


M E R C E R

PRESIDENT'S REPORT 2014





Mercer International is one of the world's largest publicly traded 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 Stendal mill near the town of Stendal, and the 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).

2014 was a transformational year for Mercer.

Not only did we achieve record production of pulp and green energy, but we successfully restructured the Company's balance sheet, thereby putting us in a solid financial position for the future. Through a series of transactions we have reshaped the Company's balance sheet, increased our financial flexibility and significantly reduced our debt. We remain optimistic about

our core pulp business and currently believe that positive supply - demand fundamentals should keep pulp prices at generally favorable levels through 2015. We are looking forward to 2015.

Dear Fellow Shareholders;

2014 was a very busy year at Mercer

We successfully completed a number of significant transactions that restructured and simplified our balance sheet, and I will cover them in more detail in the Financial Flexibility and Liquidity section. We also added to our investment in chemical by-products this year. Late in 2014, we completed construction of our Rosenthal tall oil plant. This new plant is designed to produce approximately 6,000 tonnes of tall oil annually, adding to our current 24,000 tonnes of capacity at Stendal. Tall oil has a number of unique properties that make it a sought after green alternative to other chemicals as a component of adhesives, inks, emulsifiers and binders. It is also used to produce bio-diesel. This is a nice value added green by-product for us.

We also celebrated Stendal's 10 year anniversary this year. Ten years have gone by very quickly, and this mill has come into its own over this period. We are very pleased that we now own all of the economic interest in this mill.

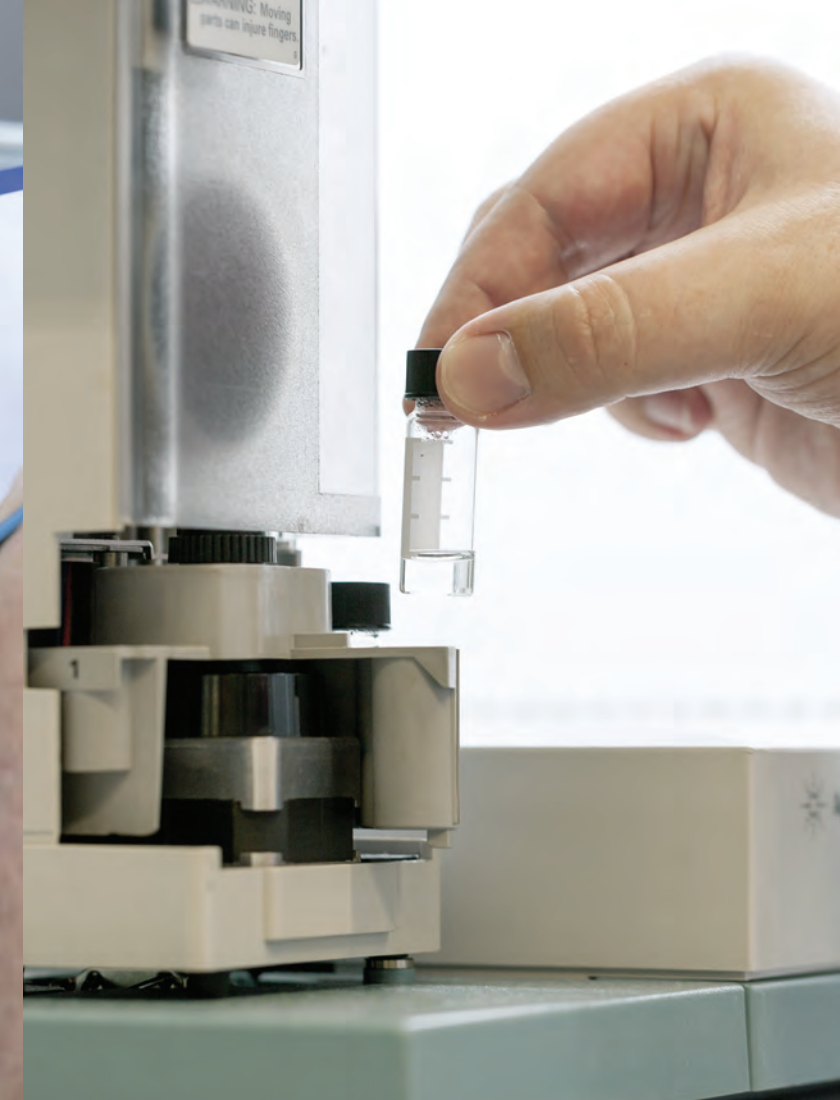
At Celgar, we successfully completed a high return project to replace our chip screens this year. We are excited about this investment because we have seen in our German mills how modern chip screens can increase wood yield and also allow for a more consistent pulp cooking process. Ultimately, this means lower fiber costs and improved pulp productivity.

Our project to upgrade our IT infrastructure with the implementation of an enterprise resource planning ("ERP") solution is ongoing, and we expect this project to be completed in late 2016. These implementations are never easy, but we feel this software platform best serves our needs going forward.

