MERCER INTERNATIONAL INC
Form 424B5
February 10, 2005

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PROSPECTUS SUPPLEMENT **Registration No. 333-121172**
(To prospectus dated December 23, 2004) **Filed Pursuant to Rule 424(b)(5)**

$310,000,000
MERCER INTERNATIONAL INC.
9.25% Senior Notes due 2013

We are offering $310,000,000 principal amount of senior notes. We will pay interest on the notes on February 15 and August 15 of each year the notes are outstanding, beginning on August 15, 2005. The notes will bear interest at 9.25% per annum and will mature on February 15, 2013. We may redeem the notes on or after February 15, 2009, in whole or in part, at the redemption prices described in this prospectus supplement. See "Description of the Notes Optional Redemption".

The notes are unsecured and rank equally with all of our other existing and future unsecured senior debt. The notes will be effectively junior to our secured indebtedness and the indebtedness and other liabilities of our subsidiaries. The notes will be issued only in registered form in denominations of $1,000.

Concurrently with this offering, we are also conducting a separate public offering of approximately 9.4 million shares of beneficial interest by means of a separate prospectus supplement, pursuant to which we have granted an option for the underwriters to purchase up to approximately an additional 1.4 million shares of beneficial interest to cover over-allotments, if any. This option may be exercised on or before the 30th day after the date of the related prospectus supplement. The completion of this offering and the offering of our shares of beneficial interest are contingent upon each other.

Investing in the notes involves a number of risks, including risks that are described in the "Risk Factors" section beginning on page S-23 of this prospectus supplement and page 8 of the accompanying prospectus.

	Price to Investors(1)	Underwriting Discount	Proceeds, Before Expenses, to Mercer
Per senior note	100%	2.5%	97.5%
Total	$310,000,000	$7,750,000	$302,250,000

(1) Plus accrued interest from February 14, 2005, if settlement occurs after that date.

Neither the Securities and Exchange Commission, referred to as the "SEC", nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement. Any representation to the contrary is a criminal offense.

All of the notes will be delivered in book-entry form through The Depository Trust Company on or about February 14, 2005.

Joint Book-Running Managers

RBC Capital Markets **Credit Suisse First Boston**

Co-Manager

CIBC World Markets

The date of this prospectus supplement is February 8, 2005.

TABLE OF CONTENTS

PROSPECTUS SUPPLEMENT

PROSPECTUS

You should rely only on the information contained or incorporated by reference in this prospectus supplement. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. This document is in two parts. The first part is a prospectus supplement, which describes the specific terms of this offering and other matters relating to us and our financial condition. The second part is the accompanying prospectus, dated December 23, 2004, which gives more general information about securities we may offer from time to time, some of which may not apply to the senior notes we are currently offering. If the description of this offering or the operations presented varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement. You should assume that the information appearing in this prospectus supplement and the accompanying prospectus, as well as the information contained in any document incorporated by reference, is accurate as of the date of each such document only, unless the information specifically indicates that another date applies.

The distribution of this prospectus supplement and the accompanying prospectus, and the offering of the notes, may be restricted by law in certain jurisdictions. You should inform yourself about, and observe, any of these restrictions. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which the offer or solicitation is not authorized, or in which the person making the offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make the offer or solicitation.

We are not offering to sell any of our shares of beneficial interest with this prospectus supplement. We will offer our shares of beneficial interest only by means of a separate prospectus supplement.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, including the information incorporated by reference into this prospectus supplement, contains "forward-looking statements". They can be identified by words such as "estimates", "projects", "scheduled", "anticipates", "expects", "intends", "plans", "will", "should", "believes", "goal", "seek", "strategy" or their negatives or other comparable words. These statements are subject to a number of risks and uncertainties including the risks and uncertainties outlined under "Risk Factors", many of which are beyond our control. We wish to caution the reader that these forward-looking statements are only estimates or predictions, such as statements regarding:

- development of our business;
- demand and prices for our products; and
- future capital expenditures.

We do not undertake any obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this prospectus supplement are reasonable, we can give no assurance that such plans, intentions or expectations will be achieved. Actual events or results may differ materially due to risks facing us or due to actual facts differing from the assumptions underlying our predictions. Some of these risks and assumptions include:

- our level of indebtedness;
- the cyclical nature of our business;
- our ability to fully implement our business plan with relation to the development and expansion of our operations as planned, including with respect to the Celgar and Stendal pulp mills;
- our ability to integrate and improve the operations of the Celgar pulp mill;
- our ability to manage our capital expenditures and maintenance costs;
- our ability to efficiently and effectively manage our growth;
- our exposure to interest rate and currency exchange rate fluctuations;
- our use of derivatives;
- fluctuations in the price and supply of our raw materials;
- our ability to respond to increasing competition;
- environmental legislation and environmental risks associated with conditions at our facilities;
- our ability to negotiate acceptable agreements with our employees;

- our dependence upon German federal and state grants and guarantees;
- our dependence upon key personnel;
- potential disruptions to our production and delivery;
- difficulties or delays in providing certifications under the Sarbanes-Oxley Act of 2002;
- our insurance coverage; and
- other regulatory, legislative and judicial developments,

any of which could cause actual results to vary materially from anticipated results.

We advise the reader that these cautionary remarks expressly qualify in their entirety all forward-looking statements attributable to us or persons acting on our behalf. Important factors that you should also consider, include, but are not limited to, the factors discussed under "Risk Factors" in this prospectus supplement and the accompanying prospectus.

MARKET AND INDUSTRY DATA

In this prospectus supplement, we rely on and refer to information and statistics regarding our market share and the markets in which we compete. We have obtained some of this market share and industry data from internal surveys, market research, publicly available information and industry publications. Such reports generally state that the information contained therein has been obtained from sources believed to be reliable, but the accuracy or completeness of such information is not guaranteed. Although we believe this information is reliable, neither we nor the underwriters have independently verified or can guarantee the accuracy or completeness of that information.

EXCHANGE RATES

As of January 1, 2002, we changed our reporting currency from the U.S. dollar to the Euro, as a significant majority of our business transactions are originally denominated in Euros. Accordingly, our financial statements for the years ended December 31, 2002 and 2003 and the nine months ended September 30, 2003 and 2004 included in this prospectus supplement are stated in Euros and our financial statements and other financial information for periods prior to the year ended December 31, 2002 included in this prospectus supplement have been restated in Euros. We translate non-Euro denominated assets and liabilities at the rate of exchange on the balance sheet date. Revenues and expenses are translated at the average rate of exchange prevailing during the period.

The following table sets out exchange rates, based on the noon buying rates in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York, referred to as the "Noon Buying Rate", for the conversion of Euros and Canadian dollars to U.S. dollars in effect at the end of the following periods, the average exchange rates during these periods (based on daily Noon Buying Rates) and the range of high and low exchange rates for these periods:

	Year Ended December 31,					Nine Months Ended September 30,	
	1999	2000	2001	2002	2003	2003	2004
				(€/$)			
End of period	0.9937	1.0646	1.1227	0.9536	0.7938	0.8584	0.8053
High for period	0.9984	1.2087	1.1945	1.1638	0.9652	0.9652	0.8474
Low for period	0.8422	0.9697	1.0487	0.9536	0.7938	0.8425	0.7780
Average for period	0.9430	1.0901	1.1219	1.0660	0.8838	0.9001	0.8158
				(C$/$)			
End of period	1.4440	1.4995	1.5926	1.5800	1.2923	1.3506	1.2649
High for period	1.4440	1.4349	1.4932	1.5108	1.2923	1.3348	1.2649
Low for period	1.5302	1.5600	1.6023	1.6129	1.5751	1.5751	1.3970
Average for period	1.4828	1.4870	1.5518	1.5704	1.3916	1.4267	1.3280

On February 8, 2005 the Noon Buying Rate for the conversion of Euros and Canadian dollars to U.S. dollars was €0.7823 per U.S. dollar and C$1.2476 per U.S. dollar.

