




PRESIDENT'S REPORT 2015

# M E R C E R





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).

Dear Fellow Shareholders,

I am excited to be writing to you as Mercer's Executive Chairman for the first time.

2015 was a transitional year for Mercer's leadership team. In July, I decided to step down as President and CEO and to take on the role of Executive Chairman. David Gandossi, previously our CFO, was appointed President and CEO, and David Ure was appointed CFO. I have worked with both Davids for many years and feel strongly that Mercer's leadership is in very good hands. I am looking forward to working with both men in our new roles.

In my new role as Executive Chairman, I will continue to be actively engaged and focus on strategic initiatives and advancing our overall strategy. I feel that Mercer is in a strong position financially, which will give us more flexibility as we consider our strategic alternatives going forward.

I look forward to working to enhance value for shareholders going forward.

Sincerely,



Jimmy S.H. Lee  
Executive Chairman



## 2015 was the first full year of operations

after the late 2014 financial restructuring in which we successfully de-levered the Company's balance sheet; reducing the overall debt levels and service costs while at the same time providing a less complex and more flexible financial structure. Operationally we experienced another successful year, with near record pulp and energy production. Looking forward to 2016, we are cautiously optimistic about the fundamentals of our core pulp business, but despite steady global demand for NBSK, our share price has been negatively impacted by global macro-economic uncertainty that has dampened the outlook for all commodities.



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## Dear Fellow Shareholders;

Operationally, 2015 was another solid year for us following on the balance sheet improvements we made in 2014. It was also a year of management transition with Jimmy Lee moving to become our Executive Chairman, with me being appointed as President and Chief Executive Officer, and David Ure appointed as Chief Financial Officer. I am looking forward to working with Jimmy and David as we continue our efforts to generate long-term returns for our shareholders.

We were pleased that our strong financial performance allowed us to introduce a quarterly dividend in the second quarter of 2015. The commencement of the dividend was a notable step in our growth. We believe it will create a new source of demand for our shares from equity investors looking for yield.

In 2015 we continued to invest in our business. We successfully completed high return upgrades to the evaporation plants at our Rosenthal and Stendal mills. These projects removed bottlenecks at both plants, and are also eligible for wastewater fee offset due to their positive environmental impacts. Provided these projects reduce certain emissions as planned, the German regulator should waive certain wastewater fees otherwise levied in the ordinary course of business. We also completed a project to further automate our chip infeed systems at Rosenthal. This high return project has a number of benefits, the most significant of which are reduced fiber damage and improved chip consistency; elements that will ultimately result in increased pulp yield from the cooking process.





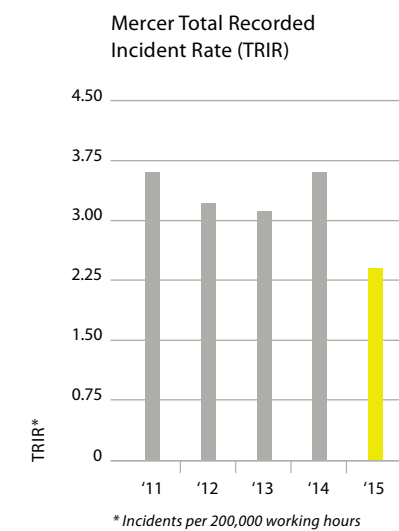
# Road to Zero

## Safety

The health and safety of our employees is very important to me. Our stated objective has always been zero injuries. Our safety record has been slowly improving over the last few years, but we are not getting to the levels we have seen others achieve. Consequently, I have kicked-off a new company-wide safety initiative called “Road to Zero”.

To support this initiative, we have engaged an industry leading safety consultant to help us take our safety culture to a new level. Simply put, we established our objective to have world class safety performance in all our locations.

