




M E R C E R

PRESIDENT'S
REPORT
2013



Mercer International is one of the world's largest producers of Northern Bleached Softwood Kraft (NBSK) market pulp, serving customers primarily in Europe, Asia and North America. Mercer operates two large-scale modern pulp mills in Germany: the 75%-owned Stendal mill near the town of Stendal, and the 100%-owned Rosenthal mill near Blankenstein. These mills are the only NBSK pulp mills in Germany, Europe's largest market for NBSK pulp. Mercer also owns and operates the Celgar NBSK pulp mill near Castlegar, British Columbia, Canada, one of the largest and most modern kraft pulp mills in North America. Mercer's shares trade on the NASDAQ Global Market (symbol: MERC) and on the Toronto Stock Exchange (symbol: MRI.U).

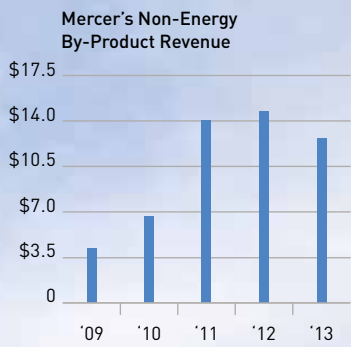
Dear Fellow Shareholders;

2013 was a busy year at Mercer. Among the initiatives completed was our successful Blue Mill project at Stendal, which was completed on time and slightly below budget in the fourth quarter. At Celgar we substantially completed a significant restructuring of our workforce in the fourth quarter. This was an important step to improving the mill's competitiveness. We also began upgrading our IT infrastructure

and recently commenced the implementation of SAP's enterprise resource planning ("ERP") solution. Effective October 1, 2013, we changed our reporting currency from the euro to the U.S. dollar. We believe that this change will allow for better peer comparisons and otherwise allow investors to better understand our business. As a result, all monetary references in this letter will be to U.S. dollars unless otherwise indicated.

In 2013 our energy and chemical revenues combined with our modern assets to maintain strong margins relative to many of our peers. To put this in perspective, our 2013 energy and chemical revenues totaled approximately \$92 million, and we expect this number will grow in 2014 with the addition of the Blue Mill energy sales.





Market Overview

Looking forward to 2014, we will continue to focus our marketing strategy on customers who operate modern facilities and produce high quality products. This strategy aligns with the quality of our product and the strength of our customer value proposition.

We continue to be optimistic about near term demand for our product and expect increased demand to come primarily from China in the form of new tissue production capacity. Indeed, Chinese tissue demand grew to 6.0 million tonnes in 2013 from 5.6 million in 2012, up approximately 7%. To meet that growing demand, Chinese tissue production has increased approximately 10% compared to 2012, with production now totaling approximately 6.7 million tonnes. We expect this demand growth to continue with the ongoing urbanization of the Chinese population. Globally, the announced tissue production capacity increase in 2014 is projected to be about three million tonnes, with almost 1.8 million tonnes in China. These modern tissue machines will partially replace certain old polluting capacity. We believe the new tissue machines being brought on-

line require a significant portion of NBSK in their recipes in order to run at their designed higher speeds. Consequently, we expect higher levels of NBSK demand from such modern tissue machines.

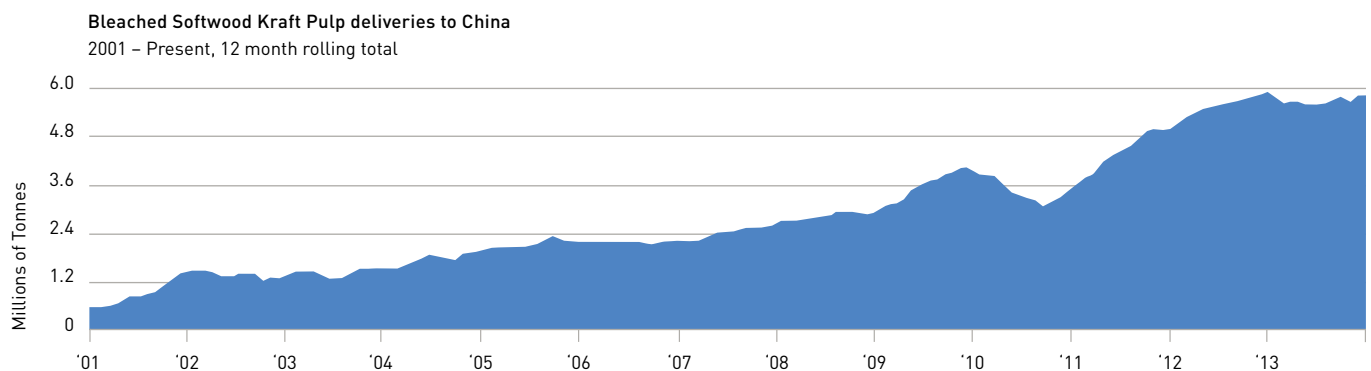
Although China's demand is important, it is also worth noting that in 2013 global NBSK demand was up 2.3% relative to 2012, and the bulk of that growth came from Europe and North America. Chinese demand was generally flat as increased tissue related demand was offset by reduced demand from the paper side; in addition tissue and paper producers reduced their inventory levels. As a result, we believe producer and trader inventory levels were well below normal levels at the end of 2013. The European and North American demand statistics are even more impressive considering that economic growth in both remained muted.