In addition, the financial statements and certain financial information relating to Stone Venepal (Celgar) Pulp Inc. included in this prospectus supplement are stated in Canadian dollars while we report our financial results in Euros. The following table sets out exchange rates, based on the noon rates as provided by the Bank of Canada, for the conversion of Canadian dollars to Euros in effect at the end of the following periods, the average exchange rates during these periods (based on daily noon rates) and the range of high and low exchange rates for these periods:

	Year Ended December 31,					Nine Months Ended September 30,	
	1999	2000	2001	2002	2003	2003	2004
				(C$/€)			
End of period	1.4525	1.4092	1.4185	1.6564	1.6280	1.5734	1.5700
High for period	1.4525	1.2538	1.2640	1.3682	1.4967	1.4967	1.5563
Low for period	1.8123	1.5047	1.4641	1.6564	1.6643	1.6643	1.6915
Average for period	1.5847	1.3707	1.3868	1.4832	1.5826	1.5875	1.6281

On February 8, 2005, the noon rate for the conversion of Canadian dollars to Euros was C$1.5952 per Euro.

INFORMATION ABOUT STONE VENEPAL (CELGAR) PULP INC.

Information in this prospectus supplement relating to Stone Venepal (Celgar) Pulp Inc. and its operations is based on information provided by KPMG Inc. as receiver and trustee for Celgar. While we believe such information to be accurate in all material respects, neither we nor the underwriters have verified the accuracy or completeness of such information and neither we nor the underwriters represent that any such information, or the information derived therefrom, included in this prospectus supplement is accurate or complete.

In this prospectus supplement, please note the following:

- references to "we", "our", "us" or the "Company" mean Mercer International Inc. and its subsidiaries, after giving effect to the acquisition of the Celgar mill, unless the context clearly suggests otherwise; references to "Mercer" mean Mercer International Inc. and its subsidiaries, without giving effect to the acquisition of the Celgar mill, unless the context clearly suggests otherwise; and references to "Mercer Inc." mean Mercer International Inc. excluding its subsidiaries;
- information is provided as of September 30, 2004, unless otherwise stated;
- "€" refers to Euros, the lawful currency adopted by most members of the European Union, unless otherwise stated; "$" refers to U.S. dollars; and "C$" refers to Canadian dollars; and
- except as otherwise indicated, all information in this prospectus supplement assumes that the underwriters have not exercised their over-allotment option with respect to the offering of our shares of beneficial interest.

Unless the context clearly suggests otherwise, this prospectus supplement has been prepared to give pro forma effect to the following:

- the acquisition of the Celgar mill;
- this offering;
- the offering of our shares of beneficial interest;
- the establishment of two new revolving working capital facilities; and
- the payment of estimated financing and transaction costs.

PROSPECTUS SUPPLEMENT

SUMMARY

This summary highlights certain information contained elsewhere or incorporated by reference in this prospectus supplement. Because it is a summary, it is not complete and does not contain all the information you will need to make your investment decision. You should read this entire prospectus supplement as well as the information incorporated by reference into this prospectus supplement carefully, including the section entitled "Risk Factors", before deciding to invest. On November 22, 2004, we agreed to acquire a pulp mill located near Castlegar, British Columbia, Canada, which we refer to as the "Celgar mill", that produces northern bleached softwood kraft, or "NBSK", pulp. Unless the context otherwise requires, this prospectus supplement has been prepared to give pro forma effect to the proposed acquisition of the Celgar mill, which we refer to as the "Acquisition", this offering, the offering of our shares of beneficial interest, the establishment of two new revolving working capital facilities and the payment of estimated financing and transaction costs.

Our Company

We are one of the largest market NBSK pulp producers in the world. We will have a consolidated annual production capacity of approximately 1.3 million air-dried metric tonnes, or "ADMTs", when we complete the Acquisition. We manufacture and sell high quality NBSK pulp, which is considered a premium grade of kraft pulp because of its strength and it generally obtains the highest price relative to other kraft pulps. We are the sole kraft pulp producer, and the only producer of pulp for resale, known as "market pulp", in Germany, which is the largest pulp import market in Europe. With the acquisition of the Celgar mill, the locations of our pulp mills will allow us to service many of our customers on a global basis. We also operate two paper facilities in Germany focused primarily on the production of value-added specialty papers.

Our wholly-owned subsidiary, Rosenthal, owns and operates a modern, efficient, ISO 9002 certified NBSK pulp mill in Germany. In late 1999, we completed a major capital project which converted the Rosenthal mill to the production of NBSK pulp from sulphite pulp and increased its annual production capacity from approximately 160,000 ADMTs to approximately 280,000 ADMTs, and subsequently to approximately 310,000 ADMTs. The aggregate cost of the project was approximately €361.0 million. The project was financed through a combination of a project loan supported by government guarantees, government grants totaling approximately €101.7 million and an equity investment made by us. We believe that it was the fastest start-up of a large-scale NBSK pulp facility to date. We believe that the Rosenthal mill is one of the lowest-cost producers globally of NBSK pulp delivered to Europe with average cash production costs of €300 per ADMT in the nine months ended September 30, 2004. As a result of significant local demand and favorable transportation economics, the majority of our NBSK pulp production at the Rosenthal mill is sold in Germany and other European markets.

In September 2004, our 63.6% owned subsidiary, Stendal, completed construction of a new, "greenfield", state-of-the-art, single-line NBSK pulp mill in Germany with a designed annual production capacity of approximately 552,000 ADMTs. Once operating at capacity, we believe the Stendal mill will be one of the largest NBSK pulp mills in Europe. The Stendal mill was constructed under a €716.0 million fixed-price turn-key engineering, procurement and construction, or "EPC", contract between Stendal and RWE Industrie-Lösungen GmbH, or "RWE". Construction of the Stendal mill commenced in August 2002 and was completed substantially on its planned schedule and budget. The aggregate cost of the Stendal project is approximately €1.0 billion. The Stendal project was financed through a combination of government grants totaling approximately €274.5 million, low cost, long-term project debt which is largely severally guaranteed by the federal government of Germany and the state government of Sachsen-Anhalt, and equity contributions. The commissioning of the Stendal mill commenced in the third quarter of 2004 and production is expected to reach approximately 80% of rated capacity during the first year and to exceed 90% in the second year thereafter. The Stendal mill has been designed to produce pulp with cash production costs below those of the Rosenthal mill. We expect synergies arising from the operation of both the Stendal and the Rosenthal mills, which are located approximately 300 kilometers apart, in the areas of raw materials and supplies procurement, production engineering, sales, maintenance and marketing.

As a result of the Acquisition, we will also operate a modern NBSK pulp mill located near Castlegar, British Columbia, Canada. The Celgar mill has a current annual production capacity of approximately 430,000 ADMTs. It was completely rebuilt in the early 1990s through an C$850 million modernization and expansion project, which transformed it into a low-cost producer. Based on an industry survey, we believe that the Celgar mill ranks in the second quartile in North America on a manufactured cost basis for NBSK pulp and it had average cash production costs of C$533 per ADMT in the nine months ended September 30, 2004. The Celgar mill's geographic location will allow us to leverage existing relationships with European customers that also have facilities in North America and Asia. Furthermore, we believe that there are significant opportunities to enhance the financial and operating performance of the Celgar mill. See "The Acquisition".

In addition, we own and operate two paper mills located at Heidenau and Fährbrücke, Germany, which produce specialty papers and printing and writing papers and, based upon their current product mix, have an aggregate annual production capacity of approximately 70,000 ADMTs.