We are also optimistic over the mid to long-term about our new bio-material focused joint venture with Resolute Forest Products Inc. ("Resolute"). Together we launched a company called Performance Biofilaments Inc., which will seek development partners from a range of industries to develop new commercial product applications for cellulose filaments, a unique cellulose-based bio-material with exceptional strength, weight and binding characteristics. We are unlikely to see material revenues from this venture for a number of years, but we are optimistic about potential applications for this product.

Effective October 1, 2013, we changed our reporting currency from the euro to the U.S. dollar. We believe that reporting our results in U.S. dollars allows for easier peer comparisons and allows investors to better understand our business. All monetary references in this letter are to U.S. dollars unless otherwise indicated.

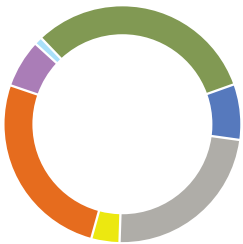
In 2014 our energy and chemical by-product revenues were given a significant boost thanks to our successful Blue Mill project at Stendal that was completed in the fourth quarter of 2013. Our energy and chemical by-product revenues provide us with a steady source of revenues unrelated to the pulp market. In 2014, energy and chemical revenues increased by 10% to approximately \$101.5 million, compared to \$92.2 million in 2013. I believe it is noteworthy that in 2014 this stable by-product revenue exceeded our 2014 debt carrying costs by \$34 million. We expect our chemical sales volume to continue to grow with the addition of our new tall oil plant at Rosenthal.



Market Overview

Over the last few years our marketing strategy has not changed significantly

2014 Pulp Sales by Region



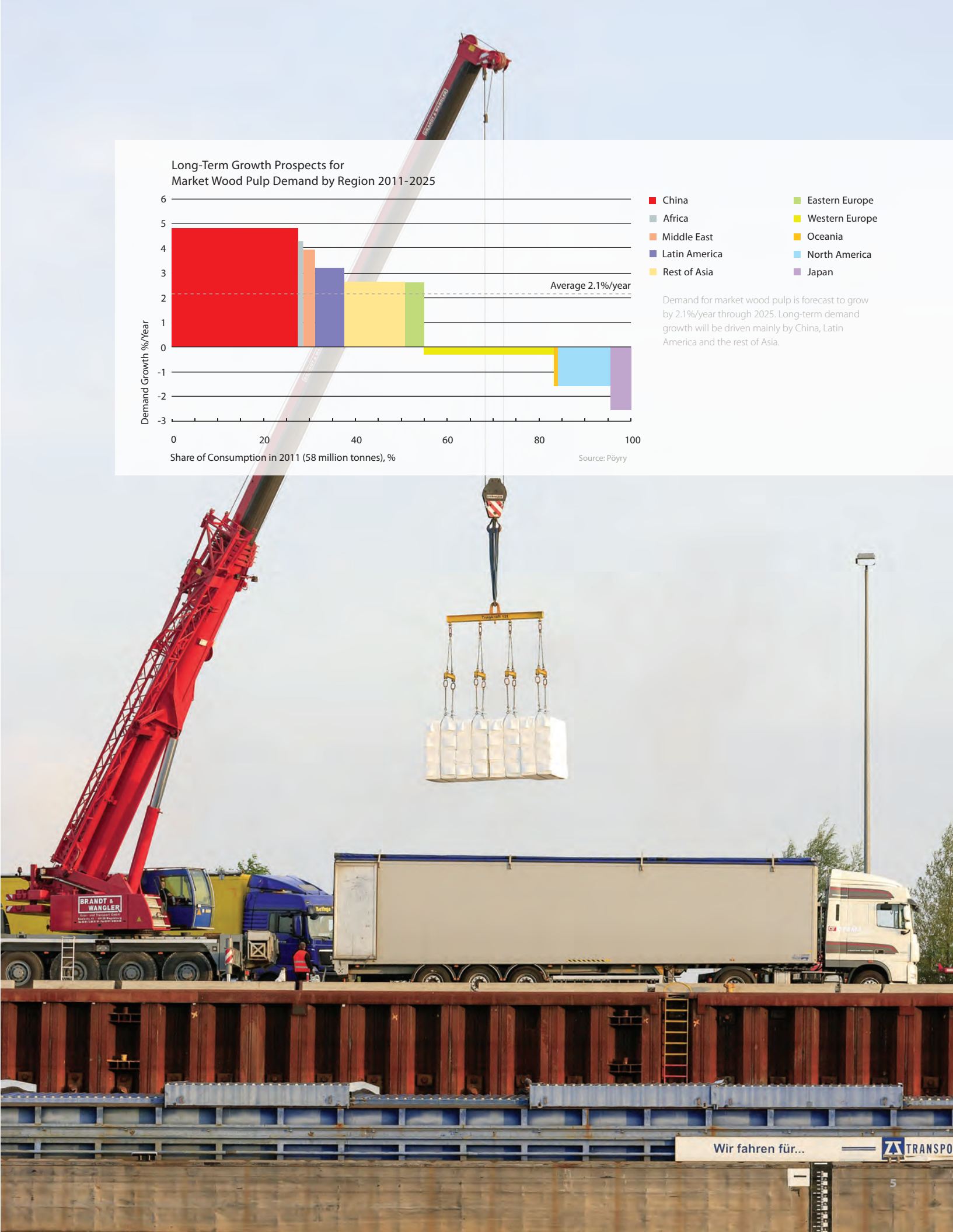
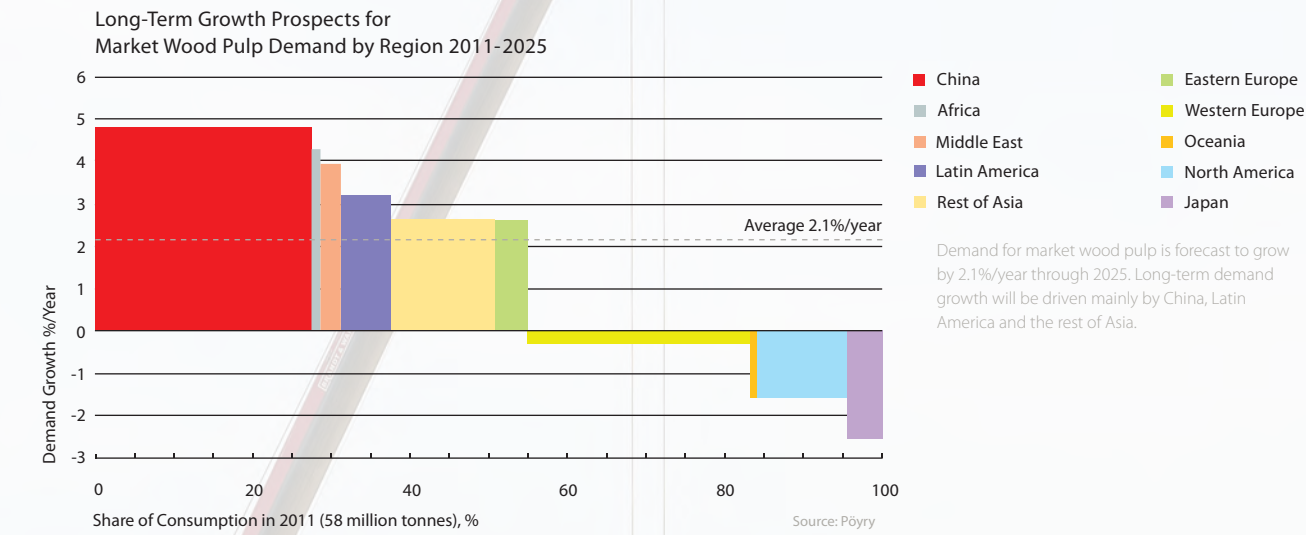
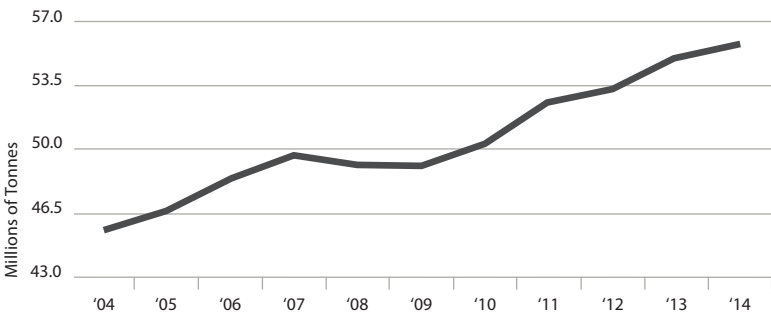
- Germany, 32%
- Italy, 7%
- Other EU, 24%
- U.S., 4%
- China, 26%
- Other Asia, 6%
- Other, 1%

