

Research Update:

UPM-Kymmene Downgraded to 'BBB' On Continued Soft Pulp and Paper Markets; Outlook Stable

October 3, 2025

Rating Action Overview

- Finnish forest products company UPM-Kymmene Corp. (UPM) has underperformed S&P Global Ratings' expectations in the last few years, and we no longer expect credit metrics to return to levels commensurate with a 'BBB+' rating by year-end 2025. Market conditions are weaker than previously anticipated, particularly in the pulp and paper segments.
- We now forecast adjusted debt to EBITDA will exceed 2x and funds from operations (FFO) to debt will remain below 45% in 2025 and 2026.
- We therefore lowered our long-term issuer credit rating on UPM and our issue rating on its senior unsecured debt to 'BBB' from 'BBB+'. Our short-term issuer credit rating is unchanged at 'A-2'.
- The stable outlook reflects our expectation that FFO to debt will remain at 30%-40% with S&P Global Ratings-adjusted leverage between 2.0x and 3.0x over the next two years.

Rating Action Rationale

We expect lower volumes and prices across most of UPM's business lines to result in about a 3% decline in revenue and markedly weaker profitability in 2025. Market conditions have been particularly soft in the pulp and communication paper segments, while the advanced materials segment has so far shown resilience. Consumer confidence has partly been undermined by the uncertainty caused by U.S. tariffs. Additionally, the plywood segment faced production challenges due to strikes at Finnish mills, while the energy division has suffered from lower electricity prices in Finland. Higher variable costs, especially wood, and a weaker U.S. dollar have also pressured profitability. We now expect S&P Global Ratings-adjusted EBITDA of about €1.4 billion-€1.6 billion in 2025, which compares with our previous expectation of €2.0 billion and is down from €1.7 billion in 2024. For 2026, we forecast S&P Global Ratings-adjusted EBITDA of €1.6 billion-€1.8 billion, assuming economic sentiment improves.

The company is taking action to mitigate the adverse impact of the weak market conditions on its performance. The impact is evident, for example, in the communication paper segment as the

Primary Contact

Lena Liacopoulou Staad
Paris
33-14-420-6739
lena.liacopoulou
@spglobal.com

Secondary Contact

Desiree I Menjivar
London
44-20-7176-7822
desiree.menjivar
@spglobal.com

UPM-Kymmene Downgraded to 'BBB' On Continued Soft Pulp and Paper Markets; Outlook Stable

structural decline in the market is exacerbated by customers' reluctance to place orders amid volatile trade conditions. The company has continued to announce capacity reductions, such as the closure of the Ettringen mill, followed by permanently ending paper production at the Kaukas pulp mill, which together represent 13% or 570 kilotons of capacity. UPM is also prioritizing cash conservation, as evidenced by its decision not to go ahead with its planned estimated €1 billion investment in the Rotterdam biofuels refinery project in order to limit capital expenditure (capex). We anticipate capex of about €350 million from 2026 onward--the lowest level in recent years. The company recently announced a strategic review of its plywood business, which could lead to a divestment, partial demerger, or initial public offering of this business line.

UPM is focusing on expanding its advanced materials and decarbonization solutions, which should contribute to profitability, although only meaningfully over the next few years. Its advanced materials division is focusing on growth in the U.S. and Asia, while, in the biochemicals segment, the Leuna refinery is expected to reach full production and positive EBIT in 2027, having started some processes earlier this year.

Credit metrics point to a 'BBB' rating with no immediate recovery in sight. We do not anticipate a material improvement in market conditions and do not expect credit metrics to revert to levels commensurate with a 'BBB+' rating in the near term. In 2025, we forecast S&P Global Ratings adjusted debt to EBITDA of 2.5x-2.7x and FFO to debt of 30%-35%, with only a slight recovery expected in 2026. This follows two years of ratios below our threshold in 2023 and 2024. The rating has been further undermined by the group's financial policy, as high shareholder returns have and are likely to continue to constrain discretionary cash flow. Discretionary cash flow was negative in 2024, and we anticipate it will be meaningfully negative in 2025, as the company repurchased €160 million of shares in the first half of 2025.

We now assess our management and governance modifier as neutral. This has no rating impact and is merely the result of our relative reassessment of the group's score compared with peers.

Outlook

The stable outlook reflects our expectation that FFO to debt will remain at 30%-40% with S&P Global Ratings-adjusted leverage between 2.0x and 3.0x over the next two years.

Downside scenario

We could downgrade our rating on UPM if credit metrics deteriorated such that FFO to debt falls below 30% and adjusted debt to EBITDA exceeds 3.0x on a sustained basis. This would most likely result from continued soft market conditions or operational issues, such as unexpected maintenance shutdowns at UPM's main plants or lengthy strikes. Credit metrics could also be undermined by an aggressive financial policy, including high shareholder returns.

Upside scenario

We do not see an upgrade as likely in the near term. We could raise our rating if FFO to debt exceeded 45% and adjusted leverage fell below 2.0x on a sustainable basis. Such a scenario would most likely rely on improved market and pulp price conditions.