The Pulp Industry

Pulp is used in the production of paper, tissues and paper related products. Pulp is generally classified according to the type of raw material, or fiber, and the process used in its production and the degree to which it is bleached. Kraft pulp can be made in different grades, with varying technical specifications, for different end uses. Kraft pulp can be bleached to increase its brightness. It is noted for its strength, brightness and absorption properties and is used to produce a variety of products, including lightweight publication grades of paper, tissues and paper related products.

The market value of kraft pulp depends in part on the fiber used in the production process. There are two primary species of wood used as fiber: softwood and hardwood. Softwood species have long, flexible fibers and add strength to paper. Hardwood species contain shorter fibers which lend bulk and opacity. Prices for softwood pulp are generally much higher than for hardwood pulp. As at September 30, 2004, there was an approximately $110 per ADMT difference in their list prices in Europe. Currently, the kraft pulp market is roughly evenly split between softwood and hardwood grades. Most uses of market kraft pulp, including in the production of fine printing papers, coated and uncoated magazine papers and tissue grades, utilize a mix of softwood and hardwood grades to optimize production and product qualities. In recent years, production of hardwood pulp, based on fast growing plantation fiber primarily from Asia and South America, has increased much more rapidly than softwood grades that have longer growth cycles. As a result of the growth in supply and lower costs, many kraft pulp customers in recent years have substituted some of the pulp content in their products to hardwood pulp. Counteracting this trend has been the requirement for strength characteristics in finished goods, paper and tissue makers' focus on higher machine speeds, and an industry move towards lower basis weights for publishing papers, all of which require the strength characteristics of softwood pulp and, in particular, NBSK pulp. We believe that the ability of kraft pulp users to further substitute hardwood for softwood pulp is limited by such requirements.

NBSK pulp, which is a bleached kraft pulp manufactured using species of northern softwood fiber primarily in northern Europe and Canada, is considered a premium grade because of its strength. It generally obtains the highest price relative to other kraft pulps. NBSK pulp is the sole product of the Rosenthal, Stendal and Celgar mills.

Producers ranging from small independent manufacturers to large integrated companies produce pulp worldwide. In 2003, more than 130 million ADMTs of kraft pulp were converted into printing and writing papers, tissues, cartonboards and other white grades of paper and paperboard around the world. Approximately 65% of this pulp was produced for internal use by integrated paper and paperboard manufacturers, and approximately 35% was produced for sale on the open market as market pulp.

Although demand is cyclical, worldwide demand for kraft market pulp has grown at an average rate of approximately 3% annually over the last ten years. The historical growth rate in demand for NBSK pulp reflects similar trends. The following chart illustrates the worldwide NBSK market pulp demand for the specified periods:

Worldwide NBSK Market Pulp Demand

Source: Pulp and Paper Products Council

Western Europe accounts for approximately 40% of global market pulp demand with a growth rate of approximately 2% annually over the past ten years. Approximately 18 million ADMTs of market pulp were consumed in western Europe in 2003, of which approximately six million ADMTs were comprised of NBSK pulp. With its large economy and sizable paper industry, Germany is the largest pulp import market in Europe, consuming approximately six million ADMTs of market pulp in 2003, of which approximately 61% was kraft pulp, while relying largely on imports from North America and Scandinavia.

Demand for market pulp in Asia (excluding Japan) has been growing at approximately 9% annually over the past ten years and currently accounts for approximately 30% of global demand. Approximately 13 million ADMTs of market pulp were consumed in Asia (excluding Japan) in 2003, of which approximately 2.3 million ADMTs were comprised of NBSK pulp. Canada is the largest exporter to this region, supplying approximately three million ADMTs of market pulp in 2003, approximately two million ADMTs of which were comprised of NBSK pulp. Additionally, Japan consumed approximately three million ADMTs of market pulp in 2002, the latest year for which data is available, of which approximately 25% was comprised of NBSK pulp.

Global economic conditions, changes in production capacity, inventory levels, and currency exchange rates are the primary factors affecting NBSK pulp list prices. Canada and western Europe currently represent approximately 50% and 40%, respectively, of global NBSK pulp capacity while list prices are denominated in U.S. dollars. The following chart illustrates the average annual European NBSK list pulp prices since 1990:

Average Annual European NBSK List Pulp Prices

Source: Pulp and Paper Week

The average annual European list prices for NBSK pulp between 1990 and 2003 ranged from a low of $444 per ADMT in 1993 to a high of $875 per ADMT in 1995. Following a decline in demand in 2001, list prices for NBSK pulp also declined and averaged approximately $463 per ADMT in 2002. An increase in demand resulting from improving American and major European economies and the weakening of the U.S. dollar against the Euro and other major currencies in 2003 resulted in list prices for kraft pulp in Europe increasing to approximately $560 per ADMT in December 2003 despite relatively high inventory levels. List prices for kraft pulp in Europe continued to strengthen in 2004 due to the relatively weak U.S. dollar and improving world economies, with particularly strong growth in demand in Asia. List prices increased to approximately $660 per ADMT in July 2004, before falling to approximately $585 per ADMT in October 2004 and subsequently recovering to approximately $625 per ADMT in December 2004. A producer's sales realizations reflect customer discounts, commissions and other items and it is likely that NBSK pulp prices will continue to fluctuate in the future.

Competitive Strengths

Our competitive strengths include the following:

- ***Modern Low Cost NBSK Pulp Mills.*** Upon the acquisition of the Celgar mill and the ramp up of the Stendal mill, we will operate three large, modern, low cost NBSK pulp mills. The significant capital investments at the Rosenthal mill have resulted in a facility which ranks in the lowest cost quartile for NBSK pulp delivered to Europe. We expect our overall cost structure to improve because the Stendal mill is designed to have even lower production costs than the Rosenthal mill. Based on an industry survey, we believe that the Celgar mill ranks in the second quartile in North America on a manufactured cost basis for NBSK pulp. The relative age and production capacity of our NBSK pulp mills provide us with certain manufacturing cost advantages over many of our competitors including lower maintenance capital expenditures.

High Quality NBSK Pulp Products. Our pulp mills produce high quality NBSK pulp which is a premium grade of kraft pulp. Our Rosenthal mill continues to increase the proportion of its sales of reinforcement NBSK pulp, which is used to produce stronger papers and generally obtains the highest price. The Stendal mill is similarly expected to produce a very high quality NBSK pulp product, although from a slightly different species mix, resulting in a complementary product more suitable for different end uses. We believe that the pulp produced at the Celgar mill has excellent product characteristics.

Close Proximity to Customers. We are the sole kraft pulp producer and the only producer of market pulp in Germany, which is the largest pulp import market in Europe. Due to the proximity of the Rosenthal and Stendal mills to most of our European customers and the new member countries of the European Union, we benefit from lower transportation costs relative to our major competitors. As the Celgar mill is located in western Canada, it is well situated to serve Asian and North American customers. We believe our ability to deliver pulp on a timely basis enhances customer satisfaction and has made us a preferred supplier for many customers.

Stable and Abundant Fiber Supply. There is a significant amount of high-quality fiber within a close radius of each of our pulp mills. This fiber supply, combined with our purchasing power, provides us with an ability to enter into contracts which have relatively stable prices and volumes.

Strategy

Our corporate strategy is to create shareholder value by focusing on the expansion of our asset and earnings base through organic growth and acquisitions primarily in Europe and North America. We pursue organic growth through active management and targeted capital expenditures designed to produce a high return by increasing production, reducing costs and improving quality. We seek to acquire interests in companies and assets in the pulp and paper industry and related businesses where we can leverage our experience and expertise in adding value through a focused management approach. Key features of our strategy include:

Focusing on NBSK Market Pulp. We focus on NBSK pulp because it is a premium grade kraft pulp known for its strength and generally obtains the highest price relative to other kraft pulps. Although demand is cyclical, worldwide demand for kraft market pulp has grown at an average of approximately 3% per annum over the last ten years with higher growth rates in certain markets such as eastern Europe and Asia. We do not believe there are any significant new NBSK pulp production capacity increases coming online in the next several years due in part to fiber supply constraints and high capital costs.