and we believe this consistency has served us well. Looking forward to 2015, we will continue to focus our marketing efforts on customers who operate modern facilities and produce high quality products. We believe this strategy aligns with the quality of our product and the strength of our customer value proposition.

Based on these trends, we are currently optimistic about the supply - demand fundamentals for NBSK due to the expectation that there will be a good demand pull for our product, while at the same time supply growth is expected to be lower than we have seen in the past. In 2014 we saw NBSK producer inventory levels stay at or slightly below balanced levels which has allowed NBSK prices to remain steady at relatively high levels. NBSK producer inventories at the end of December were balanced at 31 days. We believe about 30 days of producer inventories is considered to be a balanced market.

In addition, hardwood pulp supply increased dramatically in 2014 as approximately 1.6 million tonnes of new hardwood capacity hit the market. Many market analysts were predicting that this would put significant downward pressure on NBSK prices as paper producers substituted hardwood pulp in place of NBSK in their recipes. We believe NBSK stayed steady in 2014 as the ability of paper producers to materially substitute is limited by certain strength characteristics needed to run their modern paper machines efficiently.

Estimated Global Chemical Market Pulp Demand

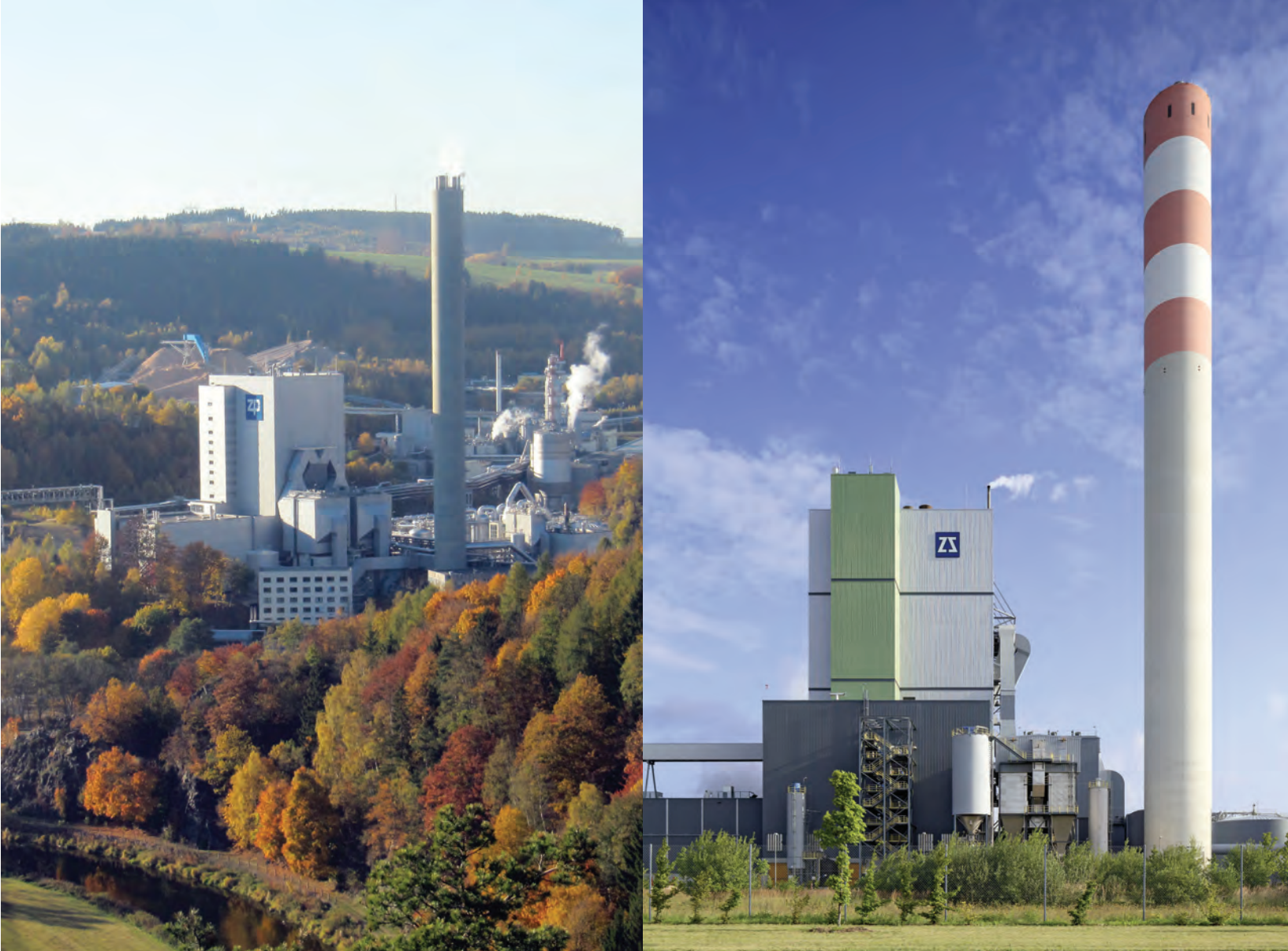
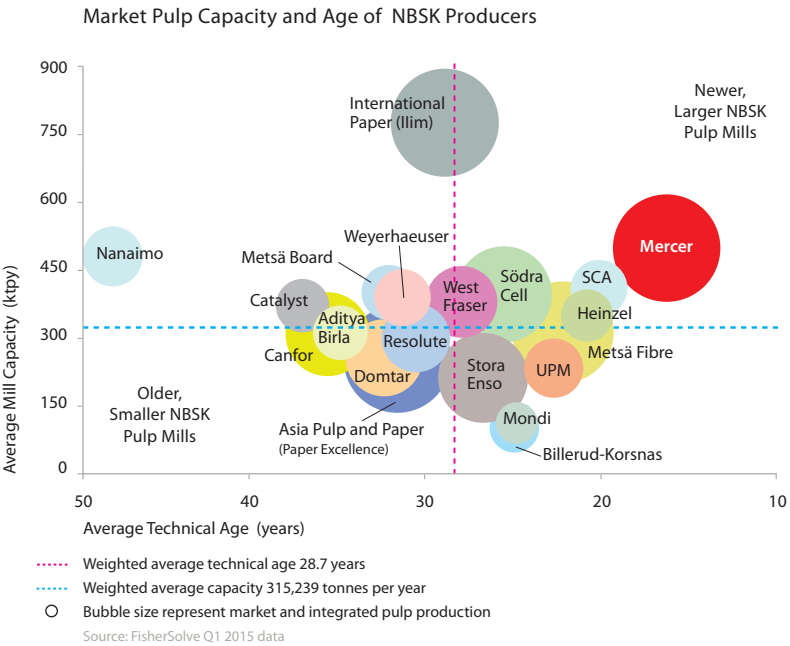