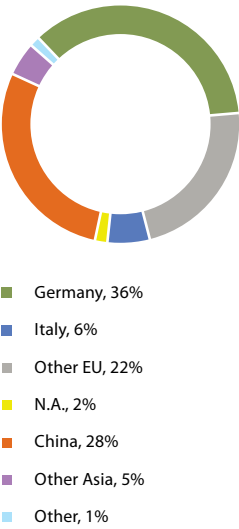
We have begun to roll out the new “Road to Zero” plan in early 2016. To achieve our goal, we are beginning to realize that we must fundamentally change our safety culture. And, while we recognize that this initiative will be an evolution rather than a revolution, we are all committed to make this happen.





# Market Overview

2015 Pulp Sales by Region

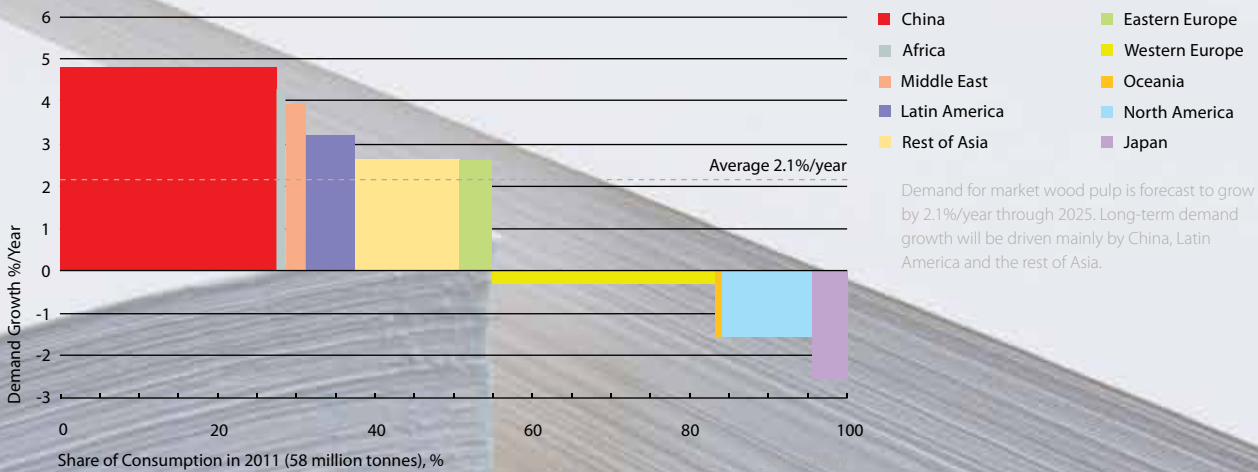


In 2016 we will continue to focus our marketing efforts towards customers who operate modern facilities and produce high quality products. We believe this approach best aligns our product with our customers’ products, and as a result maximizes our customer value proposition.

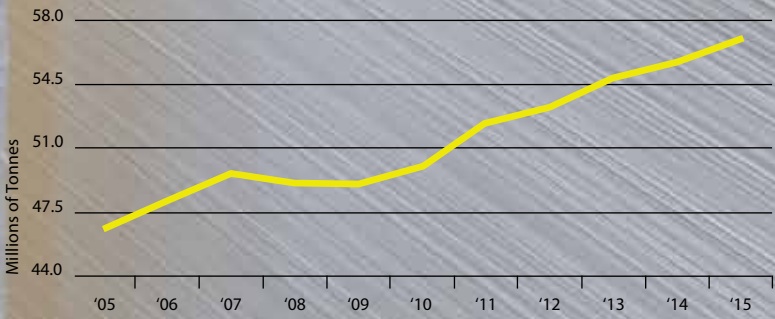
In 2015, NBSK list prices declined slowly over most of the year, despite generally solid demand with producer inventory levels at 30 days or below for most of the year, which typically indicates that the market is in balance. The lower list price movement was primarily due to the strong appreciation of the U.S. dollar against the euro and Canadian dollar by approximately 16% and 14% respectively compared to 2014. A strong U.S. dollar makes our product more expensive to our customers, and as a result created negative pricing pressure in 2015.

We currently remain optimistic about the near term NBSK supply-demand fundamentals. We currently anticipate stable demand for NBSK as the consumption of certain paper products, most notably tissue, specialty papers, and packaging, continues to grow.

