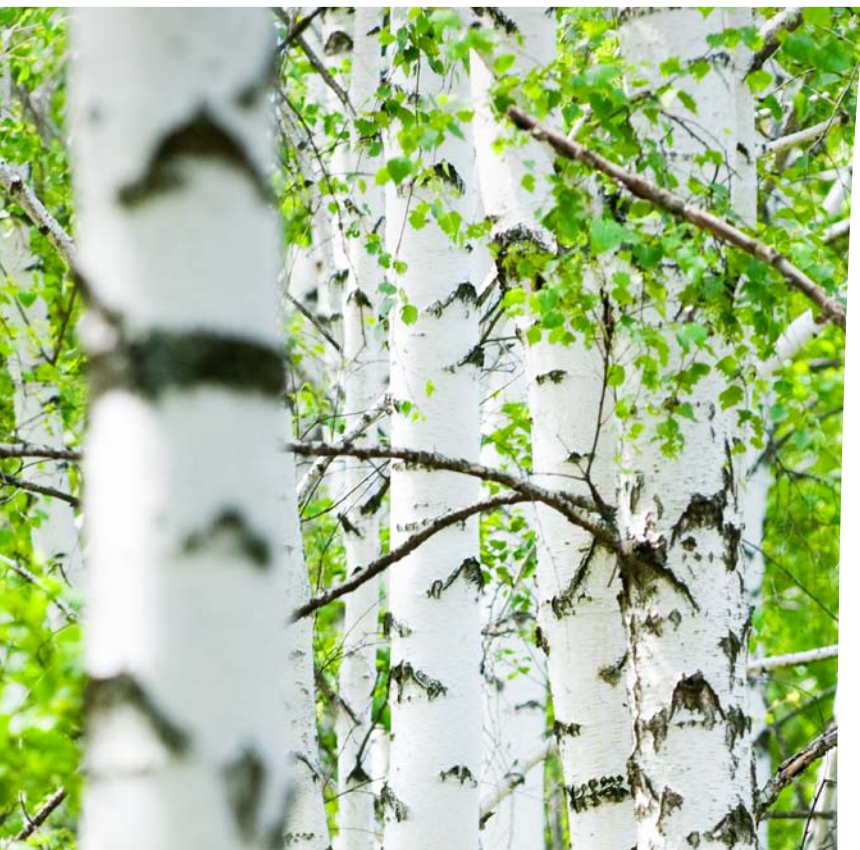


PULP DIRECT 1/2014

UPM Pulp CUSTOMER NEWSLETTER



Beautiful BETULA

Birch is a versatile raw material of UPM Betula hardwood pulp produced at all of UPM's three pulp mills in Finland. We asked a customer, a researcher and our fibre specialist about their experience of birch and birch pulp as raw material.



Diego Borello,
Category
Manager,
Global Sourcing,
Ahlstrom



Mats Backman,
Director,
R&D,
UPM Pulp



Antero Varhimo,
Senior Scientist,
VTT Technical
Research Centre
of Finland

GOOD AVAILABILITY BOLSTERS BOTH UNIFORMITY AND DIVERSITY

Birch pulp is mainly used by our Label and Processing business area that was merged to Munksjö in 2013. We have a joint sourcing agreement and team, in which I represent Ahlstrom. Because of these arrangements, Munksjö is also the main user of the market birch pulp we buy.

For us, birch is a key component in a release liner for pressure sensitive labels. It's a strategic product with plenty of growth potential. To manufacture the liner,

we use a mix of long and short fibres. We use birch for its easy and predictable refinability and for its good mechanical properties. And most importantly, birch pulp makes the liner less opaque than, for example, eucalyptus pulp would. Typically high opacity would be an advantage for printing paper, but for this particular product we don't appreciate it.

Product uniformity is paramount for us and substituting the fibre isn't desirable. This is why we have welcomed UPM's market pulp approach of being able to reliably supply us the raw material we need. UPM has a dependable logistics model and they are easy to contact.

Generally speaking, there has been positive development in birch pulp's commercial profile and availability for a few years now. We like the diversity, and because of that, we don't want to lose a raw material sub category which enables new product research opportunities and innovations. Renewing our portfolio would be much harder without birch.

We use birch for its easy and predictable refinability and for its good mechanical properties.

TRUSTED PERFORMANCE

Birch is well known for its strength among hardwood pulps. Birch fibres are longer, broader and contain more hemicellulose on average than, for example, eucalyptus fibres, making it stronger and easier to refine.