Company Description

UPM is one of the largest and most diversified forest and paper products companies in the world, with over €10.3 billion in sales and €1.6 billion in S&P Global Ratings-adjusted EBITDA in 2024.

UPM-Kymmene Downgraded to 'BBB' On Continued Soft Pulp and Paper Markets; Outlook Stable

The company has leading positions across the publications paper, fine paper, and self-adhesive label materials industries in Europe. It also has large pulp and energy operations, as well as sizable manufacturing operations for plywood and sawn timber. UPM's 54 production plants are spread over 11 countries, primarily in Europe, followed by the U.S., Uruguay, and Asia.

In 2024, China was UPM's largest market, accounting for 16.9% of its sales, followed by the U.S. (13.6%), and Finland (12.6%), with the remaining 56.9% of sales coming from the rest of the world.

In 2024, external sales (before eliminations and reconciliations) were split between fiber pulp (30%); communication papers (28%); adhesive labels for consumer goods (15%); specialty papers (13%); plywood (4%); energy (5%); and other operations (6%).

In 2024, comparable EBITDA was split between fibers (48%); communication paper (20%); specialty papers (12%); energy (11%); adhesive labels for consumer goods (10%); plywood (4%); and other operations (-4%).

UPM is listed on the Finland Stock Market Index (OMX Helsinki 25). Its capital is fully floating, and the company does not have any single controlling shareholder.

Our Base-Case Scenario

Assumptions

- Eurozone GDP growth of 0.8% in 2025 and 1.1% 2026; U.S. GDP growth of 1.7% in 2025 and 1.6% in 2026; and Asia-Pacific GDP growth of 4.2% in 2025 and 2026.
- In 2025, we project revenue will decline by 3% due to reduced prices and volumes in most segments, particularly communication paper. The adhesive materials division is expected to grow modestly.
- For 2026, we anticipate a 5% increase in revenue, driven by moderate volume and price growth across most product lines. Additionally, revenue will benefit from the start-up of the Leuna refinery, expected to take place toward the end of 2025.
- Adjusted EBITDA margin of 14.6% in 2025, from 15.9% in 2024, as variable costs increase. We expect some margin expansion to 16.4% in 2026, driven by higher revenue and tighter cost controls, allowing for better absorption of fixed costs.
- Capex (including forest renewal costs) of about €400 billion in 2025 and €359 million in 2026. We estimate annual maintenance capex of €200 million.
- Working capital outflow of €100 million in 2025, and €150 million 2026 onward, in line with revenue growth.
- Annual dividend distributions of €819 million--including €19 million paid to minority interests--paid in 2025, increasing to €872 million in 2027.
- Share repurchases of €160 million in 2025, none in 2026.
- No acquisitions or divestments.

Key metrics

UPM-Kymmene Corp.--Forecast summary

Period ending	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
---------------	-------------	-------------	-------------	-------------	-------------	-------------

UPM-Kymmene Downgraded to 'BBB' On Continued Soft Pulp and Paper Markets; Outlook Stable

UPM-Kymmene Corp.--Forecast summary

(Mil. EUR)	2022a	2023a	2024a	2025e	2026f	2027f
Revenue	11,720	10,460	10,339	10,020	10,542	10,871
EBITDA	2,525	1,366	1,646	1,466	1,728	1,948
Funds from operations (FFO)	2,149	1,069	1,369	1,255	1,478	1,665
EBIT	1,997	745	1,085	611	904	1,156
Capital expenditure (capex)	1,457	1,080	596	400	359	359
Free operating cash flow (FOCF)	(969)	1,189	756	699	911	1,096
Dividends	720	835	820	819	810	872
Discretionary cash flow (DCF)	(1,689)	354	(64)	(280)	101	224
Debt (reported)	4,367	2,550	3,081	3,081	3,081	2,883
Plus: Lease liabilities debt	667	706	832	936	1,039	1,065
Plus: Pension and other postretirement debt	440	406	401	401	401	401
Less: Accessible cash and liquid investments	(2,044)	(632)	(876)	(547)	(562)	(500)
Plus/(less): Other	--	2	(98)	--	--	--
Debt	3,430	3,032	3,340	3,871	3,959	3,849
Cash and short-term investments (reported)	2,067	632	892	547	562	500
Adjusted ratios						
Debt/EBITDA (x)	1.4	2.2	2.0	2.6	2.3	2.0
FFO/debt (%)	62.7	35.3	41.0	32.4	37.3	43.3

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. EUR--euro.

Liquidity

The short-term rating on UPM is 'A-2', reflecting the long-term issuer credit rating and our assessment of the group's liquidity as strong. We project that liquidity sources will cover uses by more than 1.5x over the 12 months started June 30, 2025, and that sources to uses will be more than 1.0x in the subsequent 12 months to June 30, 2027. UPM's liquidity is supported by low debt maturities and our view of high standing in credit markets.

Below, we outline our calculations for UPM's principal liquidity sources and uses for the 12 months ending June 30, 2026.