Operating Modern, World-Class NBSK Pulp Production Facilities. In order to keep our operating costs as low as possible, with a goal of operating profitably in all market conditions, we only plan to operate large, modern NBSK pulp production facilities. We believe such production facilities provide the best platform to be an efficient, low cost producer of high quality NBSK pulp without the need for significant sustaining capital.

Improving Efficiency and Reducing Operating Costs. We focus on increasing the productivity and operating efficiency of our production facilities through cost reduction initiatives, including targeted capital investments. We seek to make high return capital investments that increase the production and operating efficiency at our production facilities, reduce costs and improve product quality. We also seek to reduce operating costs by better managing certain operating activities at our facilities such as fiber procurement, sales and marketing activities, and we intend to further coordinate these activities at our pulp facilities to realize on potential synergies among them. In particular, we believe there are a number of opportunities to reduce the operating costs, increase production and improve the financial results of the Celgar mill.

Enhancing Customer Relationships. We focus on continually improving our marketing and distribution capabilities to enhance our customer relationships and capitalize on our geographic diversification. We seek to differentiate ourselves from our competitors by consistently delivering high quality products to our customers on a global basis. We intend to coordinate the marketing and distribution activities at our pulp mills to better service our customers.

Acquisition of Celgar Pulp Mill

Overview

On November 22, 2004, we entered into an agreement to acquire substantially all of the assets of Stone Venepal (Celgar) Pulp Inc., referred to as "Celgar", for $210 million, of which $170 million is payable in cash and $40 million is payable in our shares, plus an amount for the defined working capital at the Celgar mill on closing of the Acquisition. The purchase price is subject to certain adjustments and excludes fees and expenses. See "The Acquisition".

The Celgar mill is a modern NBSK pulp mill that produces high quality NBSK pulp. It has an annual production capacity of approximately 430,000 ADMTs, and is located near the city of Castlegar, British Columbia, Canada. Completely rebuilt in the 1990s through an C$850 million modernization and expansion project, the Celgar mill was transformed into a low cost producer of high quality NBSK pulp. In 1998, primarily as a result of the indebtedness incurred by Celgar during the modernization process, its directors assigned it into bankruptcy and KPMG Inc. was appointed trustee in bankruptcy. Immediately thereafter, two senior secured bank lenders of Celgar, being Royal Bank of Canada and National Westminster Bank PLC, appointed KPMG Inc. as the receiver for all of the assets and undertakings of Celgar under their security. KPMG Inc. has operated the Celgar mill as trustee in bankruptcy since that time.

The Celgar mill has a secure supply of high quality wood chips and pulp logs that are purchased from a diverse group of Canadian and U.S. suppliers. The supply of fiber is characterized by a mix of a variety of species (whitewoods and cedar) which allows for production flexibility, custom blending and varied pulp grade mix.

We believe that the pulp produced at the Celgar mill has excellent product characteristics and the mill is a long-established supplier to paper producers in Asia. We also believe that Celgar's NBSK pulp is well recognized in China, having been sold there for over 20 years. The Asian markets show the highest rate of growth in demand for softwood pulp and, with the Celgar mill's history in the region, we believe that we will be well placed to exploit such growth.

The Acquisition is subject to various conditions, including, without limitation, our offering of senior notes under this prospectus supplement, the offering of our shares of beneficial interest and the establishment of new working capital facilities for the Celgar mill and Rosenthal mill and certain regulatory approvals.

Acquisition Rationale

The Acquisition of the Celgar mill reflects our strategy of acquiring world-class market NBSK pulp production capacity on terms below comparable replacement cost where we can use our management focus to enhance operations, improve profitability and create value for our stakeholders. It provides us with several strategic benefits and synergies, including the following:

Enhancing Our Position as a Leading Market NBSK Pulp Producer. The Acquisition will make us one of the largest producers of market NBSK pulp in the world. We will have a consolidated annual production capacity of approximately 1.3 million ADMTs of high quality NBSK pulp from three modern NBSK pulp mills located in Europe and North America. We believe this will improve our service to those larger paper and tissue producing customers who wish to develop purchasing arrangements with pulp suppliers that can service them on a worldwide basis.

Creating Value Through Active Management. We believe we can leverage our management focus and turnaround experience to enhance the Celgar mill's operating performance by improving price realizations, increasing production and reducing production costs. See "The Acquisition Acquisition Opportunities".

Diversifying Our Revenue and Cost Base. In 2003, substantially all of Mercer's revenues resulted from sales in Europe. Approximately 69% of the Celgar mill's sales in 2003 were in Asia, which is the fastest growing market for NBSK pulp imports. The Celgar mill's costs are largely in Canadian dollars, which should reduce our relative exposure to the exchange rate between the U.S. dollar and Euro.

Given our management team's experience in converting and optimizing the Rosenthal mill, constructing the Stendal mill and starting up these large scale NBSK pulp mills, we believe we are well positioned to integrate the Celgar mill into our operations and to improve its operating and financial performance over time. We have identified teams of individuals in our organization, at the Celgar mill and from our consulting engineers that, upon the closing of the Acquisition, will initiate the process of integrating the Celgar mill and enhancing its operations.

Acquisition Opportunities

Although the Celgar mill is a modern facility that has generally been well maintained, it has been operated by a trustee in bankruptcy since 1998. As a result, we believe the Celgar mill has not performed at its full potential and that there are a number of opportunities to enhance its performance. Although we will not know the full potential until we control the Celgar mill, we are currently targeting C$25 million in annual operating margin improvements over a three-year period, based on current pricing levels. This is expected to be achieved by capitalizing on the following opportunities:

Improving Price Realizations. We understand that, in 2003, the Celgar mill's pulp price realizations were approximately C$38 per ADMT below the average for NBSK pulp mills in British Columbia, Canada. We believe this resulted from the mill's current sales arrangements which rely solely on third party agents, its product classification and a history of inconsistent production. We intend to have our existing sales force take over responsibility for supervising and managing agent sales and perform some of its sales functions directly on a coordinated global basis with our Rosenthal and Stendal mills over time. We also intend to reduce the amount of pulp sold at a discount in the spot market by adding to the number of grades of pulp marketed by the mill and more effectively matching it with customer requirements and improving the mill's pulp brightness consistency through a planned strategic capital project. We plan to eliminate the price realization discount incurred by the Celgar mill in comparison to other NBSK pulp mills in British Columbia, Canada, over time. See "The Acquisition Acquisition Opportunities".

Increasing Production. We, in conjunction with our consulting engineers, have identified certain high return capital projects that we believe can increase the production of the Celgar mill, along with lowering its operating costs and improving the mill's reliability. Through these identified strategic capital projects, along with other enhancements and debottlenecking initiatives, we plan to increase the Celgar mill's production capacity to approximately 470,000 ADMTs over time.

Lowering Production Costs. We believe that we can reduce the Celgar mill's production costs by improving its operating consistency and reliability. We plan to achieve these improvements through certain strategic capital projects, as well as revising the mill's approach to maintenance management through a greater focus on preventative maintenance, such as we conduct at our Rosenthal mill. We believe these initiatives will reduce costs, including chemical and energy costs, at the Celgar mill.

We estimate the aggregate amount to be spent on the foregoing capital projects to be approximately C$25 million over a three-year period.