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



Estimated Global Chemical Market Pulp Demand







## Environmental Stewardship and Sustainability

We recognize that our operations have a significant impact on the communities in which we operate. This impact comes in many forms: economic, social, and environmental.

From an economic perspective, we provide high paying jobs to our employees, as well as jobs at the companies that provide support services to our operations. In addition, our operations pay a significant amount of taxes and fees to local governments.

From a social perspective, the aforementioned taxes and fees provide a significant portion of the operating budgets of the local governments in which we operate, and as a result fund the services provided by these local governments. In addition, we give back to our communities directly. For example, we donated significantly to the building of the Celgar Pavilion, a multi-use park facility in Castlegar widely used for family outings and community events. We were also a large contributor to the construction of a bike park for Castlegar area youth to hone their riding skills. We were also pleased to make contributions to many local charities and community groups in the regions surrounding our Stendal and Rosenthal mills.

From an environmental perspective, we are very focused on limiting our mills' environmental impact. We do this by monitoring a variety of emissions, investing in equipment that is more environmentally efficient, and planning and building redundancies around potential environmental risks.

Finally, our production process is grounded on the science of cogeneration. Our production process maximizes the usage of waste wood residuals to produce high quality pulp, while at the same time, capturing steam from our chemical recovery process which we use to run turbines for producing electricity for export to the local power grid. When we are done turning turbines with that steam we use the remaining low pressure steam to heat our mills and dry our pulp. This process also reduces our use of fossil fuels and as a result our emission of greenhouse gases. We feel proud about this fact, and so should you, as it makes our operations more efficient and ultimately more sustainable.



# Production

Our mills achieved near record pulp production in 2015, missing last year’s record by about 27,000 tonnes.

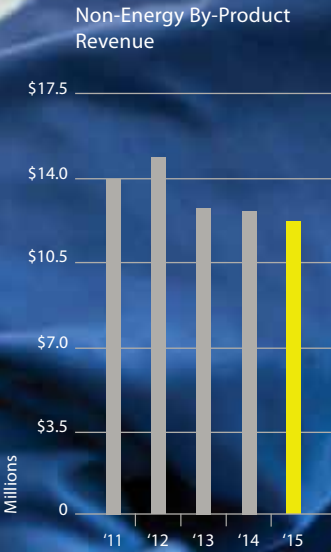
Our electricity sales volume was also at near record levels in 2015. We sold approximately 815,000 MWh of electricity to the grid, which yielded approximately \$75 million of revenue. Despite being fixed rate tariffs, our power sales are all transacted in euros and Canadian dollars, which has created a result where we have near record sales volumes, but our power sale revenues are down approximately 16% due to the rapid strengthening of the U.S. dollar relative to both the euro and the Canadian dollar.

Our chemical by-product volume was up approximately 10% compared to 2014, and chemical revenues were approximately \$12 million. Increased chemical volumes were driven by our new tall oil plant at Rosenthal, but were negatively affected by lower tall oil levels in the wood due to the uncharacteristically dry weather in Germany in 2015. Similar to energy sales, the stronger U.S. dollar negatively affected our chemical by-product sales revenue when stated in U.S. dollars, which was down about 4% in U.S. dollars compared to 2014.

