

MOODY'S

RATINGS

Rating Action: Moody's Ratings downgrades UPM's rating to Baa2 from Baa1; outlook stable

02 Oct 2026

Frankfurt am Main, October 02, 2026 -- Moody's Ratings (Moody's) has today downgraded UPM-Kymmene's (UPM) long-term issuer rating to Baa2 from Baa1 and its senior unsecured ratings to Baa2 from Baa1. The outlook has been revised to stable from negative.

RATINGS RATIONALE

Today's rating action reflects UPM's prolonged weak credit metrics, which are no longer commensurate with the Baa1 rating category. Moody's-adjusted gross leverage has remained above 2.0x since 2022 and was 3.0x in the 12 months ended June 2026, only slightly lower than 3.2x at year-end 2025. Although earnings have begun to recover and capital spending has declined following completion of the company's major investment cycle, we do not expect leverage to decline towards 2.0x within the next 12-18 months.

Today's decision is also driven by the company's flexible approach to its own leverage commitment. Although UPM targets net debt/EBITDA, as defined by the company, of below 2.0x, the ratio has remained above this level since Q2 2025. Nevertheless, UPM's dividend has remained unchanged at €1.5 per share for the past four years and, last year, exceeded 100% of earnings per share (EPS). While we continue to view UPM's financial policies as broadly commensurate with investment-grade requirements, we consider them relatively aggressive for the high-Baa rating category.

The downgrade also reflects limited visibility into the pace and extent of the recovery. UPM's Moody's-adjusted EBITDA declined by 26% in 2025 amid weak conditions across several end markets. Moody's-adjusted EBITDA improved by 9% in the 12 months ended June 2026 compared with 2025, supported by stronger performance in Energy and Biofuels and ongoing cost actions. However, the recovery remains uneven, with continued weakness in Fibers North, structurally declining demand for graphic paper and ramp-up costs at the Leuna biochemicals refinery.

UPM's cash generation has improved because capital spending has fallen following the completion of its major investment program. During the high-capex phase in 2021-23, Moody's-adjusted free cash flow totaled a combined negative €2.4 billion but has been close to breakeven on a combined basis since 2024. Nevertheless, working capital remains volatile and shareholder distributions continue to constrain more meaningful cash generation, which we expect to be only modestly positive in 2026-28. High dividend distributions also explain UPM's low Moody's-adjusted retained cash flow/net debt, which, at 6.6% as of June 2026, is low for an investment-grade issuer.

The Baa2 rating continues to be supported by UPM's large scale, broad product and geographic diversification, leading market positions, vertical integration and historically conservative financial policies. UPM benefits from operational flexibility and cost efficiency derived from its forest assets and long-term fiber access, as well as its own pulp and energy production. These strengths provide resilience through industry cycles and distinguish UPM from less diversified paper and forest products companies.

The planned graphic paper joint venture with Sappi is strategically supportive because it would reduce UPM's direct exposure to structurally declining graphic paper markets and sharpen its focus on businesses with stronger growth characteristics. At closing of the proposed joint venture, UPM expects to receive €475 million in cash, shareholder loan receivables totaling €98 million and a 50% equity interest in the joint

venture, while €411 million of net pension and other liabilities would transfer to the joint venture. However, regulatory approvals remain outstanding, and we expect the credit benefits to crystallize gradually rather than create an immediate change in UPM's credit profile because we expect the impact on its financial profile to be relatively modest while the company remains indirectly exposed to graphic paper through its participation in the joint venture.

The rating is mainly supported by (1) the company's large scale and global footprint; (2) leading market positions across its broadly diversified product portfolio; and (3) conservative financial policies including a net leverage target of below 2.0x. However, the ratio has remained above the target since Q2 2025 and was 2.4x in Q2 2026.

The rating is primarily constrained by (1) sizeable exposure to cyclical and commodity-like businesses, which can produce material earnings and cash flow volatility; (2) the remaining exposure to structurally declining graphic paper markets (24% of sales in H1 2026); and (3) a prolonged period of relatively weak credit metrics and profitability, with low visibility on the pace of recovery in a weak macroeconomic environment.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects our expectation that UPM's earnings and cash generation will continue to recover over the next 12-18 months, supported by cost actions, lower capital spending and improving performance in Energy, Biofuels and selected advanced materials businesses. We expect Moody's-adjusted gross leverage to stay within the 2.0x-3.0x range over the next few years. The stable outlook also assumes that UPM will maintain conservative financial policies and use free cash flow and potential portfolio proceeds to support a gradual strengthening of its balance sheet.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Positive rating pressure could arise if:

- Moody's-adjusted gross debt/ EBITDA is sustained below 2.0x;
- Moody's-adjusted retained cash flow/ net debt is sustained above 30%;
- Moody's-adjusted EBIT margin is sustained in the low to mid-teens.

Conversely, negative rating pressure could arise if:

- Moody's-adjusted gross debt/ EBITDA is sustained above 3.0x;
- Moody's-adjusted retained cash flow/ net debt is sustained below 20%;
- Moody's-adjusted EBIT margin is sustained well below 10%;
- Deviation from the stated financial policy.

LIQUIDITY

UPM's liquidity profile is strong. The company reported €458 million of cash on its balance sheet at the end of June 2026 and had access to a €1.25 billion committed syndicated revolving credit facility (RCF) maturing in 2031. In addition, it had a further €500 million of bilateral RCFs maturing in 2029 and a €159 million rolling committed overdraft facility maturing in 2027. The company's liquidity profile is further supported by its well-staggered debt maturing profile. Its major upcoming maturities are a \$375 million bond maturing in November 2027, a €750 million bond maturing in November 2028 and a €500 million bond maturing in May 2029.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Paper and Forest Products published in November

2025 and available at <https://ratings.moodys.com/rmc-documents/454505>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

The net effect of any adjustments applied to rating factor scores or scorecard outputs under the primary methodology(ies), if any, was not material to the ratings addressed in this announcement.

COMPANY PROFILE

Headquartered in Helsinki, Finland, UPM-Kymmene (UPM) is one of the world's largest paper and forest products companies, with sales of around €9.5 billion in the last 12 months ended June 2026. In addition to leading positions in major graphic paper grades, such as newsprint, magazine and fine paper, UPM produces pulp and energy, biofuels and biochemicals, specialty papers, self-adhesive paper and label materials, as well as wood products. UPM also owns or leases 1 million hectares of forest plantations in Finland, Uruguay and the US. The group has 48 production plants in 10 countries and around 15,200 employees. UPM is publicly listed with a current market capitalization of around €13.1 billion.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1462204.

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