this, we did see higher volumes for continuing operations, particularly in containerboard, and our biomaterials and packaging materials volumes were also supported by lower maintenance activity. This helped to offset the negative impact of the strikes, which amounted to approximately EUR 25 million in Q1.

Additionally, our focus on cost-savings actions and the fact that we did not have major annual planned maintenance shutdowns during the first quarter supported the reduction of fixed costs. Furthermore, depreciation was lower due to the significant impairments from last year and Beihai being classified as an asset held for sale, we stopped the depreciation.

In Packaging Materials, the demand started to show gradual improvements, both in consumer and containerboard. In consumables, the demand improved as destocking ended, and in containerboard, demand gradually improved with cost-driven price increases announced across the industry.

Sales decreased by 15% or EUR 200 million to approximately EUR 1.1 billion, mainly due to production unit and line closures during 2023. Also the lower board and paper prices and delayed shipments due to the political strikes in Finland impacted sales negatively. However, the adjusted EBIT increased from last year to EUR 60 million. Variable costs declined, except for wood costs, which continued to increase. One-off compensations of energy production costs related to CO_2 emissions more than offset negative effects of the political strikes in Finland.

Regarding the fixed costs this quarter, we did, as mentioned earlier, not have any major planned annual maintenance shutdowns, which improved profitability. However, in the second quarter, we will have planned maintenance shutdowns in both Beihai, China and Langerbrugge.

Next up is our Packaging Solutions segment, which experienced ongoing weak market conditions and pricing pressure. Packaging Solutions had a low season in most segments. The demand stabilised at a lower level across most markets and segments. There is significant overcapacity in the market that continued to weigh on the performance.

Sales decreased by 19% to EUR 224 million, driven by lower price levels, which have followed the lower containerboard prices. Adjusted EBIT decreased to minus EUR 1 million, mainly impacted by high pressure on prices and margins. Ramp-up costs, such as the depreciation level, has also increased due to expansion of the new corrugated packaging production facility in the Netherlands.

Moving on to Biomaterials, which is, on the other hand, saw continuously increasing pulp prices. The Biomaterials division showed improvement from the previous quarter, supported by positive price changes and global pulp inventories remaining below the 5-year average. The overall demand was stable with solid demand for fluff pulp.

Sales decreased by 23% to EUR 374 million. Sales prices were significantly lower, as were deliveries, due to the closure of our Sunila pulp mill. However, sequentially, the prices improved in all pulp grades and markets. Adjusted EBIT decreased from last year to EUR
57 million, mainly due to lower sales prices, partly offset by actions to reduce fixed losses. The political strikes in Finland had a slight negative effect.

We have no planned annual shutdowns, which reduced fixed costs further. However, in the second quarter, we will have planned maintenance shutdowns in Montes del Plata and Skutskar.

Now let's take a look at the development in our Wood Products division. The Wood Products division continues to face a weak overall market demand with margins remaining at the low levels. The market weakness continued and especially in building solutions as the construction market is still struggling. Low building permit and project activity led to sustained low demand for cross-laminated timber and laminated veneer lumber.

Sales decreased by 23% to EUR 349 million, mainly impacted by lower sales prices and volumes, especially for sawn wood. Adjusted EBIT increased year-on-year to minus EUR 9 million, improved by lower fixed and variable costs. In order to mitigate the impact of the weak demand, cost-saving actions and market curtailments were implemented.

The Forest division, however, experienced a complete opposite market situation. The Forest division had a strong quarter result, driven by increased prices, strong wood demand and good harvesting conditions. Wood prices increased compared to the same period in 2023, but remained at the same level quarter-on-quarter. The political strikes in Finland reduced wood consumption and challenging logistics -- challenged logistics and deliveries.

Sales decreased by 4% to EUR 659 million. Adjusted EBIT increased from last year by 24% to EUR 70 million, reflecting a strong operational performance in the group's forest assets. Our stable forest asset fair value is currently EUR 8.6 billion, equal to EUR 10.94 per share despite a quarter-on-quarter decrease of EUR 106 million due to the exchange rate impact, mainly impacted by a weak Swedish krona.

