MERCER

INTERNATIONAL GROUP

Bioenergy from the Perspective of a Forest Industry Company

IEA Bioenergy Conference - Vancouver

August 2009

Forward Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements. Certain information included in this presentation contains statements that are forward-looking, such as statements relating to results of operations and financial conditions and business development activities, as well as capital spending and financing sources. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, such results may differ materially from those expressed in any forward-looking statements made by or on behalf of Mercer. For more information regarding these risks and uncertainties, review Mercer’s filings with the United States Securities and Exchange Commission.

Company Overview

- Mercer is the largest publicly traded NBSK[(1)] market pulp producer in the world
  - Operates three pulp mills with 1.46 million ADMT[(2)] of capacity

Rosenthal
(Germany)

325,000 ADMT

Stendal [(3)]
(Germany)

635,000 ADMT

Celgar
(BC, Canada)

495,000 ADMT

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(1) NBSK = northern bleached softwood kraft

(2) ADMT = air dried metric tonnes

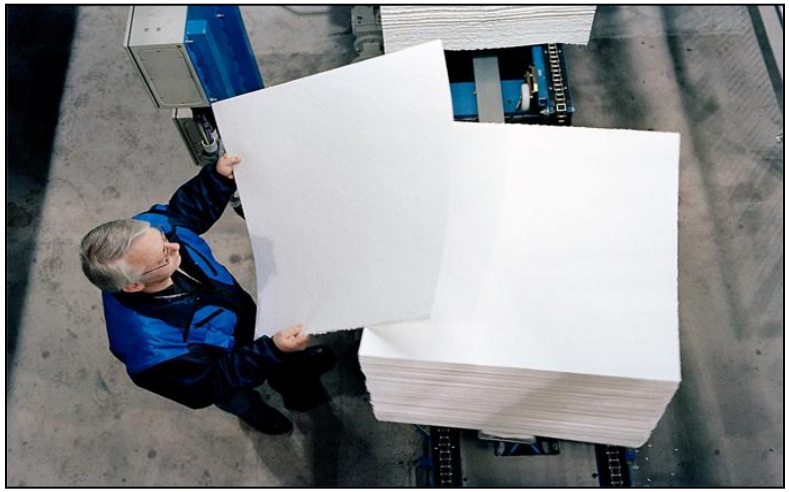
(3) Stendal is a 74.9% owned facility

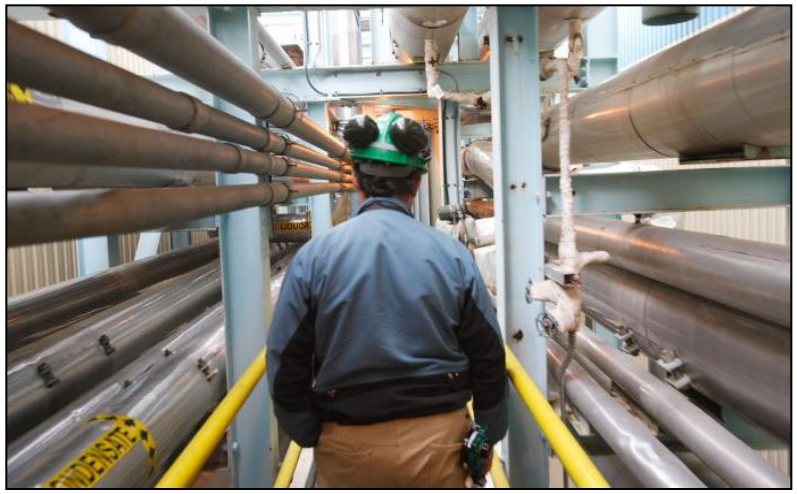
Our Strategy & Purpose

Mercer's core purpose is providing fiber, renewable energy and chemicals from sustainable sources, for essential human needs

Focus on NBSK market pulp
- Premium grade kraft pulp that generally obtains the highest price

Operate modern, world-class NBSK pulp production facilities
- Target profitability in all market conditions
- Limit ongoing capital requirements