We remain focused on our environmental stewardship and sustainability

We operate large industrial facilities that have a significant impact on the communities in which we operate, and have the potential to negatively impact the environment. To ensure we limit our environmental impact and meet our government mandated emission restrictions we constantly monitor a variety

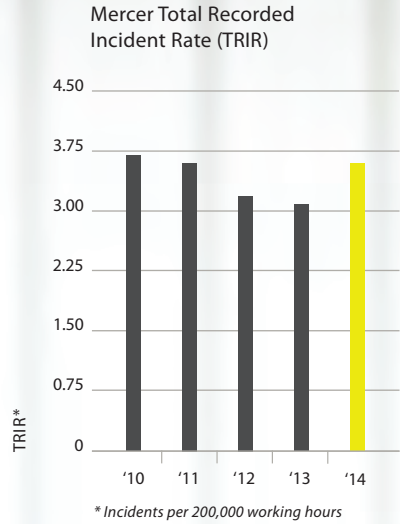
of emission metrics. As part of our monitoring processes we are always looking for more efficient processes with the objective of reducing our emissions.

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. This design feature 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 and selling some of it to the grid, thereby making our mills more competitive. We are also proud of this process since we feel it helps ensure the sustainability of our operations.



Our goal continues to be zero injuries

Our employees work in large industrial complexes which carries some inherent risks, however we invest significant resources in mill design, safety training, and safety equipment to make our workplaces safer. While our safety results have shown a positive trend over the last few years, 2014 did not achieve our targets. Consequently, we will renew certain safety programs in 2015 with a particular emphasis on awareness training. We continue to believe our safety targets are attainable, and we will remain focused on ensuring all our employees have a safe work environment.



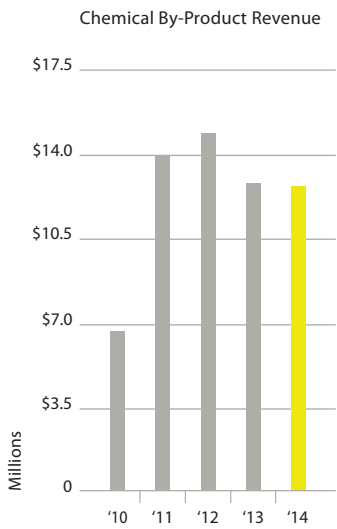
Production

Our mills responded with record production in 2014

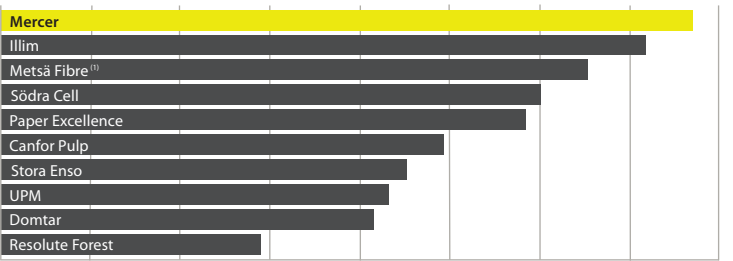
after disappointing production results in 2013. Our pulp productivity in 2014 was up approximately 3% (or 41,000 tonnes) versus 2013. The improvement was led by our Stendal mill which benefitted from our Blue Mill Project investment. Rosenthal continues to run at near record pace missing another record production year by only a few hundred tonnes and Celgar improved on its production results as well. Despite Celgar’s improved production results in 2014 we expect more from this mill and believe that production will continue to improve now that our workforce reduction program is behind us.

Our electricity sales were at record levels in 2014 in terms of both power generated and revenues. Our sales volume was almost 110,000 MWh higher than 2013 at approximately 808,000 MWh of electricity sold to the grid. The incremental power sales generated almost \$9.4 million of additional revenue.

We continue to focus on other by-product revenues, including tall oil and turpentine. We expect to grow our tall oil sales volume in 2015 due to our new tall oil plant at Rosenthal coming online in late 2014. During 2014 we recorded revenues from chemical by-products totaling approximately \$12.7 million.



Top 10 NBSK Market Pulp Capacity By Producer (000's ADMT)



(1) Metsä Fibre does not include Metsä Board (the Husum Mill)



Financial Flexibility and Liquidity

2014 was a financially transformational year for Mercer

Since my letter to you last year we have both significantly de-levered and simplified our capital structure. We have:

- Lowered our debt by over \$290 million, or almost 30%,
- Improved stock liquidity by increasing the number of common shares we have outstanding,
- Simplified our structure by eliminating the Restricted and Unrestricted Groups within our debt structure, and
- Acquired the remaining economic interest in Stendal from the minority shareholder.

Early in the second quarter, in anticipation of potential capital requirements at our Stendal mill and our desire to invest in our German wood procurement and logistics operations, we completed the sale of 8,050,000 shares of common stock for net proceeds of approximately \$53.9 million after deducting underwriting discounts and offering expenses; a transaction that we believe also increased the liquidity of our shares.

