

PRESIDENTS REPORT

mercer | 2017



mercer | 2017

Mercer's 2017 Highlights Include:

- Continued to advance key sustainability initiatives including improving our safety culture and our environmental footprint;
- Took a first step in our growth strategy with the acquisition of the Friesau sawmill;
- Set an annual Northern Bleached Softwood Kraft (NBSK) pulp production record;
- Set an annual electricity production record;
- Set an annual chemical production record;
- Refinanced \$527 million of Senior Notes, which reduced annual carrying costs by \$7 million and extended average debt maturity three years; and
- Increased our quarterly dividend to \$0.125 per share.







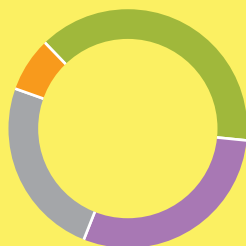


Looking Forward to 2018

In 2018, you can look to us to further advance our multi-element value creation strategy:

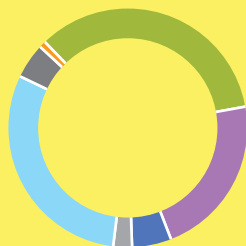
- Improve upon our best in class assets;
- Seize opportunities to grow and diversify the company in spaces where we have core competencies;
- Prudently manage the balance sheet to protect the company on the downside, and provide flexibility to grow on the upside; and
- Remain accountable to our stakeholders by continuing to operate at a high standard of social, environmental and financial sustainability.

2017 Lumber Sales by Region



- Germany, 39%
- Other EU, 30%
- North America, 24%
- Other, 7%

2017 Pulp Sales by Region



- Germany, 34%
- Other EU, 22%
- Italy 5%
- North America, 3%
- China 30%
- Other Asia 5%
- Other, 1%

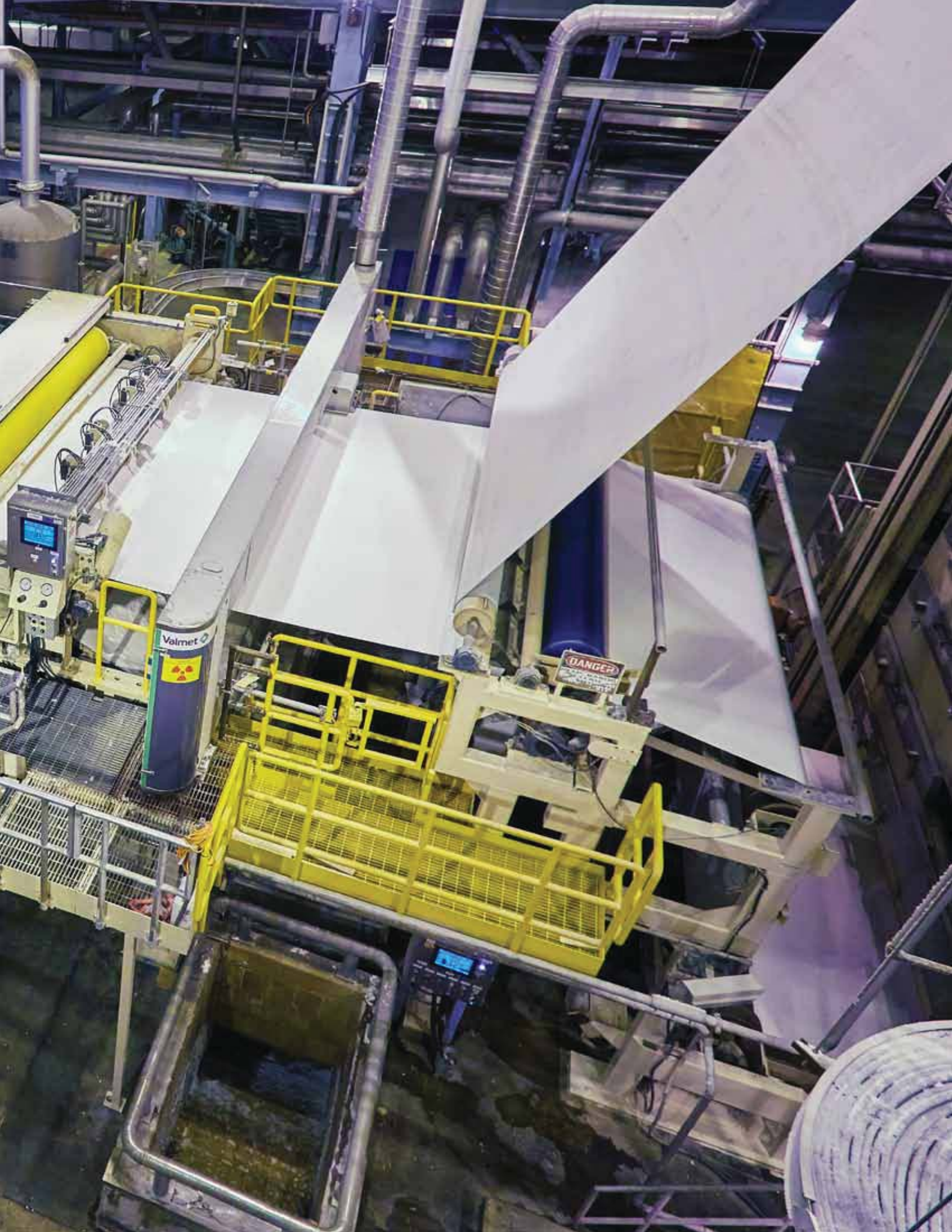
Dear Fellow Shareholders;