Improve efficiency and reduce production costs
- Focus on continuous improvement

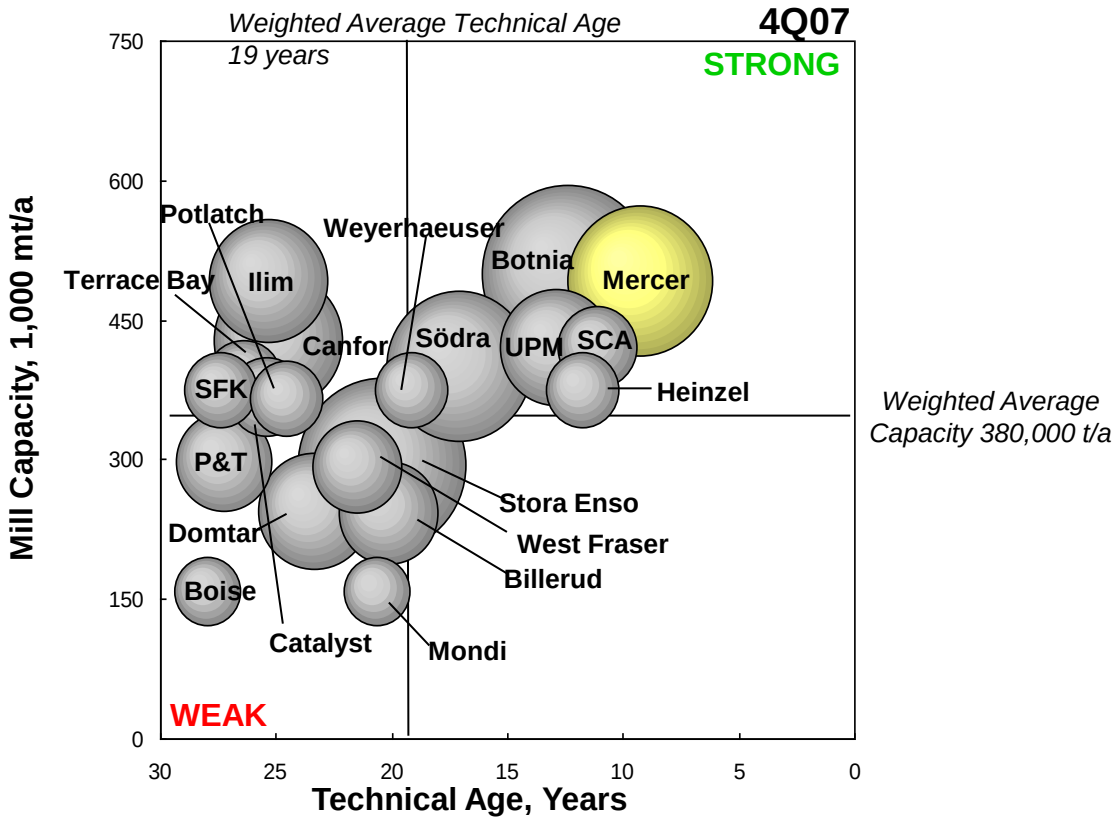
Focus on energy production

Grow assets and earnings
- Organically and through acquisitions
- Short-term focus on sustainability of business

World Class Assets

Mercer versus other top 20 NBSK producers as of Q4 2007 (includes integrated capacity)

- Large, modern facilities – low capital requirements, high runability
- State-of-the-art environmental compliance
- Energy – net producers



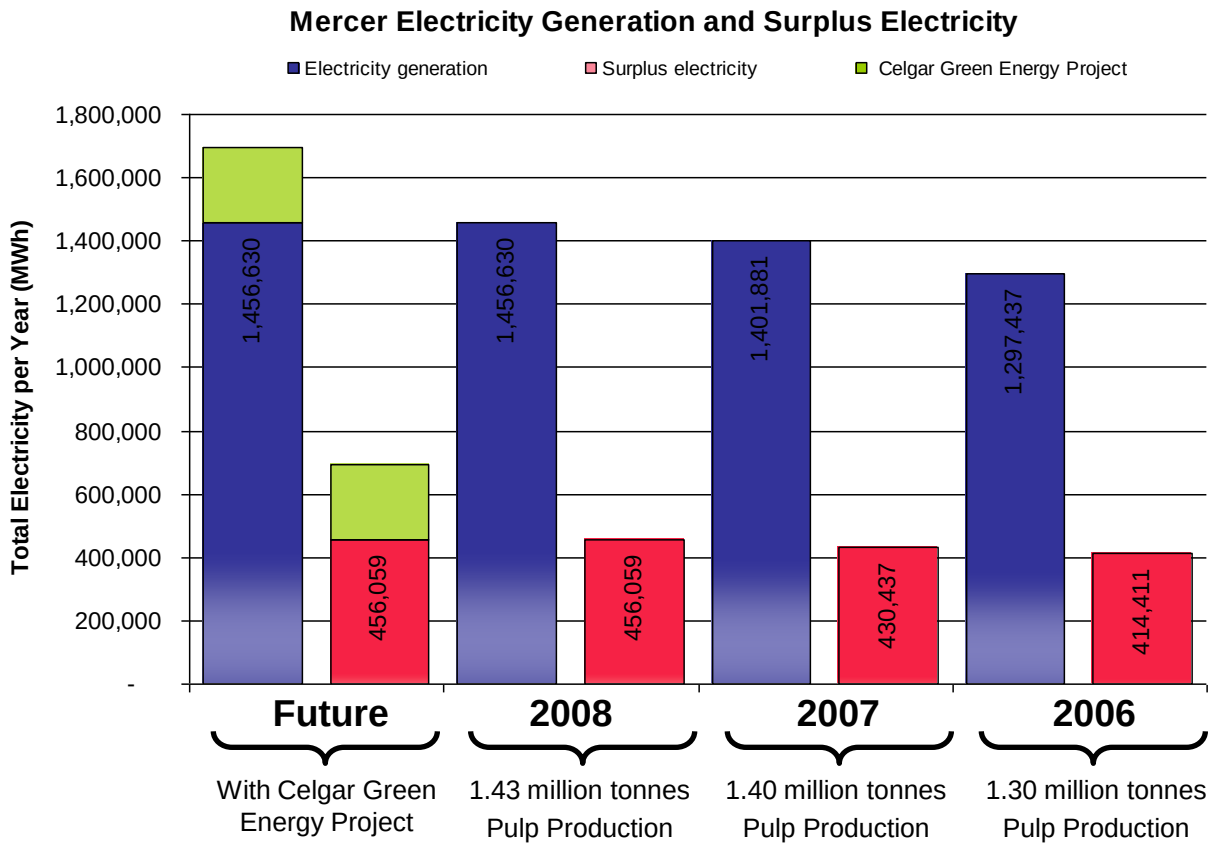
Note: Bubble sizes represent market and integrated pulp productions