The Financings

In conjunction with the Acquisition, we are also offering shares of beneficial interest concurrently with this offering. We intend to offer approximately 9.4 million shares of beneficial interest for estimated net proceeds, before expenses, of approximately $75.8 million, assuming no exercise of the over-allotment option. The net proceeds from this offering, the net proceeds from the concurrent offering of our shares of beneficial interest and cash on hand will be utilized to pay the cash portion of the purchase price of the Acquisition, the amount for the defined working capital of the Celgar mill on closing of the Acquisition, the transaction costs of the Acquisition and to refinance all of the bank indebtedness of our Rosenthal mill (€150.2 million or $186.5 million as at September 30, 2004, net of restricted cash of €28.5 million or $35.4 million). The offering of our shares of beneficial interest will be conducted as a separate public offering by means of a separate prospectus supplement. In this prospectus supplement, we refer to our offering of the senior notes as the "Senior Note Offering" and the offering of our shares of beneficial interest as the "Share Offering". The completion of the Senior Note Offering and the Share Offering are contingent upon each other. Both such offerings are contingent upon the satisfaction or waiver of all conditions relating to the Acquisition other than the condition relating to the financings.

Effective upon the completion of the Acquisition, we intend to establish a new revolving working capital facility for the Rosenthal mill in the amount of €40 million with an initial term of five years and for the Celgar mill in the amount of $30 million with an initial term of one year which, if not renewed, will convert to a one year term loan. In this prospectus supplement, we refer to the Share Offering, the Senior Note Offering and the two new revolving working capital facilities as the "Financings". See "The Financings", "The Acquisition" and "Description of Certain Indebtedness New Working Capital Facilities".

Corporate Structure

Substantially all of our operations are conducted through subsidiaries. Our operations at the Stendal mill are conducted through Stendal, our operations at the Rosenthal mill are conducted through Rosenthal, our operations at the Celgar mill will be conducted through a wholly owned subsidiary and our paper operations are conducted through our wholly owned subsidiary, Dresden. Stendal and Dresden will be designated as unrestricted subsidiaries under the indenture governing the notes. As a result, these subsidiaries, their assets, liabilities and results of operations will not be part of a restricted group subject to the restrictive covenants of the indenture. We have presented unaudited pro forma financial information of our restricted group in this prospectus supplement to show the effect of excluding the assets, liabilities and results of operations of the unrestricted subsidiaries from the restricted group.

Organizational Chart

The following chart sets out our directly and indirectly owned principal operating subsidiaries, their jurisdictions of organization and their principal activities:

(1) Certain wholly owned intermediate holding companies are not shown.

Corporate Information

Mercer is a business trust organized under the laws of the State of Washington in 1968. Under Washington law, shareholders of a business trust have the same limited liability as shareholders of a corporation. Our operations are located primarily in Germany and, following the Acquisition, western Canada. We maintain offices at 14900 Interurban Avenue South, Suite 282, Seattle, Washington, USA 98168, and the telephone number is (206) 674-4639. We also maintain an office at Suite 2840, P.O. Box 11576, 650 West Georgia Street, Vancouver, British Columbia, Canada V6B 4N8 and the telephone number is (604) 684-1099.

The Offering

Issuer	Mercer International Inc.
Securities Offered	$310,000,000 aggregate principal amount of 9.25% senior unsecured notes due 2013.
Offering Price	100% of the principal amount of notes plus accrued interest, if any, from February 14, 2005.
Maturity	The notes will mature on February 15, 2013.
Interest Payment Date	Interest will be payable in arrears on February 15 and August 15 of each year the notes are outstanding, beginning on August 15, 2005.
Ranking	The notes are our senior unsecured obligations. Accordingly, the notes will rank:
	effectively junior in right of payment to all our existing and future secured indebtedness and all indebtedness and liabilities of our subsidiaries;
	equal in right of payment with all of our existing and future unsecured senior indebtedness; and
	senior in right of payment to our 8.5% Convertible Senior Subordinated Notes due 2010 and any future subordinated indebtedness.
Optional Redemption	We may redeem the notes, in whole or in part, on or after February 15, 2009, at the applicable redemption prices described under "Description of the Notes Optional Redemption", plus accrued and unpaid interest, if any, to the redemption date. In certain circumstances, we may also redeem up to 35% of the aggregate principal amount of the notes at any time prior to February 15, 2008 at a redemption price of 109.25% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date with the net cash proceeds of certain equity offerings. See "Description of the Notes Optional Redemption".
Covenants of the Indenture	We will issue the notes under an indenture which will, among other things, restrict our ability and the ability of our restricted subsidiaries to, among other things:
	incur additional indebtedness or issue preferred stock;
	pay dividends or make other distributions to our stockholders;
	purchase or redeem capital stock or subordinated indebtedness;
	make investments;
	create liens and enter into sale and leaseback transactions;
	incur restrictions on the ability of our restricted subsidiaries to pay dividends or make other payments to us;
	sell assets;

	consolidate or merge with or into other companies or transfer all or substantially all of our assets; and
	engage in transactions with affiliates.
	These limitations will be subject to a number of important qualifications and exceptions. See "Description of the Notes Covenants".
Change in control	Upon certain changes in control, each holder of the notes may require us to repurchase some or all of its notes 30 business days after the occurrence of the change in control at a purchase price equal to the principal amount of the notes plus accrued and unpaid interest, if any, to the date of purchase. See "Description of the Notes Purchase of Notes at the Option of Holders Upon a Change in Control".
Form of the notes	The notes will be issued in book-entry form and will be represented by one or more global securities deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company, or "DTC".
Use of Proceeds	We estimate the net proceeds from the offering of senior notes, after deducting fees and expenses, to be approximately $300.5 million. In conjunction with the Acquisition, we are also offering approximately 9.4 million shares of beneficial interest for estimated net proceeds, before expenses, of approximately $75.8 million (approximately $87.2 million if the underwriters exercise their over-allotment option in full). The net proceeds from this offering, the net proceeds from the concurrent Share Offering and cash on hand will be utilized to pay the cash portion of the purchase price of the Acquisition, the amount for the defined working capital at the Celgar mill on closing of the Acquisition, the transaction costs of the Acquisition and to refinance all of the net bank indebtedness of our Rosenthal pulp mill.
	A portion of the proceeds from the Acquisition will be disbursed by KPMG Inc. to Royal Bank of Canada on account of its prior existing senior secured loans to Celgar. Royal Bank of Canada is the indirect parent of RBC Capital Markets Corporation, one of the underwriters of this offering.
	See "Use of Proceeds", "The Financings", "Description of the Notes" and "Description of Certain Indebtedness New Working Capital Facilities" for more information.
Risk Factors	See "Risk Factors" and other information included or incorporated by reference in this prospectus supplement for a discussion of factors you should consider carefully before deciding to invest in the senior notes offered under this prospectus supplement.

Summary Historical Consolidated Financial Data

The following tables set forth Mercer's summary historical consolidated financial data and certain operating data relating to Celgar as at and for the periods indicated. The following summary historical consolidated financial data should be read in conjunction with the financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" of both Mercer and Celgar included elsewhere in this prospectus supplement. The operating data relating to Celgar reflects its operations prior to the Acquisition when Celgar was operating under management of a trustee in bankruptcy under Canadian bankruptcy law.

The summary historical financial data for Mercer as at and for the four years ended December 31, 2003 presented below is derived from Mercer's audited consolidated financial statements. The summary historical financial data for Mercer as at and for the nine months ended September 30, 2003 and 2004 presented below is derived from Mercer's unaudited consolidated financial statements and includes, in the opinion of our management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly this unaudited interim financial data. The results for any interim period are not necessarily indicative of the results for an entire fiscal year.

Effective January 1, 2002, we changed our reporting currency from the U.S. dollar to the Euro. The following summary historical financial data relating to Mercer for the periods prior to the year ended December 31, 2002 has been restated in Euros and reclassified to conform with the current year's presentation.