We made improvements throughout the organization in 2017, and I couldn't be more pleased with the efforts of the entire Mercer team. We set pulp, energy and chemical production records, we made noticeable improvements in our safety and environmental performance, we completed numerous high return capital projects and we entered a new business segment with the acquisition of the Friesau sawmill.

Our strong and improving financial position has allowed us to continue to reduce our cost of debt. In 2017 we refinanced an aggregate of \$527 million of Senior Notes, which reduced our interest costs by approximately \$7 million per year, provided downside protection and left us with significant financial flexibility in terms of future capital allocation decisions.

With the Friesau sawmill acquisition completed we continue to strive for value enhancing growth opportunities. Whether it's through organic growth, new products, or bolt-on acquisitions, we remain committed to increasing value for our shareholders.





Friesau Sawmill





The Friesau sawmill is located in the town of Saalburg-Ebersdorf, Germany, approximately 300 km south of Berlin and only 16 km from Rosenthal. The sawmill produces a wide range of high-quality softwood lumber products with approximately 550 million board feet (mmfbm) in annual production capacity on a continuously operating basis.

The sawmill was originally constructed in 1992 and in 2009, a modern biomass fueled cogeneration plant, with an annual production capacity of approximately 13 MW of electricity and 49.5 MW of thermal energy, was completed.