NBSK producer inventories at the end of December were below balanced at 27 days. We believe 30 days of producer inventories is considered to be a balanced market. In our view, the current supply/demand dynamics favor producers and we expect prices to increase moderately in the first half of 2014.

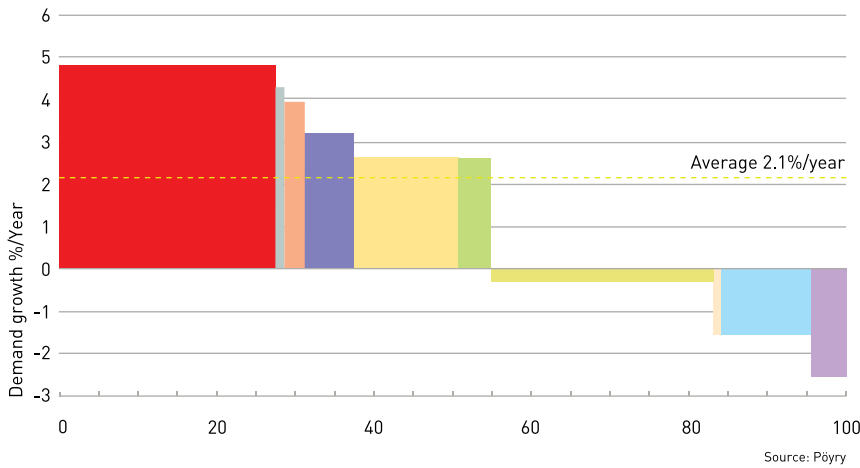
We have heard a lot about the new hardwood capacity that is coming online in 2014 and its potential to be a drag on NBSK pricing. We do not share that view. In 2010 we saw a significant amount of new hardwood capacity enter the market, while the price gap between hardwood and softwood grew to over \$200 per tonne. We also saw the price of NBSK hit record levels as pulp producer inventories were low throughout 2010. Those that expect NBSK pricing to follow hardwood down believe that hardwood will be used as a substitute for NBSK. We believe that there is very little substitution that hasn't already been implemented. Tissue and specialty paper producers have minimal room to substitute and printing and writing paper producers have already made the switch.

Looking forward, we are also optimistic that as emerging economies become more urbanized their tissue and paper product use will also increase. As this urbanization process takes place, we believe over time it will only add to the wave of demand coming from China.

Overall, these factors leave us feeling positive about the future of the NBSK market.



Long-term Growth Prospects for Market Wood Pulp Demand by Region 2011-2025

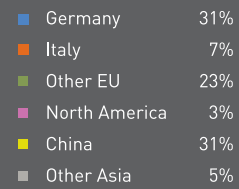
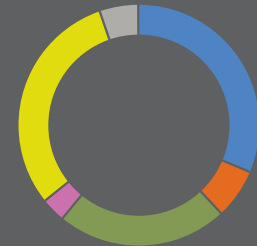


Share of consumption in 2011 (58 million tonnes), %

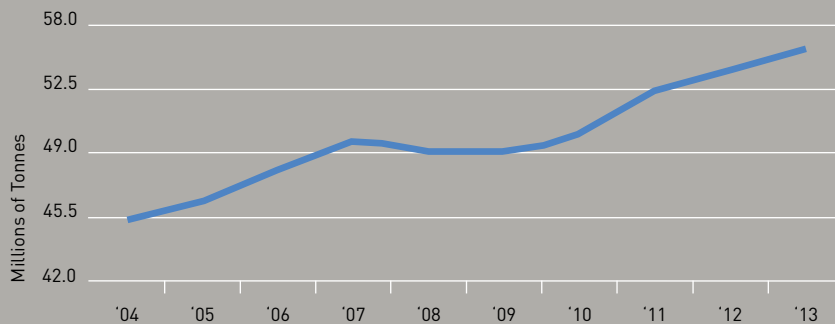


Demand for market wood pulp is forecast to grow by 2.1%/year through 2025. Long-term demand growth will be driven mainly by China, Latin America and the rest of Asia.