Principal liquidity sources	Principal liquidity uses
<ul style="list-style-type: none"> Available cash balance of about €597 million as of June 30, 2025; About €2 billion available under committed credit facilities; and Our forecast of cash FFO of about €1.2 billion. 	<ul style="list-style-type: none"> About €277 million in debt repayment, including commercial paper; Capex of about €400 million; Working capital outflows of approximately €140 million; and

- Dividend payments of about €815 million, including dividends paid to noncontrolling interests.

Environmental, Social, And Governance

Environmental, social, and governance (ESG) factors are an overall neutral consideration in our credit rating analysis of UPM. Like other forest and paper companies, UPM's forests are exposed to climate change. Warmer temperatures could result in higher yields but also increase the risk of disease or fire. We believe that Finnish and Uruguayan forests are less exposed to this risk because they are relatively far from the equator. Forest activities might generally benefit the environment, but we see risks arising from pulp and paper production, given the use of chemicals and resulting greenhouse gas emissions.

In our view, the forest and paper product industry has an above-average environmental exposure. Nevertheless, we think UPM is better positioned than the sector average, given its focus on forest ownership, low-carbon energy generation, and its ramp-up of the production of sustainable substitutes for fuels and chemicals.

UPM focuses on sustainable forest management and plants about 40 million seedlings every year. All its forests are certified and about 89% of the wood it used in 2024 came from certified forests (that is, they met the requirements set by an independent third party for sustainable forest management). Wood harvesting levels are exposed to changes in weather conditions. Although Finnish forests would benefit from warmer temperatures, as this would result in higher yields, this could also increase the risk of disease.

UPM emphasizes energy efficiency and low-emissions energy generation via the production of hydropower, nuclear power, and biomass-based energy at its mills. About 70% of the fuels UPM uses are renewable. The company is also increasingly focusing on sustainable substitutes for fuels and chemicals, and, following a total investment of €1.275 billion, it is approaching completion of its new biochemical refinery in Leuna, having initiated commissioning and start-up in late 2024. This gives UPM first-mover advantage in the untapped market for renewable and sustainable substitutes for global glycols, carbon black, and silica, which have applications in a wide range of industries.

In 2020, UPM signed a €750 million revolving credit facility (RCF) with a margin tied to two sustainability indicators involving biodiversity in its Finnish forests and the reduction of carbon dioxide emissions from fuels and purchased electricity. The group also has bilateral facilities with margins tied to the same sustainability indicators. In November 2020, March 2021, May 2022, and August 2024 the company issued green bonds of €750 million, €500 million, €500 million and €600 million, respectively. UPM also signed a green finance framework under which it agreed to invest in sustainable projects.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of June 30, 2025, the capital structure comprised \$375 million 7.45% unsecured notes due November 2027; €750 million 0.125% unsecured notes due November 2028; €500 million 2.25% unsecured notes due May 2029; €500 million 0.50% unsecured notes due March 2031; and €600 million 3.375% unsecured notes due August 2034. All of these instruments were issued by UPM.

UPM-Kymmene Downgraded to 'BBB' On Continued Soft Pulp and Paper Markets; Outlook Stable

The capital structure also included about €832 million in lease obligations and about €203 million in loans.

Analytical conclusions

We rate the \$375 million 7.45% unsecured notes due 2027, €750 million 0.125% unsecured notes due November 2028, and €600 million notes due August 2034 issued by UPM 'BBB', in line with our long-term issuer credit rating. This reflects the fact that we have not identified any sources of significant structural subordination. We do not rate the €500 million 0.500% unsecured notes due March 2031 and the €500 million 2.25% unsecured notes due May 2029.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BBB/Stable/A-2
Local currency issuer credit rating	BBB/Stable/A-2
Business risk	Satisfactory
Country risk	Low
Industry risk	Moderately high
Competitive position	Satisfactory
Financial risk	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb
Modifiers	
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Strong
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bbb

Related Criteria

- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), July 7, 2025
- [Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Jan. 7, 2024
- [Criteria | Corporates | General: Corporate Methodology](#), Jan. 7, 2024
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019

UPM-Kymmene Downgraded to 'BBB' On Continued Soft Pulp and Paper Markets; Outlook Stable

- [Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings](#), March 28, 2018
- [General Criteria: Methodology For Linking Long-Term And Short-Term Ratings](#), April 7, 2017
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

Related Research

- [UPM-Kymmene Corp. Outlook Revised To Stable From Positive On Weaker Market Conditions: Ratings Affirmed At 'BBB+/A-2'](#), Oct. 31, 2024

Ratings List

Ratings List

Downgraded

	To	From
UPM-Kymmene Corp.		
Issuer Credit Rating	BBB/Stable/A-2	BBB+/Stable/A-2
Senior Unsecured	BBB	BBB+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at <https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria> for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

UPM-Kymmene Downgraded to 'BBB' On Continued Soft Pulp and Paper Markets; Outlook Stable

Copyright © 2025 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Some of the Content may have been created with the assistance of an artificial intelligence (AI) tool. Published Content created or processed using AI is composed, reviewed, edited, and approved by S&P personnel.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.