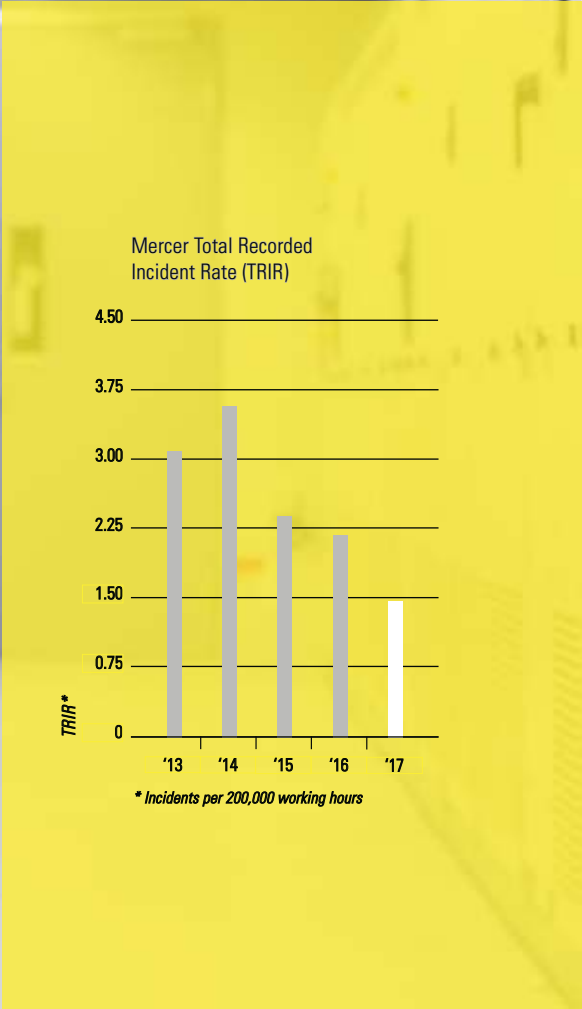












Safety, Sustainability and Environmental Stewardship

Since I wrote to you last year, we have made significant improvements in our safety performance. However, we have higher aspirations and will not reduce our focus in this regard, because of our philosophy that even one workplace injury is too many.

I have spent a lot of time this year speaking with our employees on the mill floor about their health and safety. We have a disciplined framework within Mercer for advancing safety initiatives across a number of fronts, and it is very gratifying to see our employees so fully engaged.

Health and safety has been a focus at our new Friesau sawmill, where we have been leveraging the lessons learned at our pulp mills over the past two years. We asked employees there to look at safety in a different way to which they were accustomed, and they have responded to the challenge. I am pleased with the progress they have made so far.

I am proud of how our employees have begun to truly embrace a safety-focused culture. Our goal remains zero injuries.

Turning to environmental stewardship, we continue to focus on minimizing our environmental footprint. While our mills are all modern facilities, and have many environmental protections and best practices built into them, we regularly take steps to improve our environmental performance. In 2018, we have a particular focus on phosphorus reduction in water emissions at our Rosenthal mill, and our Stendal mill is focused on reducing the level of nitrogen in their emissions. These projects are expected to be completed in late 2018 and early 2019, respectively. In 2017, we also completed several initiatives at all mills to improve our impact on the communities in which we operate including the reduction of noise and odor.

Like health and safety, we think about sustainability with a continuous improvement mindset. We want our mills to be sustainable in every aspect over the long-term. Consequently, we actively engage with our stakeholders, including the communities around our mills, and we regularly monitor our performance against the best available technology and practices. One example of our outreach effort that we are particularly proud of is our annual “mill days”. These open house-like events allow our employees’ families and members of the community to tour our mills and learn about what we do and how we do it, including learning about industrial and home safety.



Market Overview

Markets for pulp and lumber in 2017 were generally strong. The world's middle class is growing, and as a result, so is the demand for our products. At the moment, that growth is most obvious in China, but it remains a trend that is global in scope. We believe that the world is starting to feel the pinch of fiber supply limitations and yet demand for that fiber, including our products, continues to grow. We anticipate continuing steady market fundamentals for both pulp and lumber over the medium to long-term.