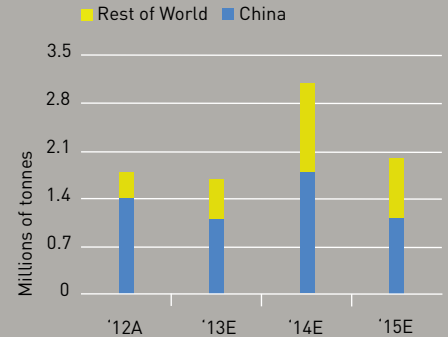
Mercer's 2013 Sales by Region



Estimated Global Chemical Market Pulp Demand



Annual Tissue Capacity Growth by Region



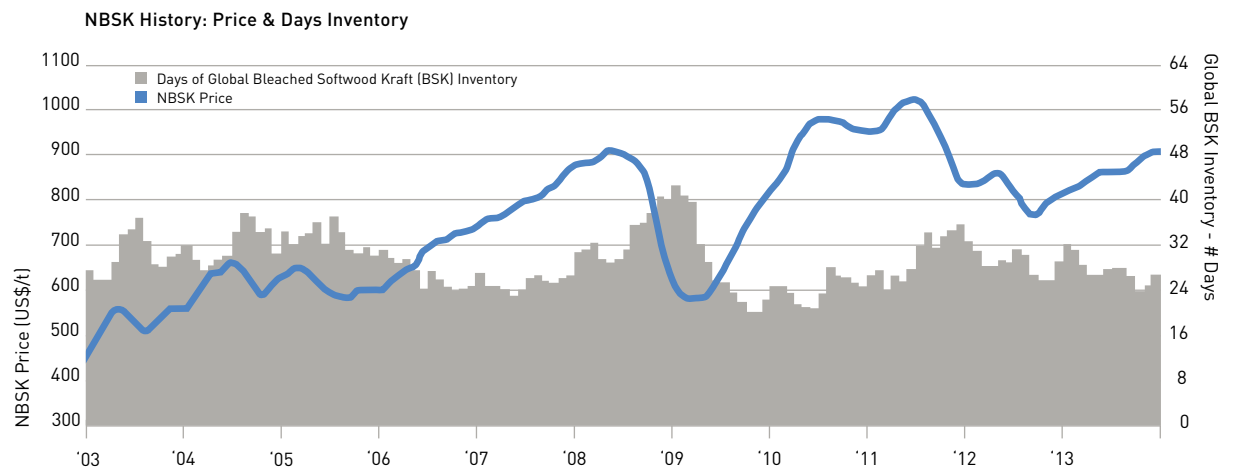
Market Movements

2013 was a frustrating year from a pricing perspective. We started the year with a European list price of \$810 per tonne and we experienced positive price movements throughout the year, ending the year at \$905 per tonne. However, given

that NBSK producer inventories were below balanced through the year, we expected to see stronger price movements. Instead, pricing movements were limited to between \$10 and \$20 per tonne when the market indicators would have historically commanded larger price increases.

We are currently forecasting NBSK prices to moderately increase in the first half of 2014. As we begin 2014, prices continue to rise, with price increases implemented in both January and February.





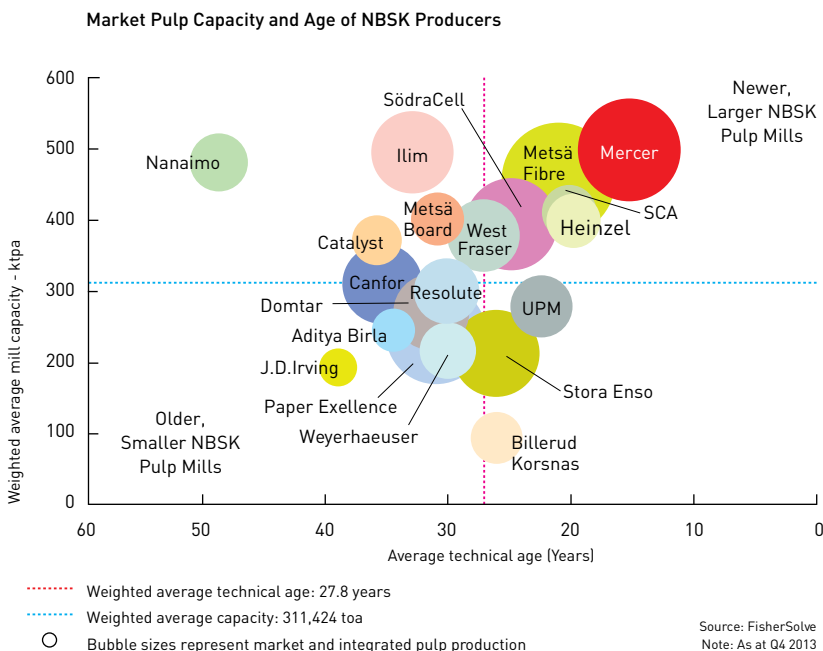
Environmental Leadership

We take our environmental stewardship seriously. We constantly monitor our emissions to ensure we adhere to our emission permits. In addition, our focus on measuring and monitoring our emissions has ensured we are always looking for better, more efficient processes. In some cases this has meant investing in new technology, and in others simply modifying our existing processes.