Source: Pöyry Forest Industry Consulting

Mercer Green Electricity Profile

- Mercer has installed Bio-Electricity generation capacity at all three mills
  - 102 MW in Stendal, 57 MW in Rosenthal and 52 MW in Celgar (to be expanded to 100 MW in 2010)
- More than 95% of our energy production is generated from biofuels, all derived from the wood that is processed to produce pulp (mostly Black Liquor)
- Over 80% of the biomass fuel employed is converted into heat or electricity, to be used internally or to be exported for sale
- More than 70% of the Mercer's electricity was generated using Combined Heat and Power (CHP)
- The generation of bioenergy represents the last stage in the process to maximize the value extracted from biomass.
  - Value is first extracted in the order of value starting with fiber for pulp production, specialty chemicals such as Tall Oil, Turpentine, Methanol and then Black Liquor – our main biofuel

Mercer Export of Electricity



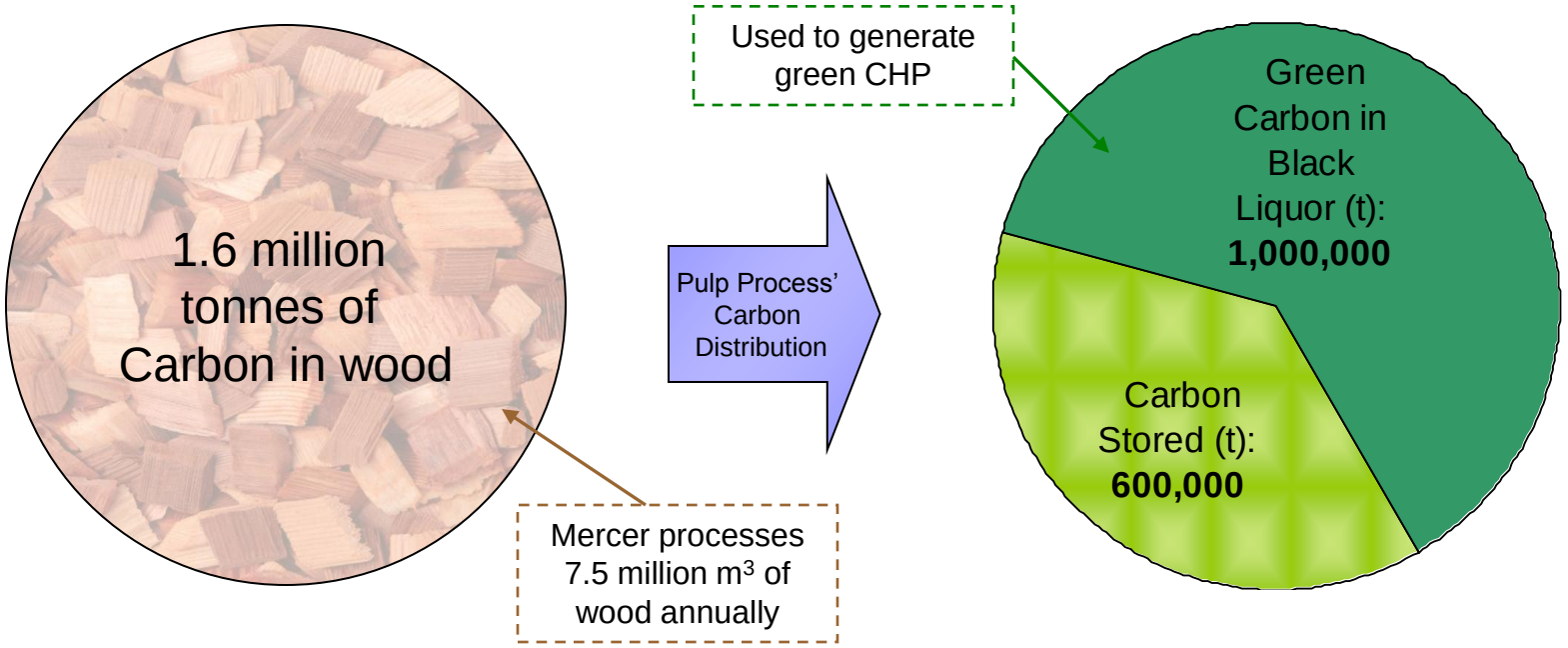
Bioenergy revenues

- Grew from 21 Million EUR in 2006 to 31 Million EUR in 2008 – an increase of 48%
  - Pulp revenues grew by 11% during the same period
- Account for 4.5% of 2008 total revenues
- Growth accelerated by the inclusion of Mercer´s German Mills into the German Feed in Tariff System as of January 2009 and the green electricity supply agreement for Celgar

Mercer Carbon Flow

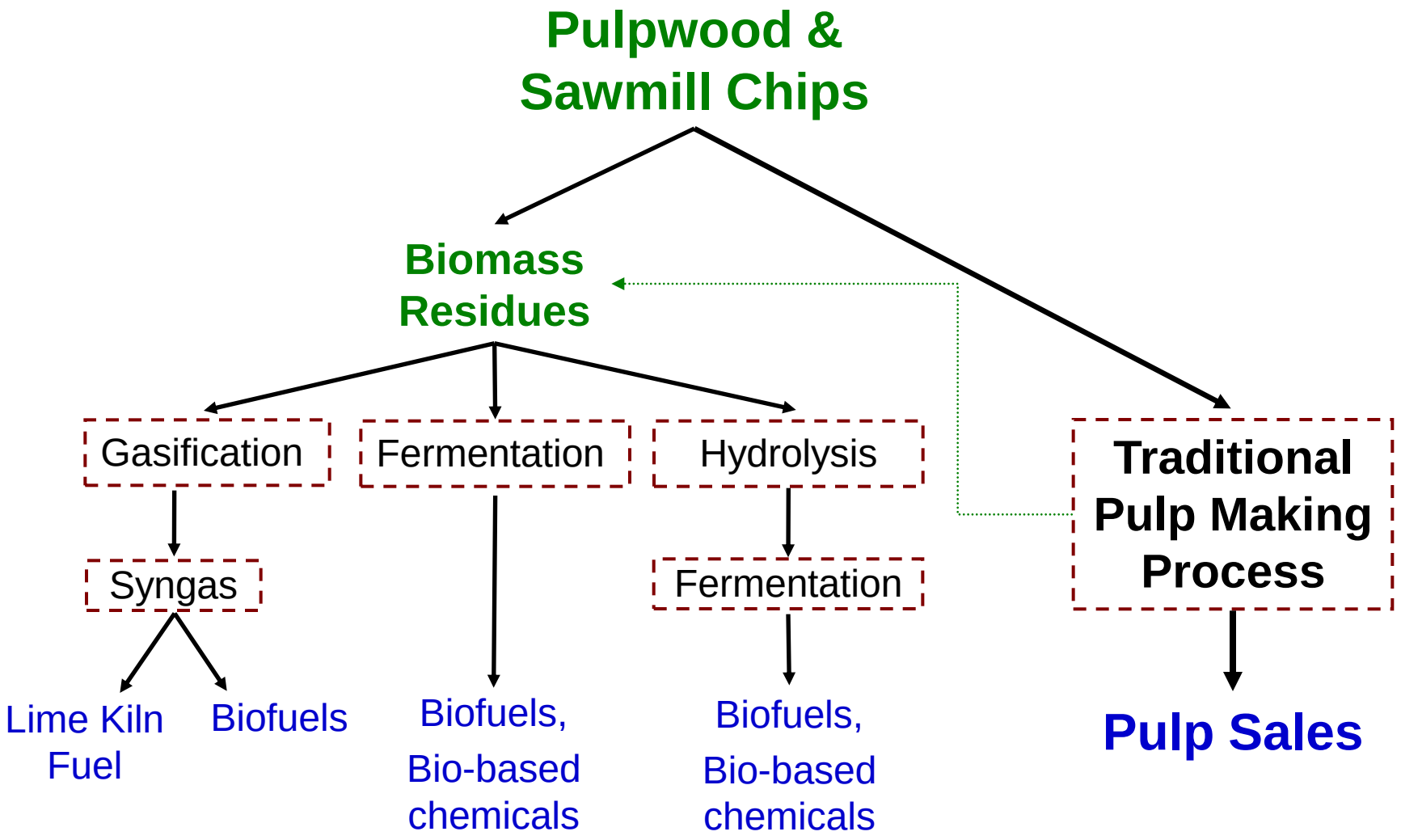
The raw material Mercer processes each year contains approximately 1.6 million tonnes of Carbon