Late in the third quarter we came to an agreement with Stendal's minority shareholder on terms to buy out their interest. This was a complicated transaction, but in summary for €13.0 million (\$16 million) we acquired all of the loans owing to the minority shareholder, substantially all of the minority shareholder's interest and certain other rights to acquire all of the economic interest in Stendal. As a result of these transactions, we consolidate essentially all of the economic interest in Stendal.

The purchase of the minority shareholder's interest in Stendal and the subsequent amendment to Stendal's credit facilities allowed us to complete the final step in our strategy. In the fourth quarter we announced the closing on a \$650.0 million principal amount of senior notes. The new senior notes were issued in two series, (i) a series of 7.00% senior notes due in 2019 with a principal amount of \$250.0 million, and (ii) a series of 7.75% senior notes due in 2022 with a principal amount of \$400 million. The net proceeds of this total note issuance, together with cash on hand and borrowings under certain of the Company's revolving credit facilities were used to refinance the Company's 9.5% senior notes due in 2017 and Stendal's two bank credit facilities.

Consequently in 2014 we have refinanced the Company's debt on favorable terms, reduced our financial leverage, simplified our capital structure and made Mercer more financially flexible.





Financial Performance

In 2014, our pulp revenues were almost 8% higher

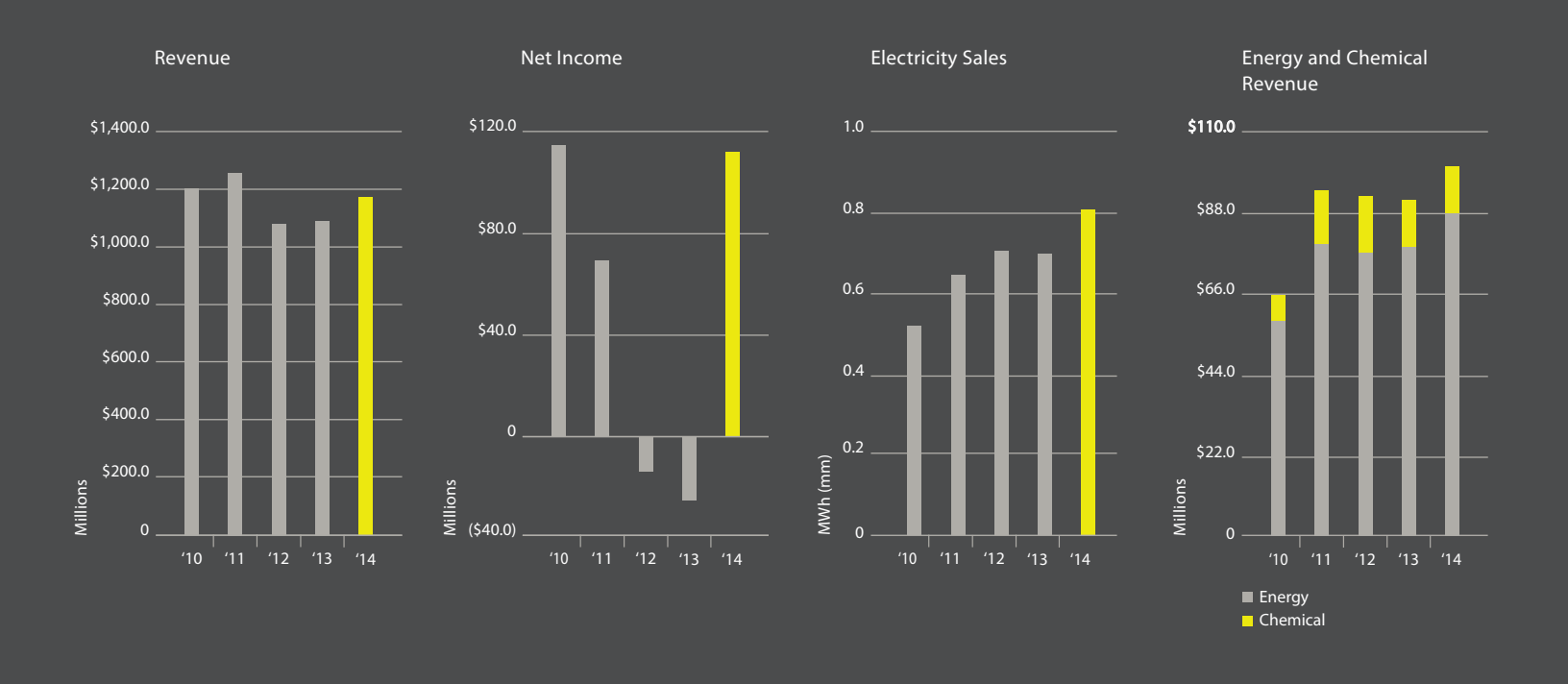
Operating EBITDA in 2014 totaled approximately \$239.8 million, up 117% or approximately \$130 million, from 2013. The increase was primarily due to higher pulp prices, the impact of a stronger U.S. dollar relative to the euro and the Canadian dollar on our German and Celgar mill expenses, and lower fiber costs in Germany and Canada. We are pleased with our financial performance in 2014. A reconciliation of EBITDA to net income attributable to common shareholders is provided below.