Thanks to its characteristics, birch pulp has always been a highly sought-after raw material within several end-use areas. To ensure its global availability, we have made a strategic decision to offer the markets a steady supply of birch pulp. To cater for demand, in 2013 we manufactured 900,000 tonnes of UPM Betula, of which the majority was ECF bleached.

UPM Betula is best suited to board, speciality papers as well as printing and writing papers.

Consistent quality is our forte. Our customers know that they are constantly getting an easy-to-refine and strong fibre when using UPM Betula in their processes. The pulp's good fibre structure also helps you avoid any vessel picking problems that you might encounter when producing printed products with other hardwood fibres.

In addition, we have a decade's worth of experience in using birch pulp ourselves. And with a solid R&D presence in Europe, China and Latin America we are more than ready to share our knowledge with our customers. Assistance is always near.

NATIONAL TREASURE

The research of birch is mostly limited to the areas where it grows, namely Northern Europe. From a researcher's stand point, birch has always fascinated me because of its possibilities. The opportunities are so plentiful that I sometimes call birch our national treasure.

Birch pulp's strong suits are very application-specific. It provides a combination of optical, structural and tensile properties. What sets birch apart from other hardwoods and softwoods is its high hemicelluloses, and more specifically, its high xylan content.

In fact, we have found out that the amount of xylan in pulp is directly linked to its strength and yield of the process. The more, the better.

DID YOU KNOW?

When extracted from birch pulp, pure polymeric xylan has many practical uses. It can be implemented as an elegant bio-alternative to chemicals in films, coatings, glues and barrier materials. It can also be hydrolysed to oligomer or monomer level to be used for food or pharmaceutical applications.



NEW COOPERATION
optimizes
your fibre



Tomas Wiklund, Vice President,
Sales and Marketing, UPM Pulp

The beauty of the service concept in the new agreement is its flexibility and easiness – customers don't need to change their way of purchasing pulp.

Last November UPM and the Canadian Canfor Pulp announced their newly wrought agreement for a strategic sales and marketing cooperation. Now, the two companies are ready to take on the major pulp markets together.

As of the first quarter of 2014, UPM Pulp's sales have been representing and co-marketing Canfor Pulp in Europe and China while Canfor Pulp's sales network has been representing and co-marketing UPM Pulp in North America and Japan.

Talking with Canfor Pulp's **Sean Curran**, Vice President, Sales and Marketing and UPM Pulp's **Tomas Wiklund** makes one think that this just might be a perfect match in the pulp business. It's rare you come across more like-minded individuals and similar companies.

"I'm amazed how smoothly everything has gone so far. There has been much collaboration and next to no negotiations," Sean describes the process of setting up the arrangement.

"Canfor Pulp and UPM are both stable and respected forest industry companies with excellent resources and emphasis on creating added value to customers," Tomas continues.

Being regular operators in the pulp markets, it is natural for Canfor and UPM to have interacted for decades, but talks of a sales and marketing agreement started getting more serious in late summer 2012.

Now, a year and a half later a unique collaboration between the two pulp manufacturers without any ownership ties, has commenced.

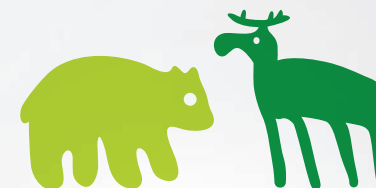
The cooperation includes six grades and approximately one million tonnes of pulp sales from eight mills on three continents.

CUSTOMER FIRST

In a collaboration of such scale there is always the "what's in it for the customer" question. According to Sean Curran and Tomas Wiklund, the benefits are many and multi-layered.

"First and foremost, pulp is more than a commodity for us. Markets want a supplier who is able to provide high quality pulp coupled with a strong technical fit and Total Fibre Optimization," Sean summarizes the mindset for the service concept where Canfor Pulp's and UPM's fibres are used together to make the best possible end-product.

"What Total Fibre Optimization means is that we deliver the value customers are looking for by presenting them advanced refining strategies. We form a blend of two pulps



FINLAND MEETS CANADA

In the south eastern part of the province of Saskatchewan there is a district called New Finland. First settled in 1888, the Finnish immigrants preferred the region since it resembled their homeland both in geography and climate. Nowadays there are about 200 people living in the district. (WIKIPEDIA)

TO PAGE 3 »



Sean Curran, Vice President, Sales and Marketing, Canfor Pulp

The two companies from top-down and bottom-up have a very high level of trust, and it really will depend on that for the success of this cooperation.

» FROM PAGE 2

based on customers' goals, whether they want better runnability, enhanced product qualities or cost savings," Sean says.

"This will be an enormous benefit for them."