- This Carbon is either stored in the pulp products and later recycled or is combusted to generate green energy



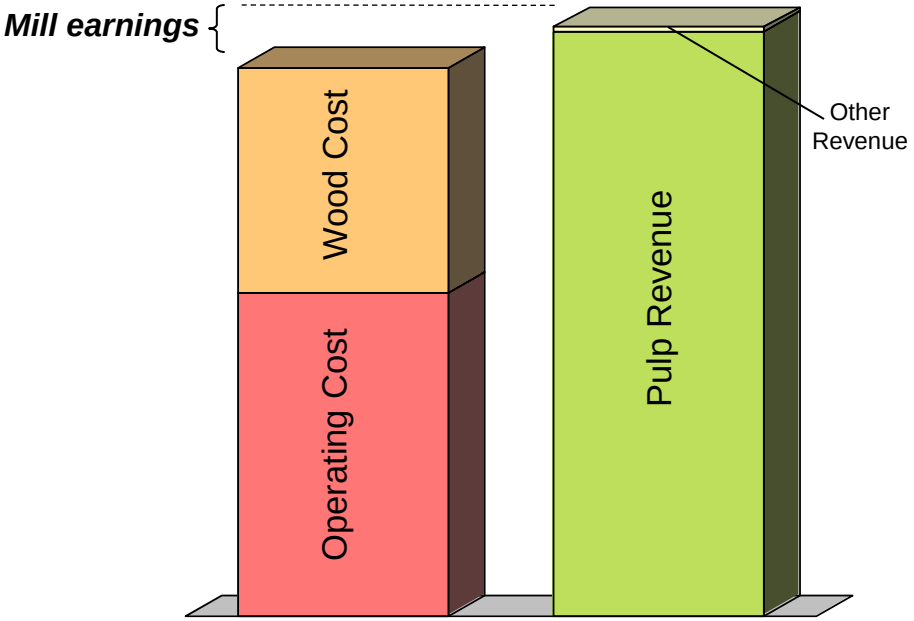
Kraft pulp mills have the ability to extract the highest value from a wood resource, producing pulp and generating high quality green energy

Selected Pulp Mill Biorefinery Opportunities



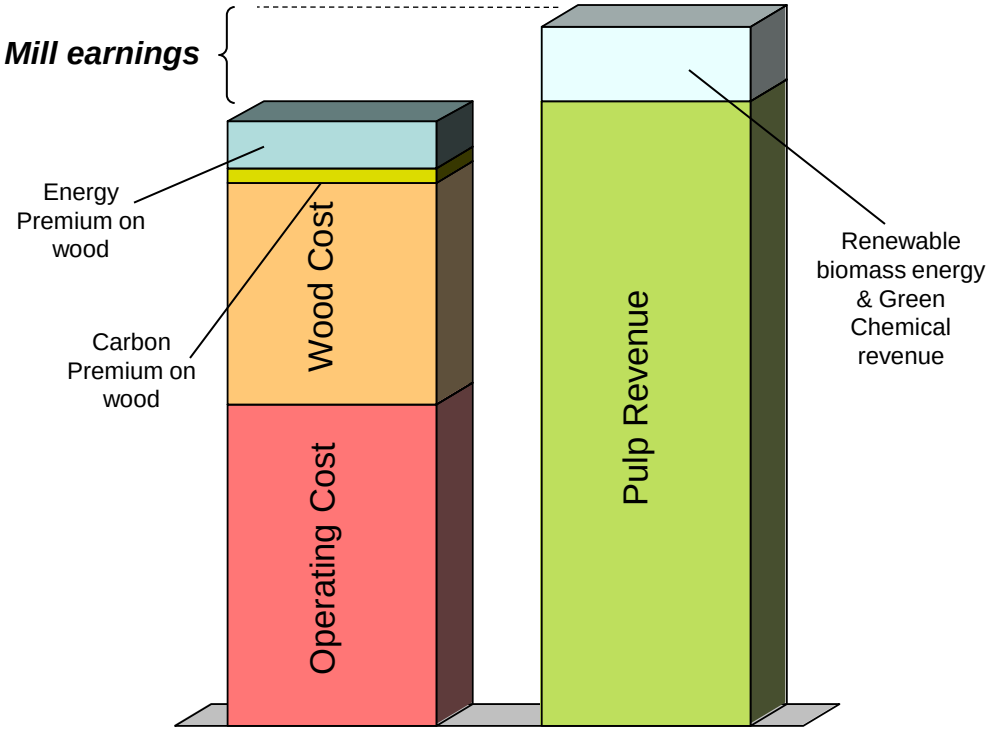
We Can Be Leaders in a Green Economy

Current business model



Lower Return on Capital Employed (ROCE)