	Year Ended December 31,				Nine Months Ended September 30,	
	2000	2001[1]	2002[1]	2003	2003	2004
					(unaudited)	
	(in thousands, except for ratios)					
Statement of Operations Data:						
Revenues	€ 258,883	€ 216,447	€ 239,132	€ 194,556	€ 144,136	€ 153,868
Cost of sales	193,704	184,679	213,463	179,690	134,226	133,642
Gross profit	65,179	31,768	25,669	14,866	9,910	20,226
Income (loss) from operations	49,665	13,332	(1,145)	(4,541)	(2,519)	(7,625)
Interest expense	15,198	16,170	13,753	11,523	6,887	9,554
Income (loss) before income taxes and minority interest	32,130	(2,740)	(17,551)	(6,068)	(17,446)	(16,577)
Income (loss) before minority interest	32,013	(2,823)	(17,287)	(9,240)	(17,672)	(16,540)
Minority interest			10,965	5,647	8,499	3,936
Net income (loss)	32,013	(2,823)	(6,322)	(3,593)	(9,173)	(12,604)
Other Data:						
Net cash from (used in) operating activities	€ 43,395	€ 30,364	€ 40,446	€ 31,440	€ 6,969	€ (1,185)
Depreciation and amortization[2]	€ 24,046	€ 22,966	€ 25,614	€ 24,105	€ 18,135	€ 17,217
Capital expenditures[3]	€ 27,028	€ 10,097	€ 13,800	€ 14,647	€ 9,485	€ 6,611
Operating EBITDA[4]	€ 73,711	€ 36,298	€ 24,469	€ 19,564	€ 15,616	€ 15,592
Ratio of earnings to fixed charges[5]	3.11	0.83(6)	(6)	0.32(6)	(6)	(6)

	As at December 31, 2000	2001	2002	2003	As at September 30, 2004 (unaudited)
	(in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	€ 19,689	€ 11,741	€ 30,261	€ 51,993	€ 42,643
Restricted cash	26,775	33,388	48,254	59,367(7)	76,884(7)
Working capital (deficit)	28,388	15,544	6,328	(48,947)(8)	(122,474)(8)
Total assets	429,724	429,593	599,750	935,905(9)	1,192,727
Debt, current portion, and note payable	29,822	25,752	17,138	17,178	16,868
Note payable, construction in progress(10)			15,000		
Debt, Stendal, current portion				80,000	50,000
Debt, less current portion(11)	221,772	216,871	205,393	255,901	234,317
Debt, Stendal,(10) less current portion			146,485	324,238	476,301
Shareholders' equity	133,497	131,613	124,969	132,855	121,595

	Year Ended December 31, 2000	2001	2002	2003	Nine Months Ended September 30, 2003 (unaudited)	2004 (unaudited)
	(in thousands, except for ADMT data)					
Rosenthal Mill Operating Data(12):						
Sales volume (ADMTs)(13)	239,552	285,654	293,607	303,655	221,926	229,462
Productivity (ADMTs produced per day)	736	858	887	898	893	914
Average price realized (per ADMT)(13)	€ 667	€ 512	€ 443	€ 417	€ 416	€ 452
Cash production costs (per ADMT produced)(14)	€ 353	€ 342	€ 312	€ 307	€ 310	€ 300
Income (loss) from operations	€ 49,594	€ 18,610	€ 3,421	€ 1,931	€ (22)	€ 13,004
Depreciation and amortization(7)	€ 20,481	€ 21,422	€ 21,567	€ 21,881	€ 16,311	€ 14,166
Capital expenditures	€ 23,766	€ 7,416	€ 8,426	€ 6,869	€ 3,459	€ 2,924
Celgar Mill Operating Data:	(unaudited)					
Sales volume (ADMTs)	379,375	365,132(15)	400,101	427,860	329,253	292,233
Productivity (ADMTs produced per day)	1,172	1,198(15)	1,155	1,202	1,181	1,209
Average price realized (per ADMT)	C$ 958	C$ 674(15)	C$ 623	C$ 635	C$ 630	C$ 735
Cash production costs (per ADMT produced)(14)	C$ 565	C$ 571(15)	C$ 491	C$ 499	C$ 513	C$ 533
Income (loss) from operations(16)	C$ 64,224	C$ (58,642)(15)	C$ (33,810)	C$ (36,283)	C$ (32,850)	C$ (127,572)(17)
Depreciation and amortization	C$ 38,807	C$ 38,966	C$ 38,932	C$ 39,225	C$ 29,320	C$ 22,833
Capital expenditures	C$ 3,579	C$ 6,262	C$ 3,912	C$ 5,201	C$ 3,985	C$ 2,017

(1)

In December 2001, we acquired Landqart AG, or "Landqart", which operates a specialty paper mill, for approximately $2.7 million. Results from the Landqart mill are not included in Mercer's results for 2001, but are included for 2002. The Landqart mill sold approximately 18,222 ADMTs for €39.7 million in the year ended December 31, 2002. At the end of 2002, we transferred 20% of our interest in Landqart to a Swiss bank and exchanged our remaining 80% interest for an indirect 39% minority interest through a limited partnership on a non-cash basis. As of December 31, 2002, our interest in the Landqart mill is no longer consolidated and is included in our financial results on an equity basis.

(2)

The Stendal pulp mill was substantially complete and ready for its intended use on September 18, 2004. Effective September 18, 2004, we began expensing all of the costs, including interest, related to the Stendal mill and began depreciating it. A depreciation period of 25 years was established based on the expected useful life of the production assets. Depreciation was computed using the straight-line method in accordance with our accounting policies. In conjunction with establishing the depreciation period for the Stendal mill, we also reviewed the useful life of the Rosenthal mill, which resulted in a change in the estimate of its useful life from an initial 15 to 25 years. The change in estimate was reflected effective July 1, 2004. As the Rosenthal mill had been depreciated for approximately 5 years as of July 1, 2004, the change in estimate reflects a remaining depreciable life of approximately 20 years. The total effect of the change in estimate resulted in a decrease of approximately €2.2 million in depreciation, cost of sales and net loss, and a decrease in basic and diluted net loss per share of €0.13 for the nine months ended September 30, 2004.

(3) Excluding capital expenditures of approximately €186.9 million, €399.4 million, €284.1 million and €235.1 million during the years ended December 31, 2002 and 2003 and the nine months ended September 30, 2003 and 2004, respectively, relating to the Stendal project.

(4) Net income (loss) to Operating EBITDA Reconciliation:

	Year Ended December 31,				Nine Months Ended September 30,	
	2000	2001	2002	2003	2003	2004
					(unaudited)	
	(in thousands)					
Net income (loss)	€ 32,013	€ (2,823)	€ (6,322)	€ (3,593)	€ (9,173)	€ (12,604)
Minority interest			(10,965)	(5,647)	(8,499)	(3,936)
Income taxes	117	83	(264)	3,172	226	(37)
Interest expense	15,198	16,170	13,753	11,523	6,887	9,554
Investment income	2,337	(2,872)	(436)	(1,653)	(1,055)	(1,679)
Derivative financial instruments		2,504	6,679	(16,168)	3,604	1,077
Impairment of investments				7,825	5,511	
Other		270	(3,590)		(20)	
Income (loss) from operations	49,665	13,332	(1,145)	(4,541)	(2,519)	(7,625)
Add: Depreciation and amortization	24,046	22,966	25,614	24,105	18,135	17,217
Impairment charge						6,000
Operating EBITDA	€ 73,711	€ 36,298	€ 24,469	€ 19,564	€ 15,616	€ 15,592

In connection with Mercer's results for the third quarter of 2004, our management determined to record and our audit committee approved a non-cash impairment charge of €6.0 million to write-off the carrying value of our Fährbrücke paper mill assets. We determined to take the impairment charge as the Fährbrücke mill has generated weaker than expected returns over a period of time despite changes to its product mix. We do not expect the impairment charge in and of itself to result in future cash expenditures as we intend to continue to operate the Fährbrücke mill.