Our mills are some of the most modern NBSK mills in the world, and as such our environmental footprint is in some cases significantly smaller than that of our competitors. In addition, our mills are

integrated cogeneration facilities. I have spoken about this in the past, but it continues to be noteworthy because this approach uses the steam generated from our production processes to not only drive a turbine to generate “green” electricity but also to dry our pulp and heat our mills. By cogenerating both heat and electricity internally, we are able to reduce the use of fossil fuels and our emission of greenhouse gases, while maximizing the value we are able to extract from our renewable forest resources. In addition, we achieve a reduced cost structure by producing our own electricity, thereby making our mills more competitive. This

is a win-win for both the environment and Mercer. Contrast this process with the manufacture of industrial wood pellets that are burned to produce energy. Simply burning wood does not realize the full value of the wood since a portion could otherwise be converted into a value-added product (e.g. pulp); not to mention that a pulp mill employs a significantly larger number of people than a wood pellet mill. Consequently, we feel that our process offers the best use of waste wood, and generates a significantly larger economic value for our communities. We also think of this in terms of ensuring the sustainability of our operations.





Fiber Markets

Fiber markets continued to be highly cyclical in 2013. The markets in both of the regions in which we operate experienced significant change, but at the end of the year we were beginning to see some trends that may positively influence our overall fiber costs in 2014.

We believe that cogeneration pulp mills are the most efficient users of waste wood. The wood that we use in our process comes from either sawmill residuals (chips produced as a by-product of the lumber manufacturing process) or low grade whole logs that are not suitable for lumber production. However, there are other industrial users of this type of waste wood, and as a result there is competition for this fiber. The supply of waste wood is affected by a number of factors including weather and economic conditions.

Our fiber costs in British Columbia are heavily influenced by sawmill activity. To the extent that lumber demand is improving, there will be greater demand for lumber grade sawlogs. Pulplogs are often harvested concurrently with sawlogs so as general harvest levels improve the volume of available pulpwood increases. Of even greater influence is the higher volumes of residual chips that become available when sawmills are operating at higher levels. Residual chips are generally our most cost

effective fiber. Our Celgar operations benefited from both of these impacts in 2013 as U.S. housing starts continued to recover from the economic downturn and the development of new lumber markets in China gained traction.

Continuing the trend that began in 2012, our per unit fiber costs in U.S. dollar terms at Celgar dropped steadily through 2013, falling by approximately 12% on average when compared to the prior year. We currently expect fiber markets in British Columbia to remain generally well supplied as we enter 2014.

Fiber costs in Germany were much more challenging in 2013. The drivers of wood costs in Europe are more complex, and as a result of several concurrent trends, per unit wood costs in 2013 were 13% higher than 2012. Wood costs in Europe are also heavily influenced by the health of the lumber industry. While the lumber industry in Germany improved during 2013, its recovery has been slower than that in North America.

In 2013, our German fiber costs were also negatively impacted by incremental demand and competition for fiber from pellet manufacturers. In Germany, use of waste wood in the manufacture of pellets for the home heating industry was a considerable source of competing demand. Europe experienced an unusually cold winter in 2012/2013, creating significant additional demand on pellet producers. The fiber supply was also negatively

impacted by the high snow levels that accompanied the cold and which halted harvesting through much of Europe during the winter. This was followed by the receding snow levels which created record flood conditions that put harvesting activities on hold through most of the spring and early summer. The cost increases were more pronounced at Stendal than at Rosenthal where higher costs of pulp logs at Stendal could not be offset by less expensive residual chips as Stendal has fewer sawmills in its fiber basket.

As we enter 2014, there are some positive indicators that may limit additional upward pressure on fiber costs in Germany. Unlike last winter's difficult weather, the winter of 2013/2014 has been relatively mild to date. This has taken the pressure off of pellet demand and has not impacted harvesting levels as dramatically as last year. In addition, we have commenced several projects that we believe will improve our wood logistics and allow us to efficiently access additional wood markets if needed. Though we do not expect wood costs to fall dramatically, there are indications that modest relief will come in the near term.



Production

After achieving steady pulp production improvements each year since 2009, our pulp productivity in 2013 was down approximately 2% versus 2012. However we did realize some positive momentum heading into 2014. Despite our Rosenthal mill achieving record production levels in the year along with an improving trend at Stendal and Celgar at the end of the year, we experienced a challenging second quarter from which we were not able to fully recover the lost volume. During the annual shut at Celgar in the second quarter, we

encountered several unexpected problems that we chose to correct, extending the shut by several days. As we were returning to full production, the mill was hit by an electrical storm that tripped its electrical systems, shutting the mill down in an uncontrolled manner; as a result, it took several additional days to return the mill to full production. We were generally satisfied with Celgar's progress after this difficult period. On a positive note, Rosenthal continued to produce at record pace, and Stendal is beginning to benefit from the recently com-