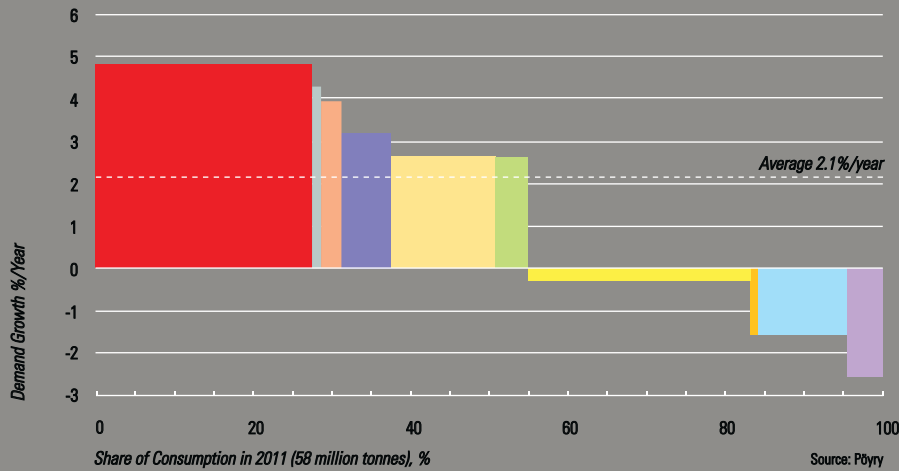
In 2017, a year in which new pulp capacity was widely expected to negatively impact NBSK prices, we experienced tight markets with record or near record NBSK prices in our markets, and we also experienced record U.S. lumber prices. Strong demand resulted from steady global GDP growth. In addition, China's increasing focus on its environmental challenges resulted in less production of highly polluting agricultural based pulp and paper. Further, the country's diminishing tolerance of contaminated

recycle sources led it to restrict the import of certain grades of recycled paper, which is expected to increase demand for virgin fiber over time.

For lumber markets, recovering Euro zone economies have supported modest growth in Europe, and the continuing recovery of the U.S. housing industry has pushed lumber prices to record levels in the U.S.

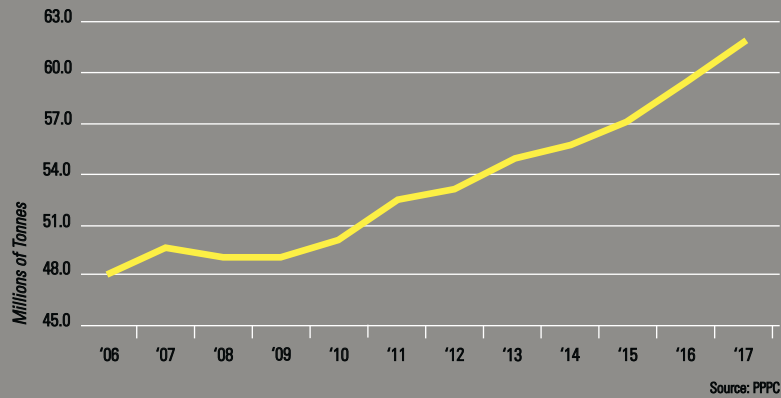
Looking forward into 2018, the last of what has been a three-year capacity expansion in the global supply of NBSK will be complete. We believe that market growth and other dynamics will take up most of that supply, but we see the possibility for pulp prices to moderate somewhat as markets re-balance. On the lumber side, we are optimistic for another year of solid demand growth combined with supply growth limitations.

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



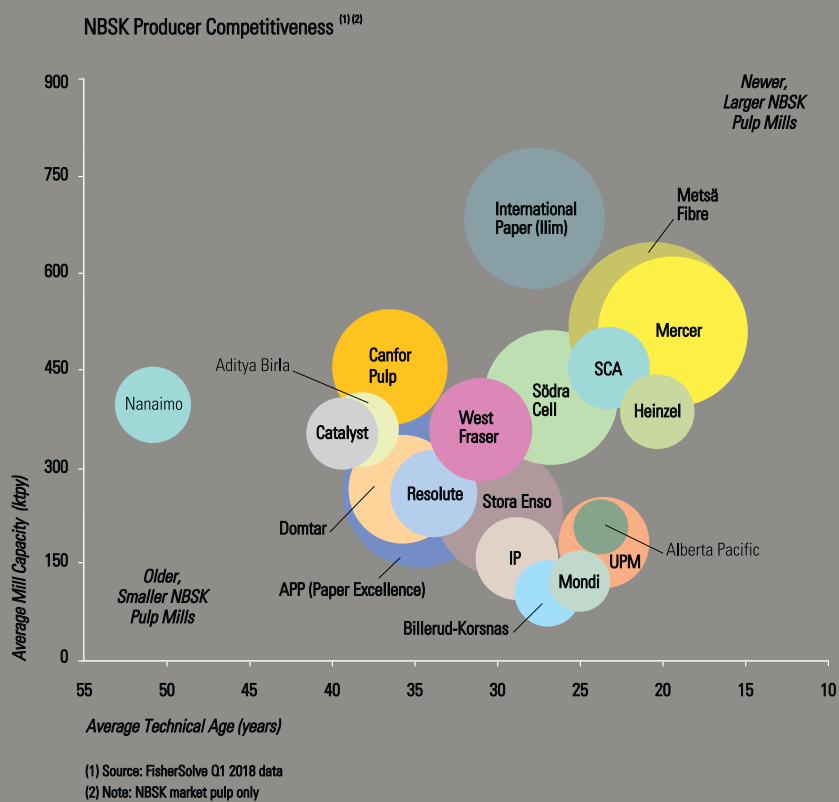
Demand for market wood pulp is forecast to grow by 2.1%/year through 2025. Long-term demand growth will be driven mainly by China, Latin America and the rest of Asia.