We define Operating EBITDA for this purpose as income from operations plus depreciation and amortization and non-recurring capital asset impairment charges. Management uses Operating EBITDA as a benchmark measurement of its own operating results and as a benchmark relative to its competitors. Management considers it to be a meaningful supplement to operating and net income as a performance measure primarily because depreciation expense is not an actual cash cost and varies widely from company to company in a manner that management considers largely independent of the underlying cost efficiency of their operating facilities. In addition, we believe it is commonly used by securities analysts, investors and other interested parties to evaluate our financial performance. Operating EBITDA does not reflect the impact of a number of items that affect our net income (loss), including financing costs and the effect of derivative instruments. Management also believes Operating EBITDA facilitates operating performance comparisons from period to period by backing out the significant impact caused by our derivative instruments which are marked to market for each reporting period or settled. Operating EBITDA is not a measure of financial performance under accounting principles generally accepted in the United States, or "GAAP", and should not be considered as an alternative to net income (loss) or income from operations as a measure of performance, nor as an alternative to net cash from operating activities as a measure of liquidity. Operating EBITDA has significant limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Mercer Results of Operations" for a discussion of these limitations. Because of these limitations, Operating EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. See the Statements of Cash Flows included in our consolidated financial statements included elsewhere in this prospectus supplement. Because all companies do not calculate Operating EBITDA in the same manner, Operating EBITDA as calculated by us may differ from Operating EBITDA as calculated by other companies.

(5)

For purposes of computing the ratio of earnings to fixed charges, earnings consist of income before income taxes, minority interest, income (loss) from equity investee and fixed charges. Fixed charges consist of interest expense plus capitalized interest.

(6)

For the years ended December 31, 2001, 2002 and 2003, our deficiency of earnings to fixed charges was €2.7 million, €20.7 million, €19.5 million, respectively. For the nine months ended September 30, 2003 and 2004, our deficiency of earnings to fixed charges was €29.0 million and €43.2 million, respectively.

(7)

As at December 31, 2003, this amount is comprised of €15.2 million for payment of construction in progress costs payable and €19.1 million in a debt service account, relating to construction in progress at the site of the Stendal mill, as well as €25.1 million in a debt service account relating to the Rosenthal mill. As at September 30, 2004, this amount is comprised of €29.3 million for payment of construction costs payable and €19.1 million in a debt service account, both relating to the Stendal project, as well as €28.5 million in a debt service account related to the Rosenthal mill.

(8)

We had a working capital deficit of €48.9 million and €122.5 million at December 31, 2003 and September 30, 2004, respectively, primarily because we had Stendal construction costs payable of €42.8 million and €161.0 million at December 31, 2003 and September 30, 2004, respectively, for which we had not yet drawn down under the Stendal project finance facility and, under our accounting policies, we do not record certain government grants until they are received. The Stendal construction costs will be paid pursuant to the Stendal project finance facility in the ordinary course. At September 30, 2004, we qualified for additional investment grants related to the Stendal mill totaling approximately €65.2 million from the federal and state governments of Germany, which we expect to receive in 2005. Approximately €61.2 million of these grants, when received, will be applied to repay the amounts drawn under the dedicated tranche of the Stendal project finance facility. The grants are not reported in our income and reduce the cost basis of the assets purchased when they are received. We expect to qualify for additional investment grants totaling €23.3 million when such Stendal construction costs have been substantially paid.

(9)

Includes approximately €503.2 million related to properties construction in progress at the site of the Stendal mill as at December 31, 2003.

(10)

Construction of the Stendal mill commenced in August 2002 and was completed substantially on its planned schedule and budget in the third quarter of 2004. As a result, as at September 30, 2004, liabilities relating to the construction of the Stendal mill were no longer classified as construction in progress.

(11)

As at September 30, 2004, this includes €66.4 million aggregate principal amount of 8.5% convertible senior subordinated notes due October 2010, convertible at any time by the holder into our shares of beneficial interest at $7.75 per share.

(12)

Construction of the Stendal Mill was completed in the third quarter of 2004. Although the Stendal mill had approximately 13 days of operations in September 2004, it is currently in the start-up phase. As a result, management believes that the operating data relating to the Stendal mill during the third quarter of 2004 would not provide an accurate representation of the mill's actual operating performance in the future. Accordingly, we have provided only the operating data relating to the Rosenthal mill.

(13)

For external sales only.

(14)

Cost of production per ADMT produced excluding depreciation. Total cash production costs for the nine months ended September 30, 2003 and 2004 may not be comparable on an annualized basis due to the timing of maintenance expenditures.

(15)

The Celgar mill was shut down for approximately 50 days in 2001 for market related reasons.

(16)

Income (loss) from operations includes costs (benefits) relating to a burner misalignment in the lime kiln at the Celgar mill, for which the vendor of the Celgar mill has an insurance claim outstanding, foreign exchange losses (gains) on current receivables and payables and fees paid to KPMG Inc., as receiver and trustee in bankruptcy of Celgar as follows:

	Year Ended December 31,				**Nine Months Ended September 30,**	
	2000	**2001**	**2002**	**2003**	**2003**	**2004**
	(unaudited)				**(unaudited)**	
			(in thousands)			
Lime kiln costs	C$	C$	C$	C$ 3,136	C$ 2,036	C$ 96
Foreign exchange losses (gains)	C$ (1,333)	C$ (1,769)	C$ 792	C$ 5,965	C$ 4,952	C$ 921
Receiver and trustee costs	C$ 1,965	C$ 2,025	C$ 1,812	C$ 1,899	C$ 1,747	C$ 772

See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Celgar".

(17)

As at and for the nine month period ended September 30, 2004, Celgar recorded an impairment charge of C$129.2 million to write-down the carrying value of its property, plant and equipment to the fair value of the assets as a result of the Acquisition.

Summary Unaudited Pro Forma Consolidated Financial Data

The following tables set forth Mercer's summary pro forma consolidated financial data as at and for the periods indicated and is derived from the unaudited pro forma consolidated financial statements included elsewhere in this prospectus supplement. The unaudited pro forma consolidated financial data has been prepared by us and gives pro forma effect to the Financings, the Acquisition, related transactions and the payment of estimated fees and expenses as if they had occurred on September 30, 2004 for the pro forma consolidated balance sheet as at September 30, 2004 and at the beginning of the period for the pro forma consolidated statement of operations for the nine months ended September 30, 2003 and 2004 and the year ended December 31, 2003. The unaudited pro forma restricted group financial data presented below represents the unaudited financial results and condition of the restricted group, which is comprised of Mercer Inc., Rosenthal and our acquisition subsidiary which is acquiring the Celgar mill that will be designated restricted subsidiaries under the indenture governing the notes. Stendal and Dresden and their subsidiaries will be designated unrestricted subsidiaries under the indenture and will not be subject to the restrictive covenants of the indenture. This unaudited pro forma restricted group financial data excludes the effect of consolidation of the ownership and operation of the unrestricted subsidiaries. The unaudited pro forma balance sheet data of the restricted group includes the pro forma effect of the Financings, the Acquisition, related transactions and the payment of estimated fees and expenses and excludes the effect of consolidation of the ownership of the unrestricted subsidiaries. The unaudited pro forma statements of operations data of the restricted group gives effect to the Financings, the Acquisition, related transactions and the payment of estimated fees and expenses as if they occurred at the beginning of each period presented and eliminates the results of operations of the unrestricted subsidiaries that are not included in the consolidated restricted group. Shareholders' equity of the restricted group reflects the net assets of the restricted group.