Future business model



Improved Long-term Return on Capital Employed (ROCE)

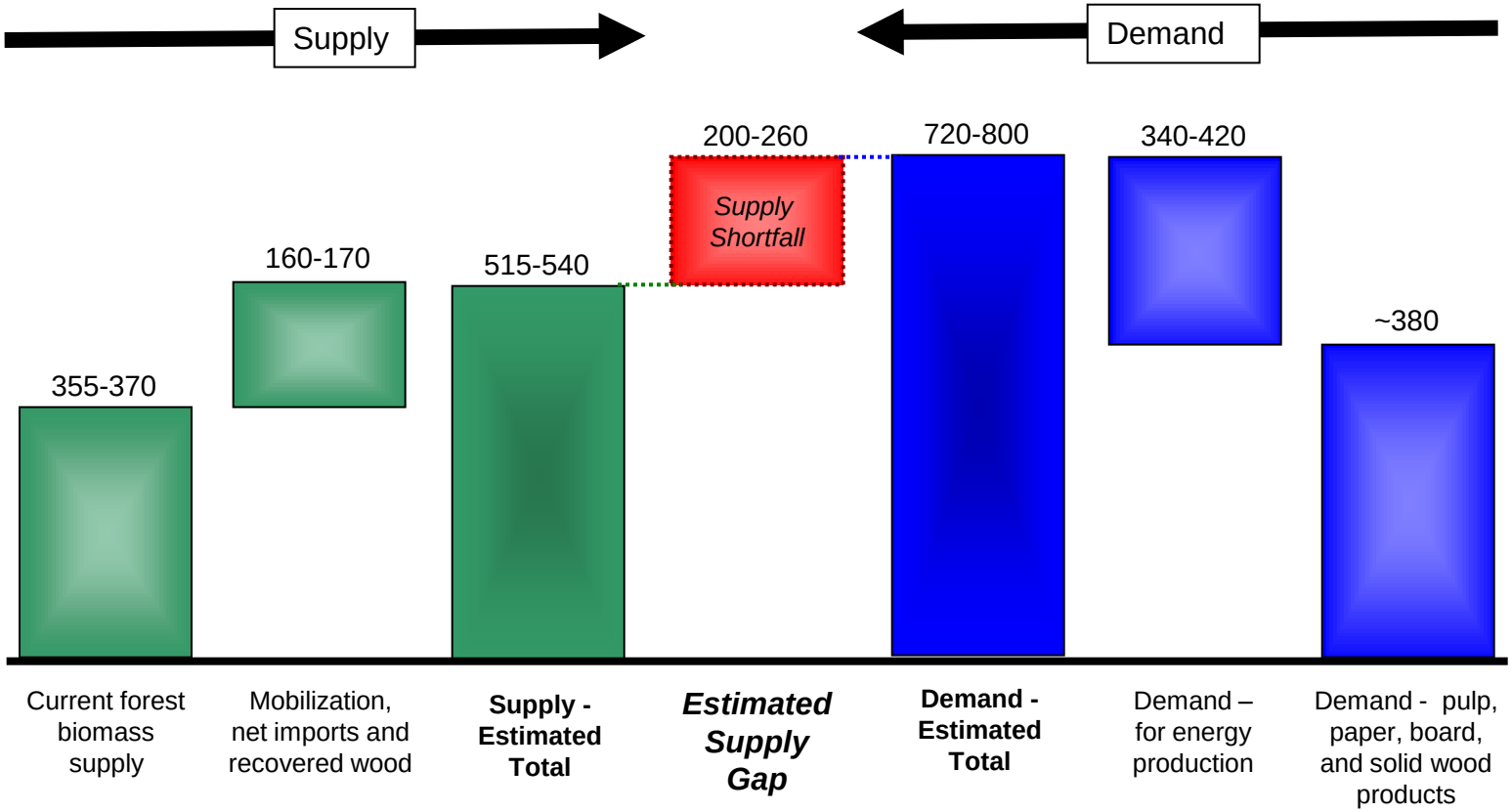
Energy and chemical revenue will be important going forward.