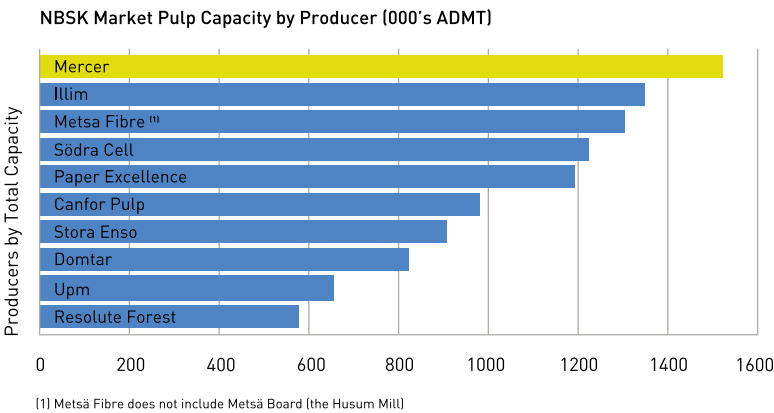
pleted Blue Mill project, achieving a record 60,000 ADMT of production in December.

Our electricity generation was up in 2013, while our sales were marginally lower than 2012 at almost 700,000 MWh of electricity. As noted earlier, Stendal's Blue Mill project was completed in the fourth quarter and we expect this project to yield an additional 30,000 ADMT of pulp and 109,000 MWh of electricity per year.

We also continued to advance our interest in bio-chemicals during the year. We produced a record level of tall oil in



2013 and have commenced a capital project to increase tall oil production even further and which we expect to be online in Q4 2014. During 2013 we recorded revenues from bio-chemicals totaling \$12.8 million. In addition, we have engaged in research projects with several partners to explore further opportunities in this space and expect significant revenue growth if these projects achieve commercial success. It is too early to know where this research will lead exactly, but we are very excited about the potential.



Financial Flexibility and Liquidity

While we remain committed to reducing our debt levels, we took advantage of favorable debt markets in 2013 to improve our liquidity and enable the completion of the Blue Mill pulp and energy productivity improvement project at Stendal.

During the year, we completed a \$50 million add-on to our existing Senior Notes. The notes were issued at a premium

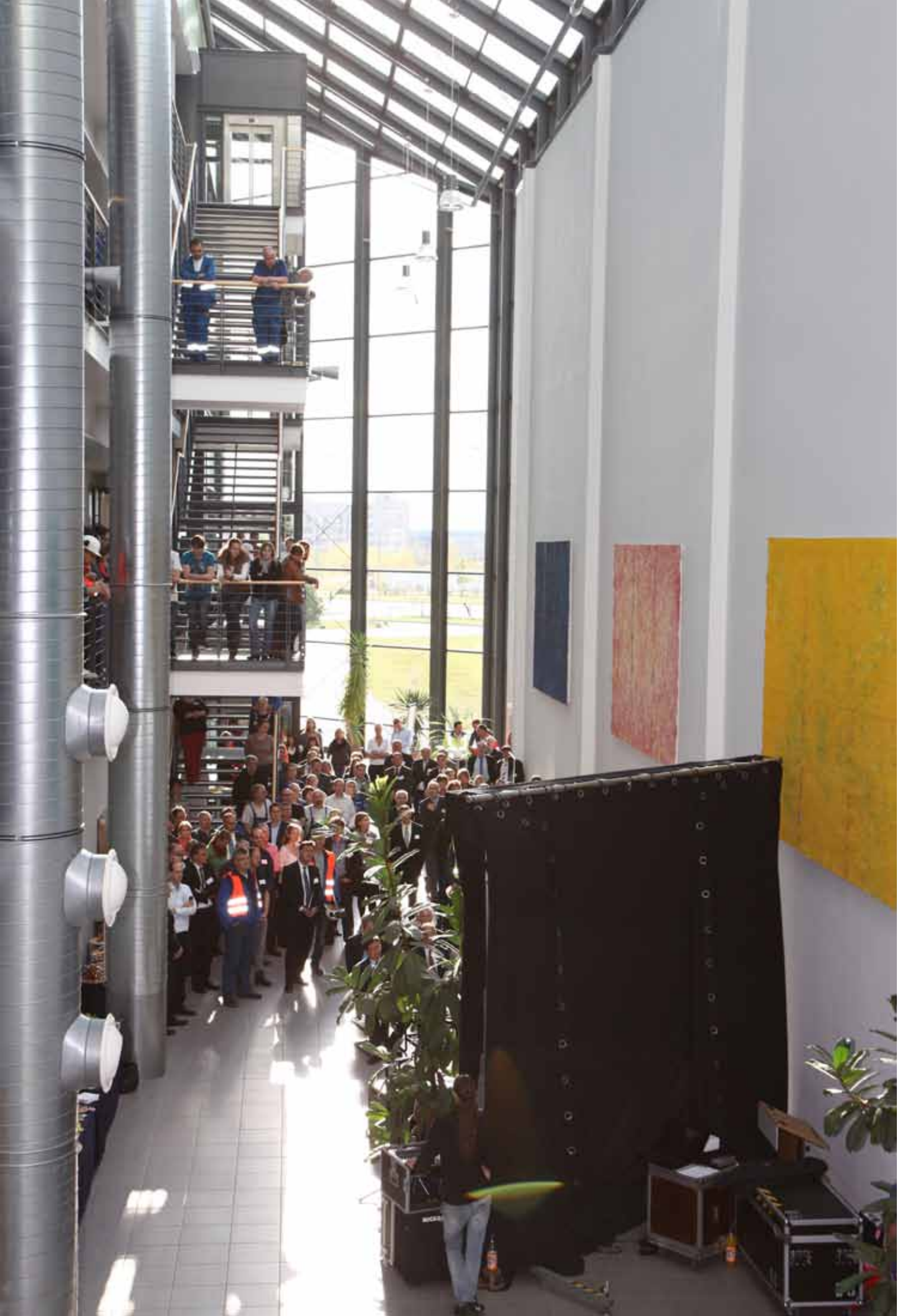
of 104.5% of par and we used \$20 million of the proceeds to invest in Stendal. We also completed a new €17 million facility at Stendal which, in conjunction with about €11 million in government grants, allowed us to complete the Blue Mill project. We also continue to make regular, bi-annual principal payments on the Stendal facility, which totaled €40 million in