Important to note is that the market transaction-based forest property prices in Finland and Sweden are only updated in the second and fourth quarter. Our forests are our largest assets, and we remain confident in the long-term value that we can create from them.

Let's now take a look at our actions to build a more profitable and competitive company. Our actions to build a more profitable and competitive company is to deliver on our long-term strategy to position Stora Enso for current and future growth opportunities. In the current weak market conditions, we have emphasised improving profitability through more efficient sourcing, production and sales, freeing up capital, including working capital, execution and the right people in the right jobs.

At the beginning of 2023, we discontinued our Paper division, which had been suffering from structural market decline for a long time. Instead, we focus on expanding our business in growing segments of renewable and recyclable packaging. The acquisition of the Dutch corrugated packaging company, De Jong Packaging Group, for an enterprise value of approximately EUR 1 billion was completed at the beginning of 2023. The ongoing ramp-up of a new corrugated packaging production site in Western Europe is further strengthening our position in the region and is estimated to be fully ramped up during 2026.

The estimated capacity of approximately 375 million square meters will double the capacity at the site to around 700 million square meters per year. In addition, we continued the ongoing EUR 1.1 billion consumer packaging investment at our Oulu mill in Finland and production is expected to start in the first half of 2025, with full capacity estimated to be reached during 2027. Estimated annual sales at maturity is circa EUR 800 million.

To strengthen the group's long-term competitiveness and improved profitability, we launched a restructuring program in 2023, which impacted approximately 1,150 employees who unfortunately had to leave their positions. From that program, we also closed several production units with weak long-term competitiveness. Through these actions, we achieved an annual adjusted EBIT improvement of EUR 110 million.

This year, we launched another profitability improvement program, targeting on improving of EUR 80 million annually by reducing fixed costs. The program has progressed well, and the target is now raised to EUR 120 million of fixed cost reduction, thanks to additional fixed cost reduction measures. As mentioned earlier, this could unfortunately lead to about 1,000 redundancies. This plan does not include new mill closures. Rather, it is based on streamlining existing operations by focusing on what is essential for business and performance, in other words, doing more with less.

In addition to these, we have moved to a new decentralised operating model and performance organisation based on P&L responsible divisions and business units within them. We improve our commercial and operational excellence with a leaner organisation to improve decision-making and customer orientation and to achieve faster implementation.

We are also reviewing and optimising our commercial strategies. We are freeing up capital by reducing working capital and divesting noncore business. The plan to divest the Beihai site in China is proceeding according to plan. And as mentioned earlier, the site is classified as asset held for sale from the end of 2023 onwards.

I will now hand over to our Group CFO, Seppo Parvi, to cover more detailed information on our financials. Over to you, Seppo.

Seppo Parvi
Thank you, Hans. This year, our estimated CapEx remains at the level of about EUR 1 billion to EUR 1.1 billion, as the Oulu consumer board investment is moving ahead according to the schedule. Long term, we give CapEx at or below depreciation over the cycle. Our aim is to quickly revert to the average range of EUR 600 million to EUR 800 million after the Oulu investment is ready. Due to the current business environment and to protect our balance sheet and cash flow, we are continuing to be restrictive on new major CapEx initiatives.

Moving to the next important topic, our cash flow. We have achieved significant reduction in operating working capital. A strong balance sheet is crucial for the future. Our net debt to adjusted EBITDA ratio was 4 at the end of the first quarter. We recognise that this is higher than our target of remaining below 2 and are taking steps to improve profitability and to reduce our debt levels.

Despite facing weak market conditions and making strategic investments, we were able to improve our cash flow from operations by reducing our operating working capital. In fact, as Hans mentioned earlier, we were able to reduce it by EUR 551 million compared to the previous year.

We aim to release capital through working capital management and divestments. These measures will help us reduce debt and increase liquidity, which remains strong. To ensure that we can fulfill our obligations and invest in growth, we are holding on to a strong liquidity position. This is also important during the time of uncertainty. This includes cash and cash equivalents of approximately EUR 2.1 billion, along with unused credit facilities of up to EUR 1.9 billion. We do not have any financial covenants and have investment-grade ratings by both Fitch and Moody's.