Estimated Global Chemical Market Pulp Demand







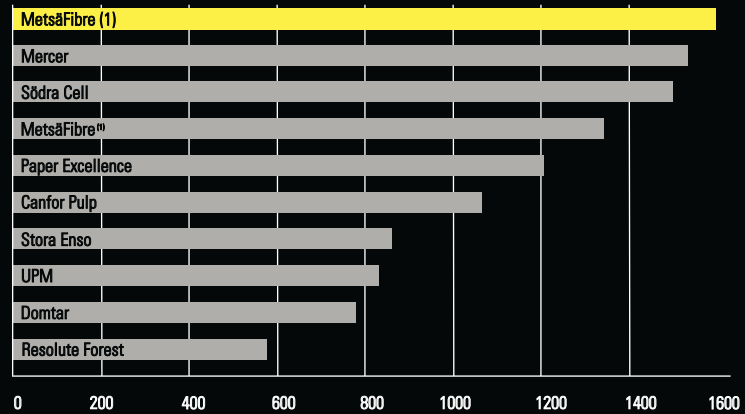






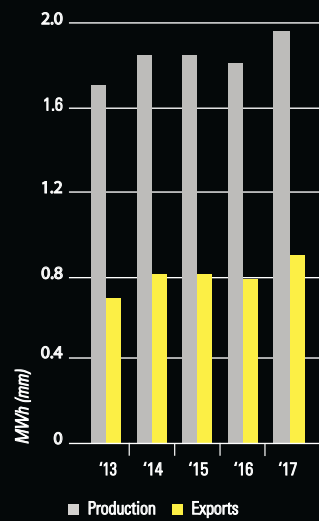


Top 10 NBSK Market Pulp Capacity By Producer (000's ADMT)

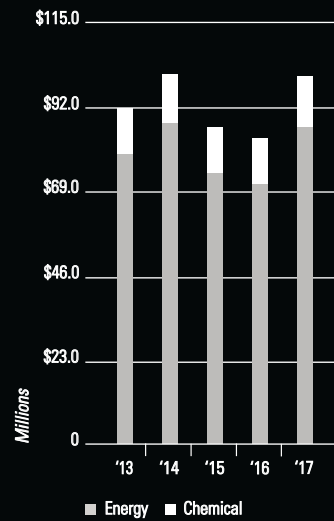


(1) MetsäFibre does not include Metsä Board (the Husum mill)

Electricity Sales



Energy and Chemical Revenue



Operational Overview

2017 was an excellent operational year for our company. We set a new pulp production record with strong performances from all three of our mills. Celgar's performance was particularly notable as we improved production there by almost 10% over that of 2016, and we are well on our way to approaching the 520,000 plus tonnes per year target range.