2013. Modifications to the Stendal facility agreement provided additional flexibility. Overall we have reduced our debt levels so that debt now comprises approximately 74% of our total capitalization, down from approximately 91% in 2009.

Overall, our liquidity and financial position was satisfactory at the end of 2013.

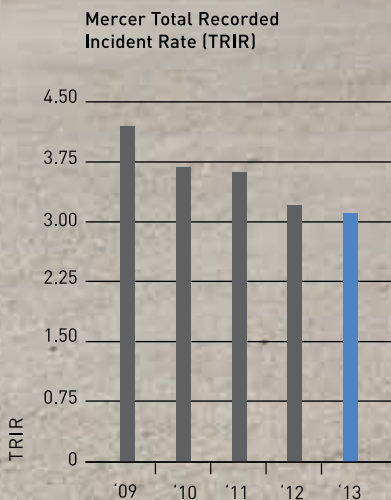


In November, 2013, we celebrated the completion of our Blue Mill pulp and energy optimization project. The celebration included several photo ops including some “fun” with the first few tonnes of incremental pulp that we produced (above) along with presentations by management to thank our employees, construction partners, and lenders for their support (right).



Safety

Safety continues to be a high priority at Mercer. Our goal is zero injuries, and we believe this objective is attainable despite the physically demanding nature of many of our employees' jobs. In 2014, we will continue to focus significant resources on ensuring our employees are focused on their personal safety as well as that of their colleagues.





Financial Performance

In 2013, we generated pulp revenues of approximately \$996 million, 2% higher than 2012 on rising U.S. dollar denominated list prices.

In 2013 our revenues from electricity and bio-chemicals reached approximately \$92 million, nearly matching the \$93 million we achieved in 2012.

Operating EBITDA in 2013 totaled approximately \$110 million¹, down 20% from 2012. The decrease was primarily due to higher fiber costs in Germany, the impact of a weaker U.S. dollar relative to the euro on our German mill expenses and the Celgar restructuring, partially offset by higher realized sales prices. We are not satisfied with our financial performance in 2013, but believe that NBSK prices will

begin to properly reflect the demand/supply imbalance that currently exists in the market along with the strong euro that has deteriorated the earnings of European producers. This pressure, combined with our recently completed restructuring measures and the Blue Mill project, are expected to positively influence earnings in 2014.

Net loss in 2013 was approximately \$26.4 million, or \$0.47 cents per share, compared to a net loss of approximately \$15.7 million or \$0.28 cents per share in 2012.

I would also like to point out that many of our competitors now report using International Financial Reporting Standards (“IFRS”). IFRS was adopted in Canada in 2011, and although U.S. Generally