Tomas Wiklund adds that in addition to superior service, customers can take full advantage from the highly complementary pulp offering.

"The width of our pulp range is now unrivalled. By joining forces with Canfor Pulp we are not just adding more of the same to the portfolio. For example, the Canadian softwood kraft and our softwood kraft are different products. Coupled with top-of-the-line technical service customers are able to find the best fibre furnish and maximise their performance," Tomas says.

He continues that there is also industrial reasoning behind the cooperation. The pulp industry is well known for its fragmentation, especially when it comes to softwood pulp.

"We offer customers a single source for both hardwood and softwood pulps for every end-use. This way our customers will have a reasonably sound basis for forward-looking business planning."

KNOWLEDGE TO BACK UP THE SERVICE

As a forest industry giant, UPM has a vast pool of resources in Research & Development as well as extensive competence in both pulp and papermaking.

"From years of almost solely supplying our own papermaking capacity with pulp, we have an excellent understanding of what it takes to being able to constantly renew. In addition, we continue strengthening our technical customer service organisation in Europe and Asia," Tomas says.

The Canfor Pulp Innovation group, or CPI, searches for new technology, grades and products. Sean describes their highly competent technology arm: "It's the backbone of our technical customer service supporting the marketplace."

UPM and Canfor Pulp also share values of sustainable long-term operations and minimising environmental impact of their products and activities.

MAKING IT EASY – DIRECTLY

UPM and Canfor Pulp have introduced a direct-to-market sales approach, meaning they are selling pulp directly to customers in all their main markets.

Tomas summarises the sales approach: "We created a direct access for customers to us producers. This will lead to faster response times and better service, and it sets a foundation for building up reliability and mutual understanding. This is pretty standard practice in many markets but not all, notably China."

Since the beauty of the service concept in the new agreement is its flexibility and easiness, customers don't need to change their way of purchasing pulp.

"You contact your regular sales person as usual and they will arrange all the following steps from initial pricing and technical information to trial runs."

A POSITIVE START

The two companies will sort out the details of practical execution of the new arrangement during the first quarter of 2014. Sean Curran and Tomas Wiklund seem genuinely thrilled about the future.

"What is exciting in the collaboration is that no one has done this kind of arrangement in the past. This is a once-in-a-career opportunity to create something unique and make it work," Sean says.

"We are learning to work with a lot of new people, but luckily our way of thinking is so similar," Tomas adds.

"And that is what is so exciting about it. The two companies from top-down and bottom-up have a very high level of trust, and it really will depend on that for the success of this cooperation," Sean continues.

First reactions from markets have been encouraging. Both Curran and Wiklund agree that customers really see the potential of the new cooperation, no matter if a small, specialised company, a medium-sized player or a rapidly growing business.

The industry is restructuring, so in many cases customers are getting bigger and bigger and expect their suppliers to support their growth. Now UPM and Canfor Pulp have all the means to grow with their customers and provide them with the raw material and expertise they need.

"Of course, customers want to see we are able to deliver what we have promised," Sean says.

"This is our chance to offer something different to our customers and do it the best way," Tomas concludes.

THE BIG SIX

The pulps within the cooperation:



CANADA MEETS FINLAND

In 2003, Canadian Hayley Wickenheiser became the first woman ever to play professional ice hockey in a men's league when she debuted with HC Salamat in the Suomi-sarja, the third highest hockey league in Finland. Wickenheiser scored two goals and gave 10 assists in 23 games with the team. She was also part of Canada's gold medal winning team in Sochi 2014. (WIKIPEDIA)

Grade	Abbreviation	End-uses
■ Premium Reinforcing Northern Bleached Softwood Kraft	PRP NBSK	One of the strongest wood fibres in the world for printing and writing papers, speciality papers and tissue
■ Northern Bleached Softwood Kraft	NBSK	Especially suitable for magazine, fine and speciality papers
■ Northern Bleached Birch Kraft	NBBK	For board, speciality paper and printing and writing applications
■ Bleached Eucalyptus Kraft	BEK	Versatile fibre properties for tissue, board, printing and writing as well as speciality papers
■ Unbleached Kraft Pulp	UBE & UBK	UBE is ideal for electrical applications and UBK for speciality end uses such as fibre cement
■ Bleached Chemical Thermo Mechanical Pulp	BCTMP	High yield grade for board, printing and writing papers and speciality papers
■ Canfor Pulp		
■ UPM Pulp		



Now we have all the means to grow with our customers.