We have included this pro forma restricted group financial data because we believe it provides investors with helpful information with respect to the financial results of the business and operations that will be subject to restrictive covenants in the indenture governing the notes. The following summary unaudited pro forma consolidated financial data should be read in conjunction with our consolidated financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" of both Mercer and Celgar and the unaudited pro forma consolidated financial statements and the related notes included elsewhere in this prospectus supplement. The pro forma information is presented for illustrative purposes only and does not purport to represent what our actual results of operations or financial position would have been had the matters described above occurred on the date assumed, nor is it necessarily indicative of our future operating results or financial position.

	Pro Forma			Pro Forma Restricted Group		
		Nine Months Ended September 30,			Nine Months Ended September 30,	
	Year Ended Dec. 31, 2003	2003	2004	Year Ended Dec. 31, 2003	2003	2004
		(unaudited)			(unaudited)	
	(in thousands)					
Statement of Operations Data:						
Revenues	€ 365,725	€ 274,681	€ 285,904	€ 310,721	€ 233,390	€ 245,939
Cost of sales	336,921	258,178	245,579	286,521	221,231	204,876
Gross profit	28,804	16,503	40,325	24,200	12,159	41,063
General and administrative	41,833	29,472	34,584	33,024	23,999	23,979
Settlement expenses	1,041	630		1,041	630	
Impairment of capital assets			6,000			
Flooding grants less losses and expenses	957	1,162	(669)			
Income (loss) from operations	(13,113)	(12,437)	(928)	(9,865)	(12,470)	17,084
Interest expense	26,126	18,118	20,901	29,297	21,781	22,521
Investment income	993	542	556	3,704	3,666	1,881
Derivative financial instruments gains (losses)	15,048	(22,306)	491	27,347	(367)	1,293
Impairment of equity method investments	2,255			2,255		
Impairment of available-for-sale securities	5,570	5,511		4,480	4,441	
Foreign exchange gain on term credit facility	14,571	11,654	1,791	14,571	11,654	1,791
Loss before income taxes and minority interest	(16,452)	(46,176)	(18,991)	(275)	(23,739)	(472)
Loss before minority interest	(19,624)	(46,402)	(18,954)	(3,447)	(23,965)	(435)
Minority interest	5,647	8,499	3,936			
Net loss	(13,977)	(37,903)	(15,018)	(3,447)	(23,965)	(435)

	Pro Forma	Pro Forma Restricted Group
	As at September 30, 2004	As at September 30, 2004
	(unaudited)	(unaudited)
	(in thousands)	
Balance Sheet Data:		
Cash and cash equivalents	€ 41,310	€ 35,351
Restricted cash	48,420	
Working capital (deficit)[(1)]	(89,163)	62,870
Total assets	1,369,349	548,964
Debt, current portion, and note payable	1,779	
Debt, Stendal, current portion	50,000	
Debt, less current portion[(2)(3)]	320,373	316,099
Debt, Stendal, less current portion[(4)]	476,301	
Shareholders' equity	214,883	192,590

	Pro Forma			Pro Forma Restricted Group		
		Nine Months Ended September 30,			Nine Months Ended September 30,	
	Year Ended Dec. 31, 2003	2003	2004	Year Ended Dec. 31, 2003	2003	2004
		(unaudited)			(unaudited)	
	(in thousands, except for ratios)					
Other Data:						
Operating EBITDA[5]	€ 22,903	€ 14,631	€ 31,222	€ 24,120	€ 12,799	€ 40,671
Indenture EBITDA[6]	N/A	N/A	N/A	€ 32,975	€ 19,457	€ 43,942
Ratio of earnings to fixed charges[7]	0.31[8]	[8]	0.05[8]	N/A	N/A	N/A

(1) We had a working capital deficit of €122.5 million at September 30, 2004, primarily because we had Stendal construction costs payable of €161.0 million at September 30, 2004 for which we had not yet drawn down under the Stendal project finance facility and, under our accounting policies, we do not record certain government grants until they are received. The Stendal construction costs will be paid pursuant to the Stendal project finance facility in the ordinary course. At September 30, 2004, we qualified for additional investment grants related to the Stendal mill totaling approximately €65.2 million from the federal and state governments of Germany, which we expect to receive in 2005. Approximately €61.2 million of these grants, when received, will be applied to repay the amounts drawn under the dedicated tranche of the Stendal project finance facility. The grants are not reported in our income and reduce the cost basis of the assets purchased when they are received. We expect to qualify for additional investment grants totaling €23.3 million when such Stendal construction costs have been substantially paid.

(2) As at September 30, 2004, this includes €66.4 million aggregate principal amount of 8.5% convertible senior subordinated notes due October 2010, convertible at any time by the holder into our shares of beneficial interest at $7.75 per share.

(3) In addition, Mercer Inc., a member of the restricted group, has guaranteed five credit facilities, aggregating approximately €4.7 million, relating to the paper operations which are operated by an unrestricted subsidiary.

(4) Construction of the Stendal mill commenced in August 2002 and was completed substantially on its planned schedule and budget in the third quarter of 2004. As a result, as at September 30, 2004, liabilities relating to the construction of the Stendal mill were no longer classified as construction in progress.

(5)

Net income (loss) to Operating EBITDA Reconciliation:

	Pro Forma			Pro Forma Restricted Group		
	Year Ended Dec. 31, 2003	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Year Ended Dec. 31, 2003	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2004
		(unaudited)			(unaudited)	
	(in thousands)					
Net loss	€ (13,977)	€ (37,903)	€ (15,018)	€ (3,447)	€ (23,965)	€ (435)
Minority interest	(5,647)	(8,499)	(3,936)			
Income taxes	3,172	226	(37)	3,172	226	(37)
Interest expense	26,126	18,118	20,901	29,297	21,781	22,521
Investment income	(993)	(542)	(556)	(3,704)	(3,666)	(1,881)
Derivative financial instruments	(15,048)	22,306	(491)	(27,347)	367	(1,293)
Impairment of investments	7,825	5,511		6,735	4,441	
Other	(14,571)	(11,654)	(1,791)	(14,571)	(11,654)	(1,791)
Income (loss) from operations	(13,113)	(12,437)	(928)	(9,865)	(12,470)	17,084
Add: Depreciation and amortization	36,016	27,068	26,150	33,985	25,269	23,587
Impairment charge			6,000			
Operating EBITDA	€ 22,903	€ 14,631	€ 31,222	€ 24,120	€ 12,799	€ 40,671

In connection with Mercer's results for the third quarter of 2004, our management determined to record and our audit committee approved a non-cash impairment charge of €6.0 million to write-off the carrying value of our Fährbrücke paper mill assets. We determined to take the impairment charge as the Fährbrücke mill has generated weaker than expected returns over a period of time despite changes to its product mix. We do not expect the impairment charge in and of itself to result in future cash expenditures as we intend to continue to operate the Fährbrücke mill.

We define Operating EBITDA for this purpose as income from operations plus depreciation and amortization and non-recurring capital asset impairment charges. Management uses Operating EBITDA as a benchmark measurement of its own operating results and as a benchmark relative to its competitors. Management considers it to be a meaningful supplement to operating and net income as a performance measure primarily because depreciation expense is not an actual cash cost and varies widely from company to company in a manner that management considers largely independent of the underlying cost efficiency of their operating facilities. In addition, we believe it is commonly used by securities analysts, investors and other interested parties to evaluate our financial performance. Operating EBITDA does not reflect the impact of a number of items that affect our net income (loss), including financing costs and the effect of derivative instruments. Management also believes Operating EBITDA facilitates operating performance comparisons from period to period by backing out the significant impact caused by our derivative instruments which are marked