However, in order to reach this potential, government policies are needed for development and commercialization

Bioenergy Targets in the EU until 2020

- 20% reduction of fossil carbon dioxide emissions
  - 30% of all other large emitters outside the EU are required to join in and ratify the Kyoto protocol
- 20% of energy consumed to be from renewable energy sources
  - 2/3 of this energy is forecasted to be from bioenergy
- 20% improvement in energy efficiency
- A significant part of the reduction of fossil fuel emissions will be achieved by co-firing biomass in coal power plants

Shortfall of Solid Biomass in 2020 (scm)



Source: CEPI 2007

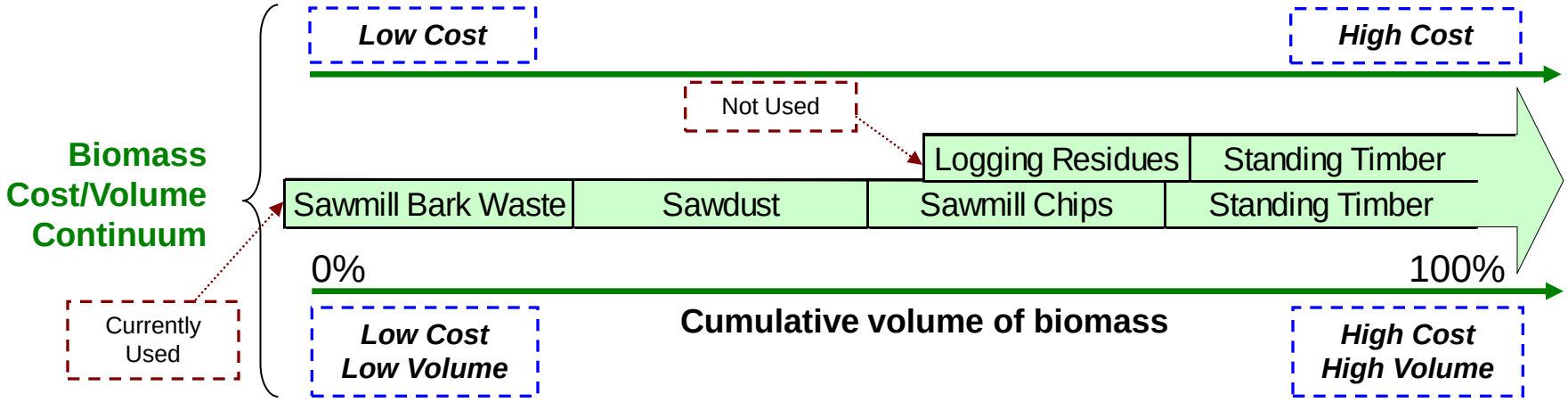
The increased demand for solid biomass from the emerging bioenergy sector is expected to outstrip total supply by over 200 scm by 2020

Level Playing Field:

EU Member States Have Individual Ways to Achieve Targets

- Both feed-in tariffs and quota systems exist across Europe in order to boost renewable energy usage
  - *Feed-in tariffs* guarantee different specific feed-in tariffs for different technologies
  - *Quota systems* guarantee a variable premium on the market price, where the most efficient technologies generate the highest profit
- Emissions trading tackles essentially the same targets
  - Although – as of 2013 – rules will be harmonized across the EU, member states currently have several possibilities to create incentives or disincentives for certain industries
- Energy consumption is subject to taxation in different ways with multiple exemptions