After acquiring the Friesau sawmill in April, we successfully integrated and ramped up the mill, producing 281 million board feet of lumber in 2017. This production result has confirmed the mill's potential, and we have a program of high return investments planned for it in 2018, including a new planer mill, automated grading and lumber scanning upgrades that will allow us to further optimize the value of our wood supply.

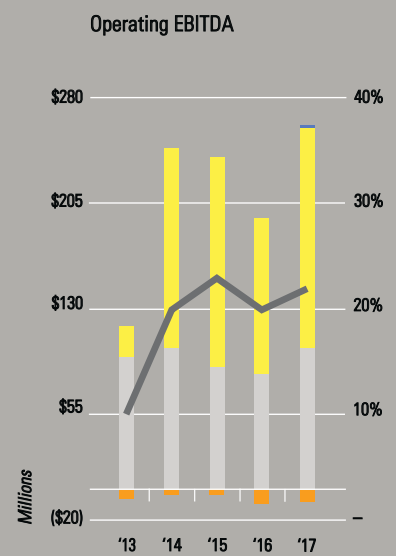
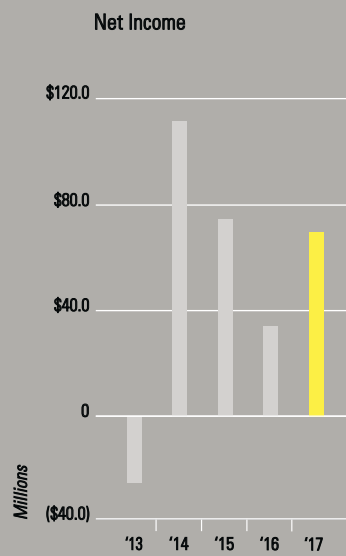
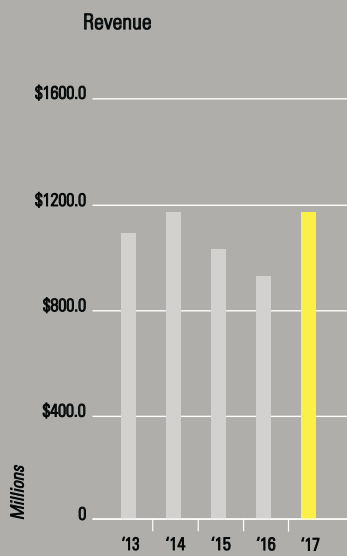
Our pulp mills also set a new energy sales record this year, and the addition of the Friesau sawmill power plant added to that record. In total, we sold 896,000 MWh of green energy in 2017, yielding almost \$87 million of revenue. Energy sales volumes were up over 100,000 MWh and energy revenues were up over \$15 million compared to 2016.

We also benefited from the optimization of our two tall oil plants and set a new chemical production record in 2017 with production up 20% over that of 2016.

In 2017, we deployed about \$60 million of capital at our mills, the majority of which was spent on high return projects. Among others, we completed a group of reliability improving upgrades, primarily focused on the bleach plant at the Celgar mill, and a project to improve the chip screening at the Rosenthal mill which improved its fiber yield, and began a water treatment project that among other benefits will reduce the nitrogen levels in the mill's emissions. We also continued the expansion of our European railcar fleet during the year, increasing our capacity to economically source wood from more distant sources. These cars are significantly more efficient than the railcars common in the industry and they are capable of carrying both logs and finished lumber; giving us the flexibility to optimize logistics by hauling logs to the mills from our northern Germany port, and then backhauling those same cars with lumber on their return trip. We have also invested in Rosenthal's ability to accept longer logs by rail to facilitate our log import strategy.







Financial Performance

In 2017, our total revenues were approximately \$1.2 billion, which was up \$238 million from 2016. About \$100 million of the increase was due to our sawmill acquisition, and the remainder was the result of higher pulp prices and higher productivity relative to 2016.

Operating EBITDA totaled approximately \$252 million, up 36% over 2016. These strong operating results were due to higher pulp prices, steady demand for our products, record productivity, and a strong focus on cost control.

A reconciliation to net income is provided below.