Next, let's see how our long-term financial targets have developed. We are not meeting all of our long-term financial targets due to a challenging business environment and unsatisfactory financial performance. And as you have just heard from Hans, we are taking further actions to strengthen the business, short, medium and long term, in order to improve our competitiveness.

The distribution of dividends is one of our long-term financial targets, and we are committed to maintaining this target even in the challenging times. Our ability to pay dividends despite the weak results demonstrates our dedication to creating long-term value to our shareholders. The Board of Directors, therefore, decided on a dividend of EUR 0.10 per share, which was paid on the 4th of April. The AGM has also authorised the Board to decide on the payment of an additional dividend of up to EUR 0.20 per share until 31st of December.

Maintaining a healthy balance sheet is crucial going forward. Our targeted net debt to adjusted EBITDA remains below 2x, although the ratio increased to 4x in the previous quarter. One of our focus areas is releasing capital through working capital management and divestments such as Beihai. These actions are reducing leverage and increasing liquidity. Also profitability improvement is in our focus through various actions on variable and fixed costs as well as commercial side. All divisions with the exception of the strong performance in the Forest division are falling behind the return on capital targets.

With that, I pass back to Hans, who will provide an overview of our sustainability targets and market demand outlook. Please, Hans.

Hans Sohlström
Thank you, Seppo. Our demand and growth are driven by sustainability, which is not only a strategic business enabler, but also a competitive advantage. We are committed to achieve our clear and ambitious sustainability targets on climate, circularity and biodiversity.

In terms of climate, we have been enhancing our energy efficiency and using more clean energy for Scope 1 and 2 emissions. Our production emissions have decreased by 44% since 2019, and we are committed to reaching net zero carbon emissions by 2040.

As for circularity, we have achieved 94% recyclability of our products and aim to reach 100% by 2030. We also monitor and report on the quality of our forestry operations to have a net positive effect on biodiversity in our own forest and plantations by 2050.

Now moving on to the sequential market demand outlook. For the second quarter, we expect stronger demand for our products, including consumer board, containerboard, corrugated packaging, pulp and sawn wood due to seasonal effects and other factors. However, profits are expected to be adversely impacted mainly due to the sequential cost increases for planned maintenance, higher wood costs and the recent political strikes in Finland.

In Europe, we anticipate stronger demand for corrugated packaging driven by the seasonally higher demand for fruit and vegetables. Additionally, we expect slightly stronger demand for pulp in Europe and China, with stable demand for fluff pulp and hardwood pulp. Softwood pulp demand is expected to be slightly stronger in China. Demand for sawn wood is expected to be significantly stronger due to seasonal effects, while weak demand is expected to continue for building solutions from the construction segment.

In Sweden, we anticipate slightly stronger demand for pulpwood, with significantly stronger demand for sawlogs. In Finland, we expect significantly stronger demand for both pulpwood and sawlogs, with stronger demand for pulpwood for energy use due to seasonality.

Overall, we are optimistic about the long-term demand outlook for our products and remain committed to meeting our customer need, while prioritising sustainability and innovation.

To conclude, we are powering ahead with a more profitable and competitive Stora Enso for a stronger future. Our actions are focused on improving profits, competitiveness and cash flow. We are achieving this through our systematic structure and determined improvement actions in procurement, operational and commercial excellence.

A healthy balance sheet is crucial for the future of our company, and we are taking determined actions to free up capital by reducing working capital and divesting or closing noncore businesses. We believe that strategy and its execution are critical to our success, and we are committed to having the right people in the right jobs to make this happen.

Our profit improvement program target -- the fixed cost reduction program has been increased to EUR 120 million from earlier EUR 80 million due to additional fixed cost savings. And we have completed last year's restructuring program, which yielded on annual adjusted EBIT improvement of EUR 110 million. Based on our analysis and market trends, we expect our full year 2024 adjusted EBIT to be higher than the EUR 342 million in 2023.