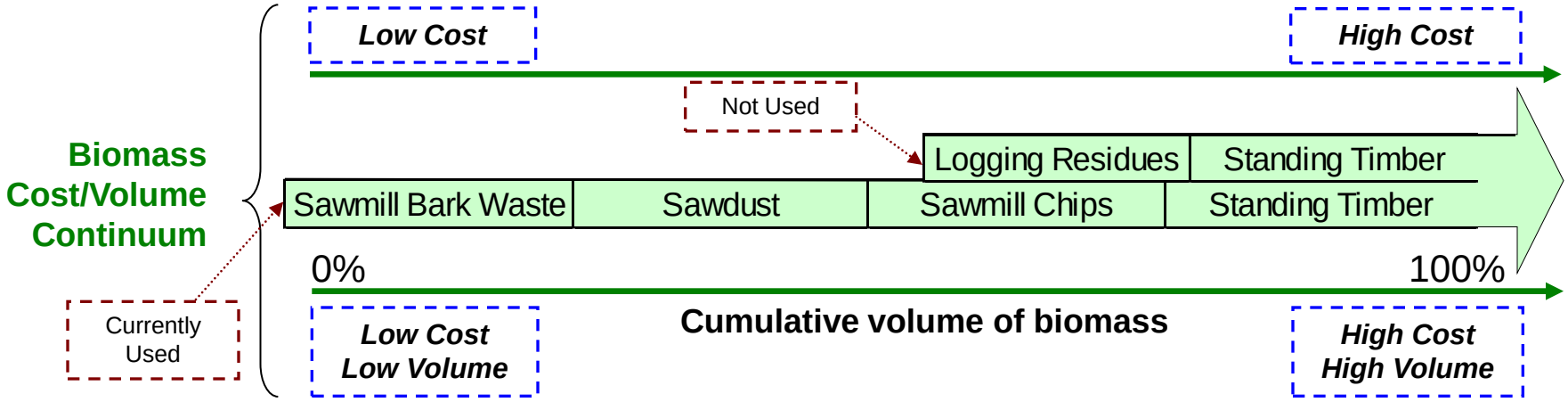
Biomass Policy Conundrum – BC Example



Background

- The BC Pulp & Paper Industry has always been a consumer of sawmill bark waste, sawdust, sawmill chips and a small amount of standing timber
  - This biomass converts into approximately 7 million tonnes of pulp and paper and 123 million GJ of fuel, which then gets converted into heat and electricity
- Wood sources for the BC P&P are all market based, with supply and demand driving wood prices
- The majority of the electricity generated by BC Pulp Industry (3,500 GWh annually) is currently priced at C$30/MWh

Biomass Policy Conundrum – BC Example



Policy Distortions

- European subsidies for pellets have allowed producers in BC to be able to outbid existing biomass users in BC because there is a BC policy that does not allow for the revaluation of existing power generation
- **Result**: *No net Carbon improvements* as biomass is simply shifted to different jurisdictions, putting existing BC biomass power plants at risk of curtailment or shutdown

Logging residues and standing timber are a tremendous resource for creating green energy that is currently underutilized in BC.
How can BC expect to maintain a market based system for wood while creating policies which incent new users, but ignore existing industrial users?

Threat of Bioenergy to the Forest Products Industry

- Biomass electricity projects could be a major benefit to Northern Hemisphere pulp mills if there is a level playing field with other players for green electricity pricing. Pulp mills are the natural location for expanded biomass electricity production.
  - Environmental footprint already exists with potential to actually reduce the footprint
  - Pulp mills use more of the heat energy produced by biomass through cogeneration
  - Much of the existing infrastructure, systems and personnel are already in place
- Although there is an opportunity for increased energy revenues, there is a large threat that cellulose pulp producers will not be compensated for higher wood costs caused by the paradigm shift of wood being valued on an energy basis

Pulp Transition to Bioenergy Economics

- The transition to bioenergy economics is happening with Europe at the forefront and other first world jurisdictions following suit
- Historically, wood has been priced in the market based on its value for alternative uses, such that saw logs were more valuable than pulpwood
- Wood's energy value has not, until recently, had an effect on market pricing of wood
  - We see a correlation forming between wood values and energy, demonstrated by the correlation of industrial wood prices to pellet prices in Europe
- With oil at $50 per barrel and 1 odmt of pellets equating to 3.36 barrels of oil, pellets have a value of US$168 / odmt - close to current pellet prices, correlating on a regional basis
- Electric utilities realize additional value by using wood, as they can reduce their spending on carbon credits

The Emerging Role of the Pulp & Paper Industry

A key component in future sustainable energy and biomass based materials supply chains

- P&P already has access to biomass and fiber resources, existing supply chains and experienced management
- The industry has extensive process know-how and experience concerning power production and wood and chemical processing
- Pulp mills are already well established, successful, large-scale biorefineries that add value to small wood and sawmill by-products
- The high process steam consumption in a pulp mill allows for highly efficient cogeneration
- Power production from a pulp mill provides a reliable “24/7” base supply needed in a power system
- Integrating highly variable power supply sources like wind turbines into public electricity grids can be a major challenge

Pulp and Paper Industry Challenges

and Mercer's Way Forward

- Government policies and objectives play a dominant role in the development of bioenergy and will heavily influence who the "winners" will be
  - There are differences between jurisdictions
- Biomass feedstock is limited, new players could disrupt existing supply chains
- Non pulp and paper industry players spend considerable efforts in developing bio- based chemicals and fuels
- As a biorefinery, a pulp mill offers many technological opportunities and sustainable products ***and*** has the ability to enhance value through cogeneration and integration with biomass supply chains
- Power production from bio mass benefits from existing markets and distribution channels
- Mercer runs the biggest and most efficient biomass electricity generation in continental Europe and, starting in 2010, also in North America

Pulp and Paper Industry Challenges

and Mercer's Way Forward

- Mercer sees biomass electricity as the last stage in the process to maximize the value of the products extracted from biomass, which include solid wood, fiber, specialty chemicals and finally – the production of bioenergy
- R&D in this field is both capital and time intensive
- The most promising concepts have to be identified and R&D has to be focused
  - This will only be possible with joint initiatives and collaboration with other industries such as chemical and energy suppliers
- If P&P is going to maintain this leadership, aspects of the Pulp, Paper and Chemical Industries, as well as research institutes, technology suppliers and consultants have to be developed
- Mercer has joined and supports the leading research clusters in Europe and North America (INNVENTIA former STFI-Packforsk and FP Innovations) to get access to the latest research results and to be able to capitalize on further biorefinery opportunities

Thank you for your attention