PULPDIRECT

UPM Pulp
CUSTOMER NEWSLETTER

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FROM THE EDITOR

Dear Reader,

Since we finalised this issue of Pulp Direct, we have further good news to add: UPM's Board of Directors have approved an investment in Kymi which will increase the pulp production by about 170,000 tonnes which we will be selling in the market. The majority of the volume will be birch which is a fantastic fibre that you can read more about in this issue, and we are very excited about this opportunity. Stay tuned, more good news to come.

I hope you enjoyed the renewed issue of Pulp Direct. We are constantly working on it with an ambition to provide you our readers with something that makes it worth your while to pick it up and read it. Let me know if you have thoughts and ideas on this.

TOMAS WIKLUND

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UPM PULP 2013 HIGHLIGHTS

UPM's Pulp business performed well and had a record-breaking year in terms of both operations and sales. The new high in total annual pulp production now stands at 3.2 million tonnes. Both the Kaukas mill in Finland and the Fray Bentos mill in Uruguay achieved individual production records. At the same time, the performance in safety has significantly improved beyond the shared targets of the Pulp business. The third record was reached by selling 1.9 million tonnes of UPM Pulp's total annual production to external customers.

Other highlights of 2013 included strengthening of the Pulp sales team, logistics and supply chain as well as signing of the sales and marketing cooperation agreement with Canfor Pulp.

Since November 2013, UPM's Pulp business has been a part of the UPM Biorefining Business Area. UPM Pulp's financial key figures are reported within the Business Area key figures together with Timber and Biofuels businesses.

ACKNOWLEDGEMENTS ACROSS THE BOARD

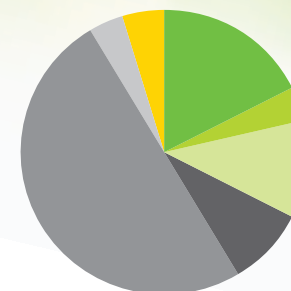
Resulting from the consistent implementation of the Biofore strategy, UPM received several external accolades in 2013 for its climate, forestry and innovation actions. UPM retained its position in the Dow Jones European

and World Sustainability Indices (DJSI) for 2013–2014. UPM was also assessed as the industry leader in environmental sustainability within the Paper and Forest Products sector, with top scores.

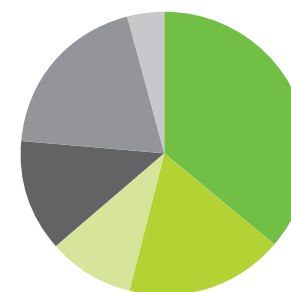
Innovation plays a key role in developing resource-efficient solutions. Last spring UPM Biofuels received the Sustainable Biofuels Award for its innovative production process for an advanced renewable diesel fuel, UPM BioVerno. The wood-based diesel production process won this major international prize even prior to UPM BioVerno entering the markets. Production will begin in summer 2014.

Together with other leading operators, UPM was chosen for inclusion in the new United Nations Global Compact 100 stock index. The 100 companies selected aim to encourage other companies around the world to adapt their strategies and activities to comply with the UN's human rights, labour, environmental and anti-corruption principles. Moreover, UPM CEO **Jussi Pesonen** was invited to co-chair the Forest Solutions Group in 2014–2016 in the World Business Council for Sustainable Development. The Council provides a forum to promote sustainable solutions for its 200 member companies representing all business sectors. To learn more, visit www.upm.com/responsibility

UPM SALES 2013* EUR 10,054 million



UPM EBITDA 2013 EUR 1,155 million



- UPM Biorefining
- UPM Energy
- UPM Raflatac
- UPM Paper Asia
- UPM Paper ENA
- UPM Plywood
- Other operations

*) Unconsolidated



UPM PULP AT YOUR SERVICE



- SALES CONTACT
- TECHNICAL CUSTOMER SERVICE
- UPM PULP MILL

BIOFORE CONCEPT CAR DEMONSTRATES THE USE OF RENEWABLE BIOMATERIALS

The Biofore Concept Car, a futuristic street-legal vehicle had its premiere at the 84th Geneva International Motor Show at the beginning of March. The car was designed and built by the next generation of talent from Helsinki Metropolia University of Applied Sciences and showcases the innovative use of UPM's biomaterials.

Various parts and components traditionally manufactured from plastic were replaced with UPM Grada thermoformable wood material and UPM Formi biocomposite, which consists of up to 50% pulp. These materials significantly improve the overall environmental performance of the car, without compromising quality or safety. The concept car is fuelled by UPM BioVerno wood-based renewable diesel. UPM Raflatac label materials were used to mark spare parts as well as in the interior and exterior design of the car. To learn more, visit www.bioforeconceptcar.upm.com



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