In summary, we are making good progress in our efforts to improve profitability and cash flow through operational and commercial excellence and working capital management. Our profit and result-oriented leadership culture is based on 4As, ambition, agility, analytics and accountability. We are executing with determination and speed, and we are confident in our ability to deliver stronger results and shareholder value in the future.

Now let's open up the floor for questions.

Operator
Our first question comes from Andrew Jones at UBS.

Andrew Jones
Just a question on the guidance. I mean, if we adjust for the one-offs and we normalise the maintenance schedule, it looks like the run rate is already on track for the middle of the guidance range. You seem pretty confident in the outlook for a lot of the end products, at least going into the second quarter.

So I'm wondering what holds you back from being a bit more positive on the outlook. Is it just conservatism? Is it the -- are you fearful that the strike will restart? Or are there other factors such as rising wood costs that particularly concern you, that hold you back from lifting that guidance range? And just on that, could you quantify the headwind you're expecting in the second quarter from wood costs?

Hans Sohlström
Yes. Thank you, Andrew. Well, there is still 3 quarters to go this year. And as we all know, there is a lot of geopolitical, macroeconomical uncertainty out there in the full -- in the whole world, so -- with a potential impact. So still lots of uncertainty out there. I think that's the answer I can give.

And regarding the quantification of wood cost-related headwind, we don't guide to give any more specific guidance regarding that.

Seppo Parvi
Yes. And maybe I can add to that, like Hans said, there's a lot of uncertainty still when it comes to recovery of the global economy. Interest rate cut seems to be moving forward in time continuously as also we can see from the recent news flow. And yes, you are right, and we also have communicated, there are some positive signals, but we cannot really talk about any turnaround of the market yet. So that remains to be seen.

Andrew Jones
Okay. And just one follow-up. On the liquid packaging, I mean, I noticed that your pricing was, well, a least bit -- a little bit better than I expected in Packaging Materials. Was there any major positive impact quarter-on-quarter on liquid packaging pricing?

Hans Sohlström
Well, Andrew, we don't specify, let's say, [per grade] in that respect. So we can only refer to the information we have in our quarterly report. So I ask for your kind understanding, Andrew.

Operator
Our next question is from Charlie Muir-Sands at BNP Paribas Exane.

Charlie Muir-Sands
The first one is perhaps a bit of a follow-up on Andrew's. Just overall, as we move into the second quarter, if you set aside the higher maintenance costs quarter-on-quarter that you're guiding to just overall production costs, would you expect those to be going up or down per ton given, as you say, wood costs are rising, but you also cite some other costs are moving in the other direction?

Seppo Parvi
In general, I would say that it comes to input costs and production costs. Inflation pressures have eased with the exception of wood, like we said earlier. So other costs are going the right direction, meaning down. Then of course, look at the Q2 onwards, you have to remember that there has been, in some countries, salary increases taking place late spring, and that is adding to some costs in the production as such.

Hans Sohlström

And adding on that in addition to, of course, let's say, input market cost development, we are working very actively on systematic approach to sourcing-related cost savings, which basically -- and also operational efficiency-related improvements, which also have a positive impact on variable costs. So there are many factors playing in here.

Charlie Muir-Sands

Great. And for my second question, obviously, note the very significant reduction in working capital year-on-year, but quarter-over-quarter, it rose about EUR 70 million. From here, how much of that is seasonal? Or did the strikes have an impact on the working capital movements? Or is it that it is getting a bit harder from here that the low-hanging fruit on reducing working capital has already been harvested?

Seppo Parvi

Well, it's mainly driven by seasonality. It's difficult that during the first quarter, working capital goes up. I would say that [additional] effect on working capital from the strikes was quite limited. [indiscernible] building stock. On the other hand, stocks were also going down. So it's rather worse, I would say, so no single effect from that. We still believe that there is quite a lot of potential to further reductions of working capital as we are moving forward with the program full speed. There's excellent very good commitment in the organisation, a good momentum when it comes to work on not only on working capital, but also other programs that Hans mentioned to improve our profitability.