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



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

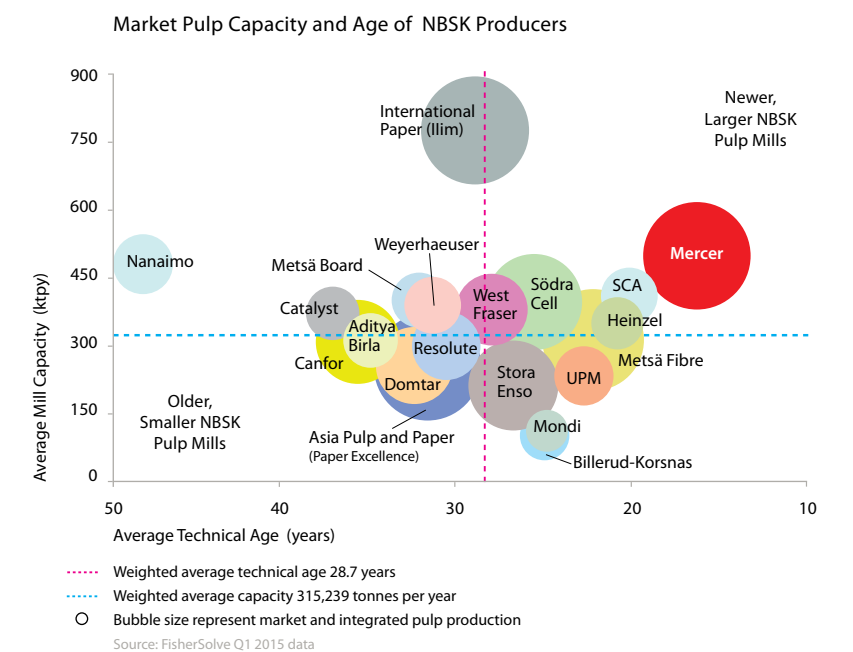




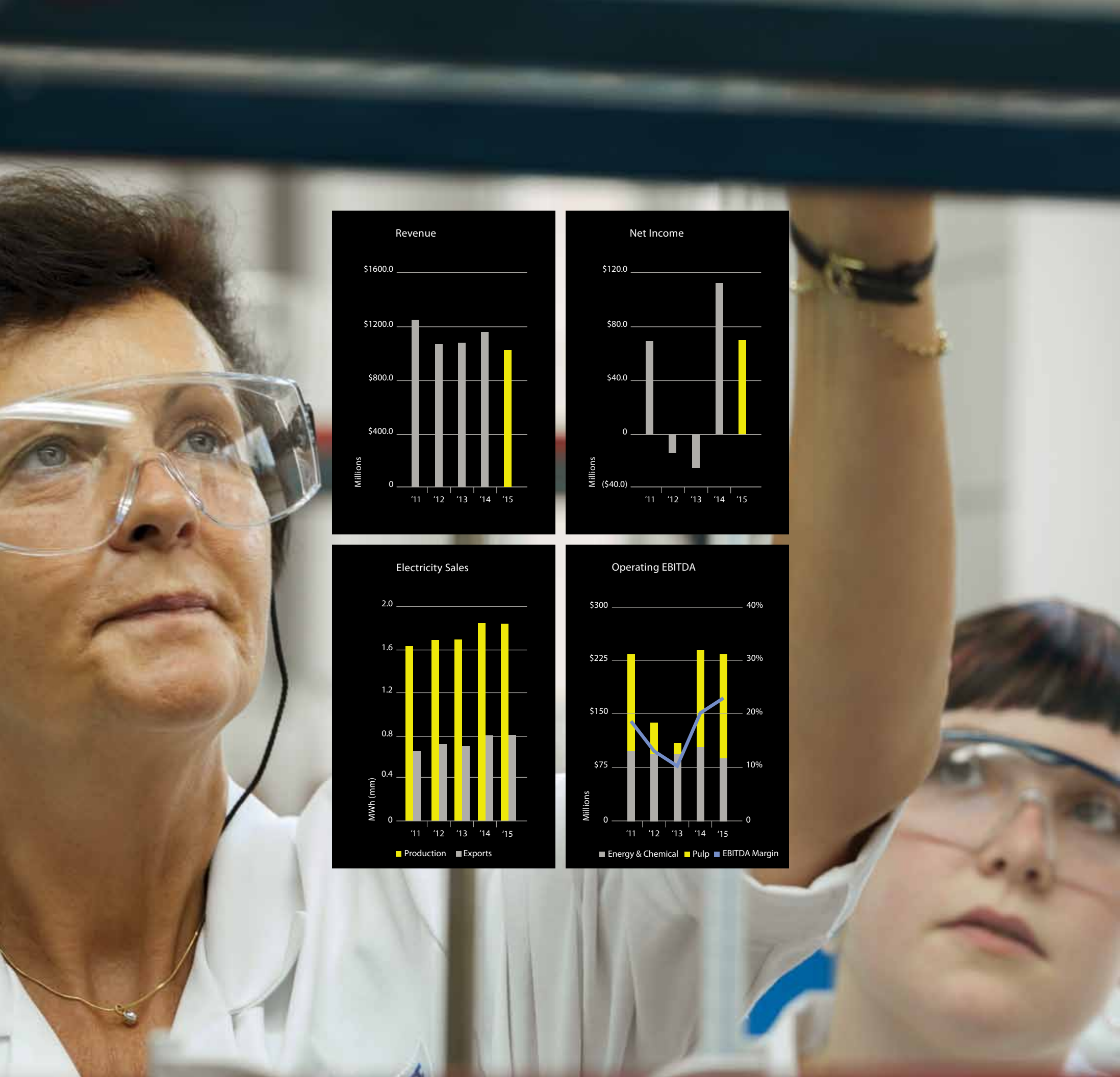


## Financial Flexibility and Liquidity

Late in 2014 we significantly de-levered our balance sheet, and in 2015 we started to benefit from the financial flexibility this provided. Most notably, we implemented a quarterly dividend. In addition, our interest expense is down compared to 2014, our cash balance is up by over \$45 million, and we also reduced our debt by \$36 million in 2015. At the end of 2015, our total liquidity was approximately \$246 million. All of this leaves us well positioned financially to seek opportunities to continue to add shareholder value. We are excited about our potential for growth and the flexibility that the refinancing has provided.







## Financial Performance

Overall, we are satisfied with our financial performance in 2015.

In 2015, we generated pulp revenues of approximately \$946 million, which was down 12% from 2014 primarily due to lower U.S. dollar denominated list prices. In 2015 our energy and chemical by-product revenues totalled approximately \$87 million, which was down 14% from 2014, primarily due to the weaker euro relative to the U.S. dollar, which had the effect of reducing in U.S. dollar terms, our euro denominated by-product revenues. Operating EBITDA\* totalled approximately \$234 million, down 2% from 2014. The decrease was primarily due to the positive impact of the stronger U.S. dollar on our euro and Canadian dollar expenses being more than offset by weaker pulp prices. A reconciliation to net income is provided below.

Net income in 2015 was approximately \$76 million, or \$1.17 per share, compared to net income of approximately \$113 million or \$1.82 per share in 2014.