Net income in 2014 was approximately \$113.2 million, or \$1.82 per basic share, compared to a net loss of approximately \$26.4 million or \$0.47 cents per basic share in 2013.

I would also like to remind our shareholders that many of our competitors report using International Financial Reporting Standards (“IFRS”). 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.

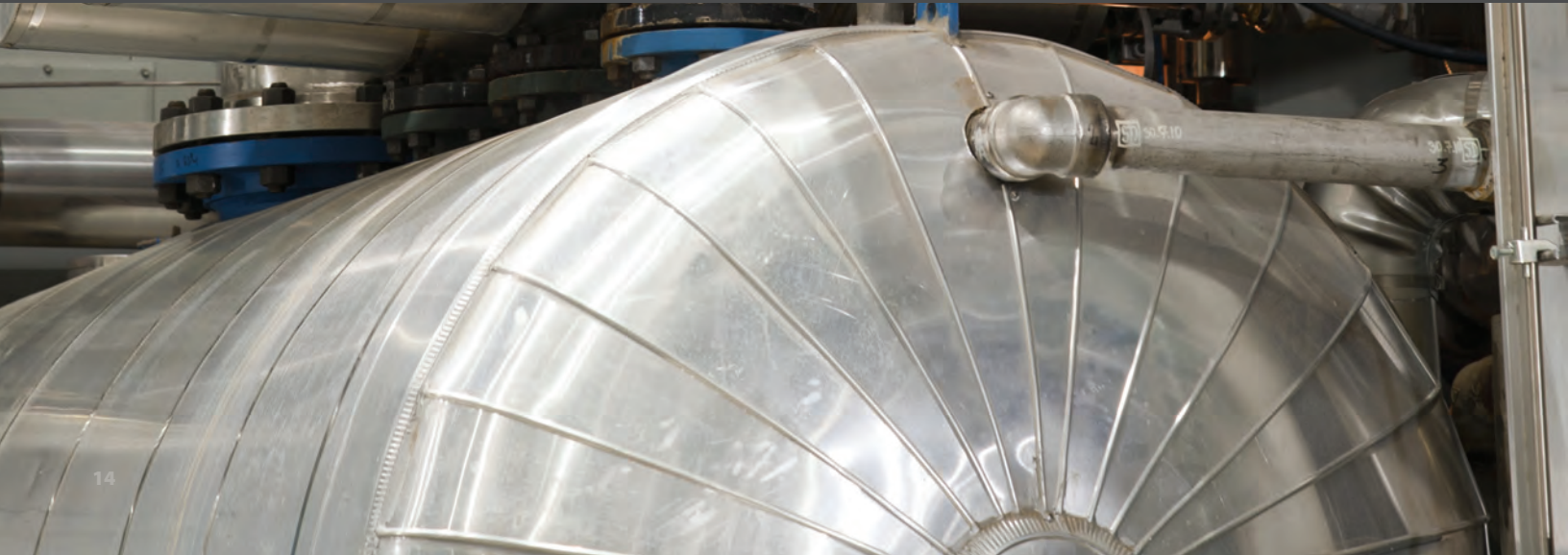
than 2013 on rising U.S. dollar denominated list prices, with pulp revenues of approximately \$1,073.6 million.

In 2014 our revenues from electricity and chemical by-products reached approximately \$101.5 million, exceeding the \$92.2 million we achieved in 2013, primarily due to the success of our Blue Mill project at Stendal.



¹ The following table provides a reconciliation of net income attributable to common shareholders to operating income and operating EBITDA for the year indicated:

Year Ended December 31, 2014 (in thousands)	
Net income attributable to common shareholders	\$ 113,154
Net income attributable to noncontrolling interest	7,812
Income tax benefit	(16,774)
Interest expense	67,516
Gain on derivative instruments	(11,501)
Gain on settlement of debt	(3,357)
Other expense	4,948
Operating income	161,798
Add: Depreciation and amortization	78,012
Operating EBITDA	\$ 239,810



Looking Forward to 2015

We currently believe that 2015 should be another positive year financially for Mercer

The supply/demand fundamentals for NBSK appear strong and currencies are certainly working in our favor.

We continue to believe that the considerable volume of new hardwood capacity that is expected to come online in the next few years, 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.

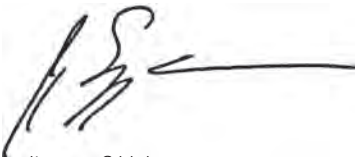
On the investment side, we have two notable high value strategic projects that we will be completing in 2015. We are currently building an automated chip reclaim system at Rosenthal that we expect will reduce our wood costs and increase the mill's wood yield by reducing chip damage. At Celgar, we are in the process of building a new pulp re-load facility. Consequently, this strategic initiative will give us more flexibility in how we deliver our product and reduce the risk of downtime due to inconsistent rail service.

Our North American Free Trade Agreement claim process is ongoing. The issues are complex and the process is slow, but we believe Celgar has been unfairly and inappropriately treated in terms of its requirements to self-supply energy relative to our competitors in British Columbia. We expect this case to be heard in 2015, with a decision expected late this year or in early 2016.