Operator

Our next question is from Linus Larsson, SEB.

Linus Larsson

Coming back to Packaging Materials and maybe if you could break that bridge down just a little bit for us how profitability improved so much in the first quarter after 3 consecutive quarters of losses, that would be very helpful.

Hans Sohlström

Well, thank you, Linus, for the question. Well, I mean, as we have mentioned in the report, we saw some gradual recovery in the market. So we had some volume impact there. We had also the fact that there were no planned maintenance shuts in Q1. So that, of course, also had a positive impact on volumes. And so that's, I would say, explains probably the majority of that positive development.

Seppo Parvi

And also I would add that -- sorry, please just add that also our mills were running quite well. So quite good operating rates and efficiencies at the mills that were running then despite the strikes and also in other countries than Finland. And on the cost side, you were asking. So like I said, other costs with the exception of wood were moving to the right direction and keeping positive impact.

Linus Larsson

Right. And then likewise, bridging into Q2, then I guess there's some EUR 30 million one-off that is not reoccurring and then obviously taking the maintenance schedule into account. Apart from that, what should we think around Q2 in Packaging Materials and maybe specifically on costs?

Seppo Parvi

Like we had said earlier, one major item in the cost is that fiber costs, wood costs continue to increase going to Q2. And that is one driver. And then we have this additional maintenance cost of EUR 35 million in Q2 versus Q1 as another driver, in addition to those one-off type of CO2 compensation, [energy wise].

Linus Larsson

Great. And maybe as a final one, with regards to the wood market, any thoughts how this will play out? We're just at the beginning of an upturn and wood prices are at all-time high. How do you see this playing out? How will the balance in the market be restored?

Hans Sohlström

Well, without speculating too much, I mean, we are focusing on our cost efficiency. We are producing -- in this high wood cost environment, we produce high added value, high-quality board materials, especially consumer board materials with efficient integrates, which are pulp -- integrated pulp production as well as also supporting mechanical wood working operations.

So with a high added value, that's the way how to be successful in this type of a high-cost environment. That's how you have the highest wood paying capability also with the highest added value products where the share of wood cost is the lowest in the total cost structure.

Seppo Parvi
And one key driver, as you know, Linus, has been increasing use of energy wood and that is competing with us, especially when it comes to pulpwood market. And that pressure continues and continues until for instance, more electricity boilers are invested in. And
that is, of course, not going to happen tomorrow. It will take some more time. So I think the market rather remains challenging and getting significant effect in that sense.

Operator
Our next question is from Cole Hathorn at Jefferies.

Cole Hathorn
Just like you've given a lot of context on the fixed cost savings and what you're doing on improving the cost base. But how are you changing your commercial approach to pricing? When I look at Stora Enso and a lot of the Nordic producers, what has changed is wood costs are higher for longer, and that's the concern. How are you getting your sales teams to change the commercial initiatives here and basically try and price up for that structurally higher costs? And could you give some color across your product grades because we have seen price increases in containerboard grades? I just like some color of how you're seeing that across your other end markets.

Hans Sohlström

Yes. Thank you, Cole, for the question. Yes, we are -- since last autumn, we are running systematic improvement processes in 5 different areas. There is a fixed cost program, which we call our profit improvement program, where we have increased the fixed cost saving target to EUR 120 million from the earlier EUR 80 million, and this is the one affecting potentially 1,000 people through redundancies.

Then we have the working capital program, where we're also running a very systematic process improvement project in order to improve the way how we manage our working capital. And we can see here in Q1 that we are EUR 551 million lower in terms of working capital compared to last year corresponding period.

Then we are running -- as the third program, we are running a sourcing program, where we're in a very systematic way, data-driven structured analytical approach way we are running a program to get sourcing-related savings. And then we are running an operational efficiency improvement program where we turn every stone in our operations to improve the way how we operate and in order to improve our productivity, so doing more with less.