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, 2017
(in thousands)

Net income	\$ 70,483
Provision for income taxes	33,452
Interest expense	54,796
Loss on settlement of debt	10,696
Other (income) expenses	(2,373)
Operating income	167,054
Add: Depreciation and amortization	85,294
Operating EBITDA*	<u>\$ 252,348</u>

* 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.

Net income in 2017 was approximately \$70 million, or \$1.09 per basic share, compared to net income of about \$35 million, or \$0.54 per basic share in 2016.

Through two refinancing transactions we have significantly reduced our debt carrying costs. Early in 2017 we replaced all \$227 million of the 7% Senior Notes due in 2019, with \$225 million of 6.5% Senior Notes due in 2024. Then late in 2017 we replaced \$300 million of the 7.75% Senior Notes due in 2022 with \$300 million of 5.5% Senior Notes due in 2026. As a result we will save almost \$7 million in annual interest costs, and we extended our average debt maturity three years.

In addition, our financial strength allowed us to increase our quarterly dividend starting in the fourth quarter, an increase that puts our quarterly dividend up to \$0.125 per share.



Looking Forward to 2018

In 2018, you can expect us to further advance our value creation strategy:

- Improve upon our best in class assets;
- Seize opportunities to grow and diversify the company in areas where we have core competencies;
- Prudently manage the balance sheet to protect the company on the downside, and provide flexibility to grow on the upside; and
- Remain accountable to our stakeholders by continuing to operate at a high standard of financial, environmental and social sustainability.

In 2018 we have ambitious plans to further optimize our operations. We believe Celgar has potential for further improvement, and we will complete a high return project aimed at speeding up the digester. We also plan investments at Friesau that will improve the planer mill, its lumber grading capabilities and improve the sawmill yield. Rosenthal will complete bleach plant and chip preparation projects, and Stendal will conclude a suite of smaller high return initiatives.

To lead Mercer towards achieving these operational objectives, I was very pleased to announce the appointment of Adolf Koppensteiner as our new Chief Operating Officer. Adi is a seasoned industry professional and a talented leader, and I am confident that he will lead our teams to new heights of performance.

In 2018 we intend to use our financial flexibility to continue to grow in areas where we can leverage one or more of our core competencies. This process requires discipline and patience, but I am confident we will meet our growth objectives. I am excited about where our growth ambitions will lead us.

You may have noticed from the cover of this annual report that we have re-branded Mercer. We are a growing company and felt it important to have a consistent brand that captures all of our products; while at the same time honoring both the extensive legacies of our numerous historical brands, and our core values.

Finally, I would like to thank our Board of Directors for their ongoing support, and our highly skilled and innovative employees for embracing our safety culture, and for their determination to make Mercer the success that it is.

Mercer International Inc.



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

Dear Fellow Shareholders;

During 2017, your Board continued to provide independent guidance and oversight to Mercer's senior management, while setting the tone for the organization with solid governance practices.

The Environmental, Health and Safety Committee fully supported management's "Road to Zero" safety initiative and participated in quarterly safety meetings in our operating divisions. These ongoing activities confirm Mercer's dedication to becoming a leader in industrial safety standards, thereby ensuring our mills are safe places to work.

The Compensation and Human Resources Committee, in conjunction with its independent consultant, completed a thorough benchmarking of Board and Executive compensation to insure Mercer is competitive with industry peers, and able to attract and retain the best and most talented managers possible.

We were pleased with our recent financial restructuring completed in 2017. These senior note refinancing transactions will reduce our interest costs by about \$7 million per year, and have extended our average debt maturity three years. It is satisfying to see the market recognize Mercer's solid financial foundation.

The Board continued to work with management to mitigate risk, including a sharp focus on cyber security. The Board receives regular updates on management's risk mitigation efforts. We recognize work in this area is never done, and as such will ensure management continues to focus the appropriate resources on it.