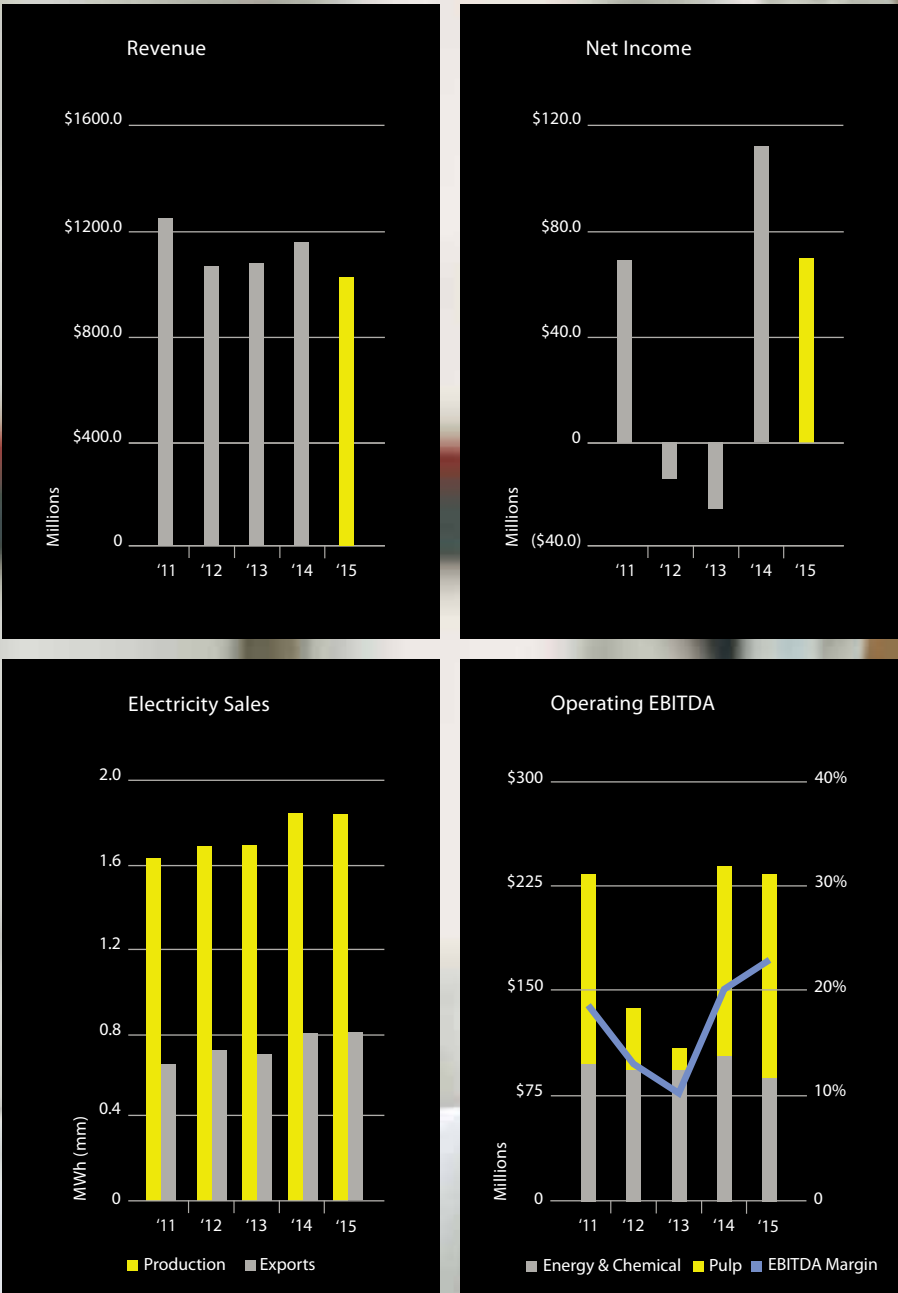
The following table provides a reconciliation of net income attributable to common shareholders to operating income and operating EBITDA for the year indicated:

**Year Ended December 31, 2015**

(in thousands)

Net income attributable to common shareholders	\$ 75,502
Income tax provision	29,449
Interest expense	53,891
Loss on derivative instruments	935
Foreign exchange loss on intercompany debt	5,306
Other expense	601
Operating income	165,684
Add: Depreciation and amortization	68,333
Operating EBITDA*	\$ 234,017

\* Operating EBITDA is not a measure of financial performance under accounting principles generally accepted in the United States ("GAAP") and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP.





# Looking Forward to 2016

We will continue to invest in our operations. This year our investment focus will be on high return projects that improve our operational reliability and debottleneck certain processes. We are also moving forward with some high value fiber logistics projects in Germany. These projects are designed to not only reduce costs but will reduce risk around fiber availability.

With respect to our North American Free Trade Agreement claim, final arguments have been made and we await the Tribunal’s decision sometime this year.

We are looking forward to 2016 with cautious optimism and working to enhance value for all of our stakeholders. Overall, we are expecting another year of stable financial performance. We are currently forecasting generally steady demand for NBSK for early 2016, and benefitting from the strength of the dollar although this may pressure pulp prices.

In closing, I would like to thank all our dedicated employees, for their continued support. I am excited about leading Mercer and look forward to building on the strengths of our world class mills and employees.

Mercer International Inc.



David M. Gandossi, FCPA, FCA  
President and Chief Executive Officer





## Dear Fellow Shareholders;

Your Board provided sound governance and guidance to management in 2015.

In accordance with its strong governance practices, the Board is continually focused on succession planning. After completing an extensive planning process in consultation with Jimmy Lee, the Board announced the reorganization of our senior executive team in July. Jimmy Lee decided to step down as CEO, and was appointed our Executive Chairman. In his new role, Jimmy will lead the development of the Company's long-term strategy. David Gandossi, previously CFO, replaced Jimmy Lee as CEO and David Ure moved up to CFO.