And then the fifth focus area we have is commercial excellence. And an important part of commercial excellence is exactly, as you mentioned, Cole, pricing and pricing excellence. It's very much about a data-driven approach, doing much more granular analysis, also approaching pricing from a much more granular -- on a much more granular level. And then also -- then it's also about, let's say, timing-related questions, the agility, the way how we steer our sales force on a very, very timely, agile way, how we set targets, follow up on a very granular detail level.

So it's a very holistic program in commercial excellence, focusing on pricing. But there are also other parts of this in our commercial excellence program. It's also about finding new and developing new business and business opportunities. It's about optimising the product customer market mix and so forth. So many different elements that we are working on.

Cole Hathorn
And then maybe just as a follow-up, could you quantify kind of the one-off energy benefit that you've called out in the Packaging Materials division? And then maybe one for Seppo, you talked about focus on the balance sheet and I understand just on effectively the trough for the last 12 months, the net debt to EBITDA is at 4x, but it did deliver substantially as your earnings recover. But could you just talk about what the potential disposal of Beihai might do to that net debt to EBITDA number?

Seppo Parvi
Okay. Thanks. When it comes to these energy subsidies, it's roughly about EUR 30 million. That was also mentioned in the Packaging Materials segment report. Then when it comes to balance sheet management and Beihai divestment, obviously, we cannot go into details of the divestment and values at this stage of the process. We can only confirm what Hans has also earlier that we are moving ahead as planned.

And obviously, it will be an improvement step when it comes to reducing net debt to EBITDA ratio when the proceeds are coming and will reduce net debt of the group as part of the -- or as a consequence of the deal. But I cannot be more specific now. But it's an important part of the capital release program that we are running in addition to working capital reduction where we already have concrete results, as you can see in the report.

Operator
Our next question is from Pallav Mittal at Barclays

Pallav Mittal
Firstly, on the Biomaterials segment, can you help us understand the impact or the benefit that you are seeing due to the ongoing Red Sea crisis and especially what is driving the strength in China?

Hans Sohlström
Yes. Thank you, Pallav. Yes, the crisis in the Red Sea area and the logistics -- related logistic challenges, I mean there are both pluses and minuses for our business from that. So I would say that in our case, when it comes to Biomaterials, it's more a challenge because we are exporting some of our

pulp from Europe to Asia. So the logistic changes are longer and the shipping route is longer. So that is creating some challenges.

On the other hand, there has also been some reduced imports of board material from China to, let's say, to Turkey, some Eastern European countries. So that has helped a little bit balance out the European market. So what I would say, all in all, there are as many pluses as minuses in this whole thing, and we manage well in this situation.

Pallav Mittal
Sure. And following up on the working capital question earlier, can you outline what is driving this improvement versus last year? And how much incremental capital release do you expect through the year?

Seppo Parvi
Year-on-year, working capital has come down about EUR 550 million. And it's coming from, let's say, all the main components, receivables, payables and inventories, and that continues. And we are working on all fronts. And like I said earlier, there's a good momentum at the moment, and we are, I would say, midway through when it comes to our program. So there is still a lot of potential.

We are talking about significant potential still to be achieved by end of the year. And obviously, we also continue to the year after. So it's not, of course, something you stop when the year-end comes. So moving forward well and have a lot of more potential.

Operator
Our next question is from Brian Morgan at Morgan Stanley

Brian Morgan
Can I just ask on your fixed cost savings that the first of the 5 programs that you're doing? Would you be able to break that down into component parts for us, give us a little bit more granularity on what goes into the EUR 120 million?

Hans Sohlström
Yes. Thank you, Brian. So we have increased the fixed cost savings target from EUR 80 million to EUR 120 million. And the main reason here is that, as we have said before, this may affect or cause redundancies of 1,000 employees, but we

have expanded the program to look into not only redundancies, but also other fixed cost savings. There are a lot of other fixed cost savings in the organisation. So that's the main reason to the increase by EUR 40 million from EUR 80 million to EUR 120 million.

Seppo Parvi

It's very, very traditional, regional things. And also, of course, including that the less people you have, the less traveling there is, less office spaces needed, et cetera. So that all is adding to the original savings figure that we are getting more clear and more restructured manner forward with the profit improvement program. And also, of course, looking at expenditures, looking lower cost alternatives for various cost items as part of the program.