During 2017, the Board supported management in advancing Mercer's growth and diversification strategy with the acquisition of the Friesau sawmill in Germany, and we were pleased with Friesau's integration into the Mercer family. We view Mercer as a platform for growth and we are optimistic Friesau is the first of many steps in Mercer's growth aspirations.

Nancy Orr, Director and member of the Audit and Compensation Committees, has decided to retire, effective at the June 1, 2018 AGM. The Board thanks Nancy for her professional and dedicated service during the past 5 years.



Eric Lauritzen,
Lead Director and Deputy Chairman

On behalf of the Board, I would also like to thank Eric for his insightful leadership since joining Mercer's Board in 2004, including his duties as Lead Director for the last six years. Eric also plans to retire at this year's AGM, and we wish him all the best.

Finally, the Board would like to thank our CEO, David Gandossi, for his thoughtful leadership, and we would also like to thank all of Mercer's employees for working safely and their ongoing contributions.

On behalf of the Board,



Jimmy Lee
Executive Chairman of the Board

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 “MERC.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, 2017, and for the period ended March 31, 2018:

Fiscal Quarter Ended

	High	Low
2016		
March 31	\$ 9.54	\$ 5.95
June 30	\$ 10.42	\$ 7.13
September 30	\$ 8.94	\$ 7.03
December 31	\$ 10.65	\$ 10.35
2017		
March 31	\$ 12.00	\$ 11.65
June 30	\$ 11.60	\$ 11.32
September 30	\$ 11.98	\$ 11.60
December 31	\$ 14.40	\$ 14.10
2018		
March 31	\$ 14.90	\$ 12.05

Annual Meeting

The Annual Shareholders’ Meeting will be held on June 1, 2018.

Form 10–K

A copy of our Annual Report on Form 10–K for the year ended December 31, 2016 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, 2018, there were a total of 65,170,531 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

David M. Gandossi
President, CEO and Director

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

Adolf Koppensteiner
COO and Managing Director, Stendal

Wolfram Ridder
VP Business Development and
Managing Director, Stendal Pulp Holding

Brian Merwin
VP Strategic Initiatives

Leonhard Nossol
Controller, European Operations and
Managing Director, Rosenthal

André Listemann
Managing Director, Stendal

Carsten Merforth
Managing Director, Friesau

Richard Short
VP Controller

Genevieve Stannus
Treasurer

Board of Directors

Jimmy S.H. Lee^{****}
Executive Chairman of the Board
Director since 1985

Eric Lauritzen^{**}
Director since 2004

William D. McCartney^{* **}
Director since 2003

Bernard J. Picchi^{****}
Director since 2011

R. Keith Purchase^{** ****}
Director since 2012

James Shepherd^{*** ****}
Director since 2011

Nancy Orr^{* ***}
Director since 2013

Martha A.M. Morfitt^{* ***}
Director since 2017

David M. Gandossi^{****}
President and CEO
Director since 2015

^{*} Member of Audit Committee

^{**} Member of Governance and
Nominating Committee

^{***} Member of Compensation Committee

^{****} Member of Environmental, Health
and Safety Committee

Sales and Marketing Leadership: NBSK

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

Uwe Bentlage
VP Sales and Marketing, Europe
Managing Director Mercer Pulp Sales and

Nils Hegerding
VP Sales and Marketing, Europe

Wood Products

Frank Turnbull
Director of U.S. Sales

Johannes Mörth
Sales Director

Bob Iwami
Director of Asia Sales

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Facsimile: (49) 30 30 64 7199

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e-mail: info@zellstoff-stendal.de

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e-mail: info@mercrtimber.com

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President , CEO and Director

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

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Barristers and Solicitors
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Transfer Agents

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Toll Free # 800 522 6645
Foreign Shareholders: 201 680 6578

Shareholder website
www.computershare.com/investor

Stock Listings

NASDAQ Global Market
Trading Symbol: MERC

Toronto Stock Exchange
Trading Symbol: MERC.U

Incorporation

Washington State, USA

Website

mercrint.com