Given current market indicators, we are anticipating solid free cash flow generation in 2015, and as such my management team, the Board and I are reviewing all available options with regard to how to best allocate this capital. Clearly, there are many factors to consider. Rest assured that our objective is to grow shareholder value without jeopardizing Mercer's long-term financial health.

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;

2014 year was a transformative year for Mercer International. In addition to guiding Mercer’s management, your Board oversaw a top-to-bottom financial restructuring, which has (1) lowered our interest expense, (2) streamlined our corporate structure, and (3) better positioned the company to pursue new business opportunities that will, we believe, enhance the value of your Mercer investment.

The recapitalization of our Stendal mill permitted us to eliminate the minority interest in our largest operating facility. We refinanced our Senior Notes due in 2017 and expect to realize substantial interest savings as a result. We also paid out and discharged the Stendal project and term loans and put in place a new bank revolving credit facility for our Stendal mill. These steps allowed us to eliminate our complicated “restricted group” financial structure, making us more accessible to investors.

We also extended the term and reduced the borrowing cost of our Celgar mill’s working capital facility. Our balance sheet also improved sharply during the year as we reduced debt by over \$290 million (30%) and boosted shareholder equity by over \$90 million. Finally, though initiated in 2013, last year was the first full year in which we reported Mercer’s financial results in U.S. dollars – again, a development that enhances communication and understanding with Mercer’s investors, analysts and other stakeholders and improves comparability of Mercer’s financial information with its competitors and peer group companies.

During the year, our mills achieved both record pulp production and pulp and energy sales. These operational milestones stemmed partially from Stendal’s Blue Mill Project, which completed its first full year of operation. The tall oil plant at our Rosenthal mill started up in Q4 and will enhance non-pulp revenues (tall oil is a wood-derived chemical used in the manufacture of adhesives, rubbers, inks, and other products).

Your Board continued its sharp focus on excellent governance in 2014. Board members participated in several New York Stock Exchange Corporate Board events. Our program of visiting Mercer pulp customers was maintained. Our annual practice of self-assessing the Board, its committees and individual Board members continued. We remain committed to best practices on the issues of Board diversity and tenure to insure that our skills are consistent with the needs of the Company and the interests of our shareholders.

Led by the efforts of the Compensation and Human Resources Committee, our pay-for-performance culture was emphasized as we completed the first year of our new Long Term Incentive Program (LTIP). Additionally, the Environmental Health and Safety Committee, along with the full Board, continued its practice of holding grass roots safety meetings at each of our three plants during the year. Our efforts continue to strive for best in class safety environment for all employees.

Strategic Planning remains a top priority of the Board. We held a three-day off-site meeting in May 2014, during which the Board and management discussed future plans and opportunities. Our new financial structure means that capital allocation will be even more important now than in the past, and I can assure you that your Board will guide management with diligence and purpose in carrying out this critical task.

The Board would like to thank Jimmy Lee, President, CEO and Chairman, his seasoned team and all dedicated Mercer employees for a splendid year.

On behalf of the Board,

Eric Lauritzen

Eric Lauritzen,
Lead Director and Deputy Chairman

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 sale prices of our shares on the NASDAQ Global Market for each quarter in the two-year period ended December 31, 2014, and for the period ended March 31, 2015:

Fiscal Quarter Ended	High	Low
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
June 30	\$ 10.54	\$ 7.08
September 30	\$ 11.41	\$ 9.06
December 31	\$ 14.08	\$ 9.25
2015		
March 31	\$ 15.50	\$ 11.87

Annual Meeting

The Annual Shareholders’ Meeting will be held on May 29, 2015.

Form 10–K

A copy of our Annual Report on Form 10–K for the year ended December 31, 2014 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, 2015, there were a total of 64,463,896 shares outstanding.

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	Bernard J. Picchi *** Managing Director, Palisade Capital Management, LLC Director since 2011	Eric Heine VP Sales, Marketing & Logistics North America & Asia	Brian Merwin VP Strategic Initiatives
David M. Gandossi Executive Vice President CFO and Secretary	R. Keith Purchase *** **** Retired Businessman Director since 2012	David Cooper VP Sales & Marketing, Europe	Wolfram Ridder VP Business Development
Eric Lauritzen ** Independent Consultant Director/Trustee since 2004 Lead Director since 2012	James Shepherd * **** Director, Conifex Timber Inc. Director since 2011	Kevin Anderson Managing Director Operations and Technical, Celgar	Richard Short VP Controller
William D. McCartney * ** Pemcorp Management Corp. Director/Trustee since 2003	Graeme A. Witts ** *** Retired Businessman Director/Trustee since 2003	Leonhard Nossol Controller, European Operations Managing Director, Rosenthal	Genevieve Stannus Treasurer
Nancy Orr * *** Independent Consultant Director since 2013	David K. Ure Senior Vice President, Finance	Adolf Koppensteiner Managing Director, Stendal	<div>* Member of Audit Committee</div> <div>** Member of Governance and Nominating Committee</div> <div>*** Member of Compensation Committee</div> <div>**** Member of Environmental, Health and Safety Committee</div>

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Stock Listings

NASDAQ Global Market
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Toronto Stock Exchange
Trading Symbol: MRI.U

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Website

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Form 10-K



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