Brian Morgan

That's great. And then if I may just follow up with the second question. You talked about introducing a more decentralised approach. Could you just give us a bit more color on that in terms of what processes you'll be decentralising, what processes you'll be keeping centralised? And what practically this means?

Hans Sohlström

Yes. Thanks, Brian. A very good question. We moved into a decentralised P&L organisation in November of last year. And what that meant in practice is that we established -- within the P&L responsible divisions, we established P&L responsible business units. So let's take Packaging Materials division as an example. So within Packaging Materials division, which is a P&L responsible unit, of course, there are 5 P&L responsible business units, which are headed by -- with a Senior Vice President in charge of that business unit. And that business unit has the end-to-end responsibility for their business.

So they are in charge of sales, customer, customer service. They are also in charge of the operations. So the middle managers are reporting directly into the Senior Vice President in charge of the business unit. They are in charge of related procurement and the whole supply chain and operations, as well as also product development. So they are in charge of the 3 elementary components for P&L, which means sales, production and development. So that's number one.

Then what we also did was that we moved a lot of people in functions, a lot of jobs in functions into the divisions and the business units, which means that now in the headquarter, in the group, we have only some 100 people, 100 jobs left, including my and Seppo's jobs, and the rest of the jobs are within the divisions, which means that the divisional heads, the BU heads, they control also their P&L. They control the fixed cost.

There is some functional jobs they don't need or they don't find necessary for their -- for driving profits and driving business, then they can also restructure. And this was also a kind of a prerequisite now for the new profit improvement program, the new restructuring program, where we are taking out -- we are planning to take out about 1,000 positions, 1,000 jobs, without closing any capacity.

So it's really about moving the accountability, the P&L accountability into the -- on a more granular level into divisions and business units. And through this, we get more agile decision-making, we become more customer oriented and more business oriented in our way of working.

Seppo Parvi
And in a nutshell, you could say in general that all main processes have been decentralised. Like Hans mentioned, logistics, IT, operational IT that we used to run earlier very centrally, also some finance delivery, HR, service center type of things that were decentralised. So it's now run by the businesses, that means better techniques and they can rightsize that to their needs.

Operator
Our next question is from Johannes Grunselius at DNB.

Johannes Grunselius
Yes. A few questions from my side on Packaging Materials division. Apologies if I missed this information, but could you give some color on where you were on operating rates in the first quarter and how you think about volumes in the second quarter? And also how you think about the mix in this division? Because I can imagine there are some opportunities now when the markets are more normalised.

Hans Sohlström
Yes. Thank you, Johannes. Well, we don't disclose operating rates per se. We do report our production volumes. And basically, from the report, you can see that we produced 702,000 tonnes of consumer board and 379,000 tonnes of containerboard in the first quarter. And you can also see the comparisons to the corresponding quarter of last year as well as also the last quarter of last year as a comparison there.

Seppo Parvi
But what I can say, and I repeat what I said earlier, that those mills outside Finland were running very well when it comes to efficiencies during the quarter. Obviously, many of the Finnish mills were standing because of the strikes and that has negative effect on the volumes.

Johannes Grunselius
Okay. And I mean we talked about input costs before. But if you think about input costs versus your selling price in the Packaging Materials division, would you say that you are forcing a slight margin expansion for the coming quarter or rather a contraction? If you can elaborate on that?

Hans Sohlström
Well, Johannes, we don't guide on our margins for the coming quarter. So once again, I ask for your kind understanding here.

Operator
Our next question is from Charlie Muir-Sands at BNP Paribas Exane.

Charlie Muir-Sands
Two very quick follow-up questions. Just on the profit improvement program, is there any change in the cost to implement this program with the EUR 40 million increase in scope that you've identified? Can you remind us what that cost will be and how you're going to expense it or write it off or capitalise it?

And then just on the energy rebate, can you just clarify the EUR 30 million, was this a timing effect? Or did you have a similar quantum in 2023, either in one individual quarter or spread across the year?