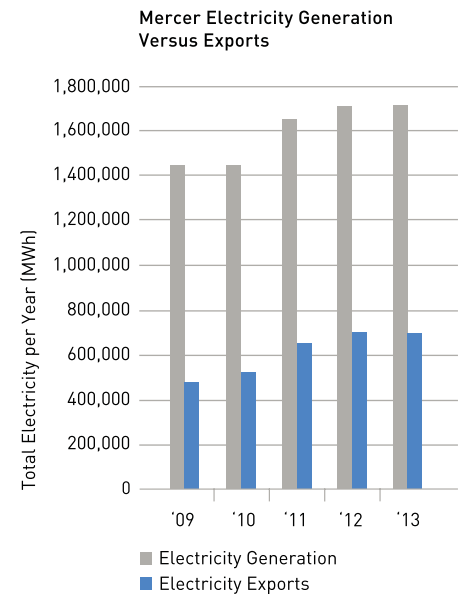
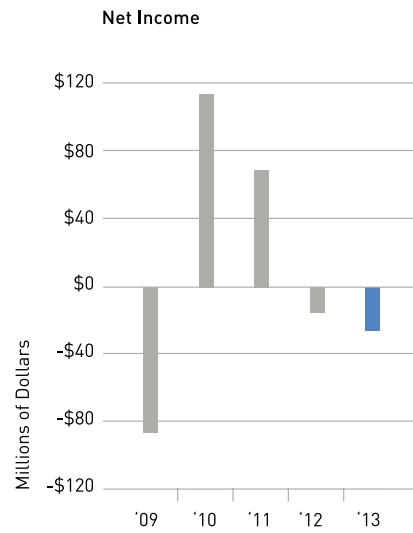
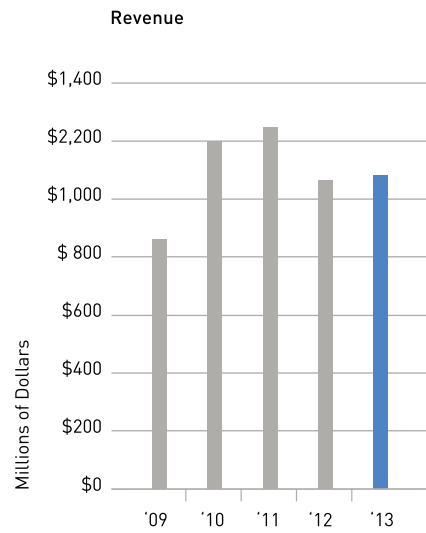
Accepted Accounting Principles (“GAAP”) and IFRS are similar in many ways, one notable difference is the accounting for major maintenance. Under IFRS, major maintenance is accounted for as a capital asset and amortized to the depreciation and amortization expense line of the income statement. Under U.S. GAAP, those costs are expensed in operating costs when they are incurred. Each quarter we highlight the amounts that we would exclude from EBITDA if we were using IFRS to allow our readers to better compare our results to our IFRS reporting competitors.

¹ The following table provides a reconciliation of net income (loss) attributable to common shareholders to operating income and Operating EBITDA for the period indicated:

Year Ended December 31, 2013
(in thousands)

Net income (loss) attributable to common shareholders	\$ (26,375)
Net income (loss) attributable to noncontrolling interest	607
Income tax provision	9,196
Interest expense	69,156
Derivative financial instruments less (gain)	(19,709)
Other expense (income)	(1,215)
Operating income	31,660
Add: Depreciation and amortization	78,645
Operating EBITDA	\$ 110,305







Looking Forward to 2014

We believe there are positive trends developing in the early days of 2014. We see continued upward pressure on NBSK prices as the growth in tissue and specialties grades, particularly in China, continue to develop. We believe that based on announced tissue and paper projects coming online in the next few years, the Chinese government's plans to continue shutting inefficient and polluting pulp and paper production, and China's growing demand for tissue and paper products, will create strong demand for market pulp. We believe that the considerable volume of new hardwood capacity that is currently coming online, while important to support a growing paper market, has

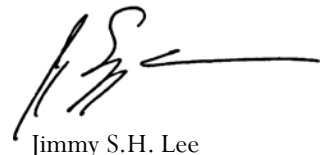
limited ability to replace the strength characteristics that papermakers have come to rely upon in an NBSK furnish. This demand, combined with limited new NBSK entering the market, is expected to keep the NBSK market tight enough to support further price increases.

Our North American Free Trade Agreement ("NAFTA") claim process is ongoing. The issues are complex and the process is slow, but we feel compelled to pursue it due to the magnitude of the issue. We believe that we have been discriminated against in terms of our requirements to self-supply energy relative to our competitors in British Columbia. We continue to expect

our case to be heard in late 2014, with a decision expected several months after that.

I would like to thank our stakeholders and Board of Directors for their continued support. Special thanks to all our employees for their dedication and hard work in making Mercer one of the world's leading producers of performance enhancing fibers.

Mercer International Inc.



Jimmy S.H. Lee

Chairman, CEO and President



Dear Fellow Shareholders;

During 2013, your Board of Directors provided support and independent guidance to Mercer's senior managers. The Board continued its own education by participating in NYSE Corporate Board Member conferences and webcasts. In October, two Directors visited several pulp customers in China as part of the Board's effort to stay current on market trends for our product. Other market trips to China and Europe are planned in 2014.

The Stendal plant's "Blue Mill Project" was completed on time – Q3 of 2013 – and under budget and is producing as expected; namely, an additional 30,000 tonnes per year of pulp and 109,000 MWh of additional energy. Stendal, located west of Berlin, Germany, is our largest and newest pulp mill.

The Audit Committee, under Chair Bill McCartney, provided regulatory oversight and financial stewardship. To improve communication with our shareholders, analysts and other stakeholders, and to permit easier comparisons with peer group companies, we changed our reporting currency from the euro to the U.S. dollar, effective October 1, 2013.