The Board remains committed to the safety and well-being of our employees. To this end, our Environment, Health and Safety Committee expanded its role in 2015 by actively participating in safety meetings at each of our three mills, and will continue with this process going forward. During the year the Company also engaged the consulting division of E.I. DuPont, a recognized expert in industrial safety practices, to assist in developing new safety initiatives at our mills. With E.I. DuPont's assistance we will continue to move towards world class safety at all our mills. We recognize that this is a multi-year endeavor, but well worth the investment to ensure the safety of our employees.

Cybersecurity is a hot button issue with which your Board is actively engaged. We have all read or heard about corporate network security breaches. Unfortunately these types of issues are all too common. Consequently, we have undertaken steps to minimize this risk. We have completed cybersecurity audits at all our mills, which have resulted in mitigation steps at each location. Cybersecurity is an ongoing challenge and your Board will remain focused on this issue.

During 2015, your Board along with senior management intensified our strategic planning efforts. We continued our

annual practice of holding a three-day off-site planning meeting. We also dedicated a significant portion of each Board meeting to discussing strategic initiatives and direction. Also, under the heading of strong governance, your Board members continued their ongoing education through participating in the NYSE-Corporate Board programs.

Your Board is pleased with Mercer's financial position at the end of 2015. The financial restructuring that we completed in 2014 allowed us to further reduce our 2015 debt by approximately \$35.6 million with a corresponding interest expense reduction, and created the financial flexibility to allow the Board to approve Mercer's first quarterly dividend of 11.5 cents a share which was paid in early October 2015. The Board currently believes that our current financial structure and condition make this quarterly dividend sustainable, and also places Mercer in a strong position to meet the challenges of the cyclical business in which we operate.

2015 was a good example of how Mercer's restructured balance sheet is expected to perform going forward. The Board is currently anticipating strong cash flow from operations in 2016, and we intend to use that cash wisely. We are focused on continuing to strengthen our balance sheet while also investing in high return projects at our mills. In addition, we are actively pursuing growth opportunities.

On behalf of the Board, I want to congratulate Jimmy Lee, David Gandossi, and David Ure on their new roles – and for making this a seamless transition. This change could not have been achieved so successfully without the dedicated efforts of all our senior managers and operators who are, after all, Mercer's true bench strength.

I also want to thank all Mercer employees for their many valuable contributions in 2015.

On behalf of the Board,



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, 2016:

### Fiscal Quarter Ended

	High	Low
<b>2014</b>		
March 31	\$ 9.95	\$ 7.05
June 30	\$ 10.54	\$ 7.08
September 30	\$ 11.41	\$ 9.06
December 31	\$ 14.08	\$ 9.25
<b>2015</b>		
March 31	\$ 15.50	\$ 11.87
June 30	\$ 15.95	\$ 13.00
September 30	\$ 14.21	\$ 8.28
December 31	\$ 11.68	\$ 8.80
<b>2016</b>		
March 31	\$ 9.54	\$ 5.95

## Annual Meeting

The Annual Shareholders’ Meeting will be held on June 3, 2016.

## Form 10–K

A copy of our Annual Report on Form 10–K for the year ended December 31, 2015 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, 2016, there were a total of 64,656,138 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

Executive Officers, Senior Management  
and Board of Directors

**David M. Gandossi**  
President , CEO and Director

**David K. Ure**  
Senior Vice President , Finance,  
CFO and Secretary

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

**David Cooper**  
VP Sales & Marketing, Europe

**Kevin Anderson**  
Managing Director, 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

**Jimmy S.H. Lee**\*\*\*\*  
Executive Chairman of the Board  
Director/Trustee since 1985

**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

\*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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**David K. Ure**  
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CFO and Secretary

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Shareholder online inquiries  
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Contact

Stock Listings

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Trading Symbol: MRI.U

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FORM 10-K