Seppo Parvi
There is some timing difference in this -- sorry, energy subsidies that you're referring to. So some timing difference compared to last year, and that's why it's having a bigger effect in Q1 of this year than last year.

When it comes to profit improvement program and increase from EUR 80 million to EUR 120 million, that, as such, does not increase the cost of the program as the headcount reduction remains still around 1,000 people as earlier communicated.

Charlie Muir-Sands
Sorry, can you just remind me what the cost will be to implement and how it's going to be booked?

Seppo Parvi
That we have not communicated specifically. It is as normally also is booked as item effecting comparability assuming that it is meeting the thresholds that we have for IACs, which I expect that it is as it is quite a large program. It depends, of course, from country to country. We are not yet ready with the union negotiations. From country to country, depends what are the notice periods and what kind of terms and conditions there are for layoffs in various countries. And once those are negotiated, [indiscernible] it's easier for us to comment on the costs.

Operator
Our next question is from Andrew Jones at UBS.

Andrew Jones
Just a follow-up to one of the earlier questions. I mean, obviously, you're talking about decentralising a lot of decision-making to some of the local business heads and so forth. I just wonder -- this may be a slightly cheeky question, but I just wonder about sort of potential future corporate action. I mean is there any rationale behind doing this beyond just cost savings, i.e., there's been a lot of M&A activity in the sector more broadly?

In terms of optimising the portfolio, I mean, do you -- are you thinking about anything in that respect with regard to potential spin- offs of other units or anything like that? I mean I'm cognisant you might not be able to say much, but are you thinking about further portfolio optimisation in any other area beyond Beihai?

Hans Sohlström
Well, thank you, Andrew, for the question. The driver behind this organisational change is really to drive customer orientation to drive -- to build a profit and result-oriented organisation, and to drive efficiency and agility in the organisation. So that's the only reason. That's the main reason behind this.

Operator
Our next question is from Felicity Juckes at CreditSights.

Felicity Juckes
Just on asset sales, you mentioned you can't give any details on the price expectations for Beihai. But would you be able to give any guidance on any expected timing?

Hans Sohlström
Yes. Well, I mean, we are proceeding with the divestment. And the fact that in our Q4 report that we classify this as asset held for sale indicates, of course, that we are closer than before of also achieving our objectives here. However, I want to underline that it's much more important for us that we make a good deal here than that we make a quick deal. So it takes the time it will take. So we are aiming to make a proper work, diligent work here with the divestment.

Operator
Our last question is from Gaurav Jain at Barclays.

Gaurav Jain
So a question just on how the biological gain on forest assets flows into your P&L. So we are hearing clearly that wood costs are higher in Scandinavia. So look, the overall valuation of the forest asset is clearly dependent on market transaction. So that, I guess, you have less control, but the component which goes into your P&L, which is a change in net value of biological assets, which has the component of wood prices in the revenue. Will it go up this year is what I'm trying to ask. Like, last year, you had about EUR 200 million gain. So could it be higher than that this year just because wood costs are higher?

Seppo Parvi
Okay. Thanks for the question. The line was a bit bad, but I think I got the sense as of your question. When it comes to forest valuation in Finland and Sweden, we follow a practice where the valuation is based on the done deals when it comes to buying and selling forests. So we get the statistics. I want to highlight that we do full prone valuation end of Q2 and end of Q4. In Q1, we only update some parameters like FX, et cetera, et cetera, effect.

We do not book the value change fully through profit and loss, but it is going through equity and comprehensive profit and loss calculation. And it's only the inflation factor, which is relatively small in the total valuation change that is going through the profit and loss. So that is a difference compared to some of our competitors.

Operator
I will now and back to management for closing....

Hans Sohlström
Thank you very much. So all in all, thank you very much for your participation. Thank you for your good questions. We are powering ahead to build a more profitable and competitive Stora Enso. Our actions are focused on improving profits, competitiveness and cash flow, and we achieve this through our systematic structure and determined improvement actions. We are executing with speed and determination. So thank you very much, and looking forward to meet with you then in next quarter. Thank you.

Seppo Parvi
Thank you!