During 2013, the Compensation and Human Resources Committee, under Chair Bernie Picchi and with the help of its retained compensation consultants, Towers Watson, developed a new Long Term Incentive Plan [LTIP] that became effective January 1, 2014. The new Plan incorporates an equal balance of performance criteria including Return on Assets, Total Shareholder Return and New Business Initiatives. The Plan is designed to strengthen the alignment of our managers' interests and performances with the interests of you, our owners. Effective October 1, 2013, and consistent with governance "best practices", meeting fees were eliminated as a component of Directors' compensation.

The Environmental Health and Safety Committee, led by Chair Jim Shepherd, has elevated the Board's commitment to these areas by holding annual safety meetings between mill personnel and the Directors at each of the company's three operating divisions. Directors closely review environmental and safety performance data quarterly, which reflects the Board's view that safety, health and the environmental responsibility are among its highest priorities.

I welcome our new Director, Nancy Orr, who joined the Board in May 2013.

Nancy brings extensive Directorship experience in the financial services and pulp and paper sectors. In addition, she has more than 20 years of experience in the development, financing and management of industrial and international infrastructure projects, mainly in the construction, energy and recycling sectors. Ms. Orr has a strong academic and practical background in accounting and finance.

The Board extends its thanks to Jimmy Lee, President, CEO and Chairman, and to his outstanding management team – and, indeed, to all Mercer employees for their continued dedication and to making Mercer one of the great companies in our industry.

On behalf of the Board of Directors,



Eric Lauritzen

Deputy Chairman and Lead Director



Shareholder Information

Market Information

Our shares are listed and quoted for trading on the NASDAQ Global Market under the symbol “MERC” and on the Toronto Stock Exchange under the symbol “MRI.U”. The following table sets forth the high and low reported closing prices of our shares on the NASDAQ Global Market for each quarter in the two-year period ended December 31, 2013, and for the period ended March 31, 2014:

Fiscal Quarter Ended

	High	Low
2012		
March 31	\$ 8.80	\$ 6.15
June 30	\$ 8.10	\$ 5.55
September 30	\$ 7.51	\$ 5.05
December 31	\$ 7.80	\$ 6.18
2013		
March 31	\$ 7.51	\$ 6.50
June 30	\$ 7.07	\$ 5.87
September 30	\$ 7.84	\$ 6.22
December 31	\$ 10.55	\$ 7.04
2014		
March 31	\$ 9.95	\$ 7.05

Annual Meeting

The Annual Shareholders’ Meeting will be held on May 30, 2014.

Form 10-K

A copy of our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission is enclosed with and forms a part of this President’s Report. The Form 10-K provides important information about the Company, including business, financial and other information and should be read in conjunction with this report.

Shareholder Information

As at March 31, 2014, there were a total of 55,853,704 shares outstanding. On April 2, 2014, an additional 8,050,000 shares were issued pursuant to an equity offering.

Forward-Looking Statements

The preceding includes forward-looking statements which involve known and unknown risks and uncertainties which may cause the Company’s actual results in future periods to differ materially from forecasted results. Among those factors which could cause actual results to differ materially are the following: market conditions, competition and other risk factors listed from time to time in the Company’s SEC reports.



Corporate Information

Board of Directors, Executive Officers and Senior Management

Jimmy S.H. Lee****
President, CEO and Chairman
Director/Trustee since 1985

David M. Gandossi
Executive Vice President
CFO and Secretary

Eric Lauritzen**
Independent Consultant
Director/Trustee since 2004
Lead Director since 2012

William D. McCartney* **
Pemcorp Management Corp.
Director/Trustee since 2003

Nancy Orr* ***
Independent Consultant
Director since 2013

Bernard J. Picchi***
Managing Director, Palisade
Capital Management, LLC
Director since 2011

R. Keith Purchase*** ****
Retired Businessman
Director since 2012

James Shepherd* ****
Director, Conifex Timber Inc.
Director since 2011

Graeme A. Witts** ***
Retired Businessman
Director/Trustee since 2003

Claes-Inge Isacson
COO

David K. Ure
Senior Vice President, Finance

Eric Heine
VP Sales, Marketing & Logistics
North America & Asia

David Cooper
VP Sales & Marketing, Europe

Kevin Anderson
Managing Director
Operations and Technical, Celgar

Cherie Hanvold
Managing Director Finance and
Administration, Celgar

Leonhard Nossol
Controller, European Operations
Managing Director, Rosenthal

Adolf Koppensteiner
Managing Director, Stendal

André Listemann
Managing Director, Stendal

Brian Merwin
VP Strategic Initiatives

Wolfram Ridder
VP Business Development

Richard Short
VP Controller

Genevieve Stannus
Treasurer

* Member of Audit Committee

** Member of Governance and
Nominating Committee

*** Member of Compensation Committee

**** Member of Environmental, Health
and Safety Committee

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Stock Listings

NASDAQ Global Market
Trading Symbol: MERC

Toronto Stock Exchange
Trading Symbol: MRI.U

Incorporation

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Website

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Form 10-K

