MERCER INTERNATIONAL INC
Form 10-K405
April 01, 2002

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________________ to ________________

COMMISSION FILE NO.: 0-9409

MERCER INTERNATIONAL INC.
EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER

WASHINGTON	91-6087550
STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION	IRS EMPLOYER IDENTIFICATION NO.

SCHUTZENGASSE 32, ZURICH, SWITZERLAND, 8001
ADDRESS OF OFFICE

Registrant's telephone number including area code: 41(43) 344 7070

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act:

SHARES OF BENEFICIAL INTEREST, $1.00 PAR VALUE
PREFERRED STOCK PURCHASE RIGHTS
TITLE OF CLASS

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the SECURITIES EXCHANGE ACT OF 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes /X/ No / /

Indicate by check mark if disclosure of delinquent filers pursuant to Rule 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. /X/

The aggregate market value of the Registrant's voting stock held by non-affiliates of the Registrant as of March 26, 2002 was approximately $64,231,902. The last reported sale price of the common shares of beneficial interest on the NASDAQ Stock Market's National Market on March 26, 2002 was $7.00 per share.

As of March 26, 2002, the Registrant had 16,794,899 common shares of beneficial interest, $1.00 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Proxy Statement for the Annual Meeting of Shareholders to be held July 11, 2002 is incorporated by reference in Part III hereof. Certain exhibits in Part IV of this Form 10-K are incorporated by reference from prior filings made by the Registrant under the SECURITIES ACT OF 1933, as amended, and the SECURITIES EXCHANGE ACT OF 1934, as amended.

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FORWARD-LOOKING STATEMENTS

Statements in this report, to the extent they are not based on historical events, constitute forward-looking statements. Forward-looking statements include, without limitation, statements regarding the outlook for future operations, forecasts of future costs and expenditures, evaluation of market conditions, the outcome of legal proceedings, the adequacy of reserves, or other business plans. Investors are cautioned that forward-looking statements are subject to an inherent risk that actual results may vary materially from those described herein. Factors that may result in such variance, in addition to those accompanying the forward-looking statements, include changes in general economic and business conditions, cyclical changes in supply and demand for pulp and paper products, governmental regulations, the ability of management to execute its business plan, product prices, interest rates, and other economic conditions; actions by competitors; changing weather conditions and other natural phenomena; actions by government authorities; uncertainties associated with legal proceedings; technological development; future decisions by management in response to changing conditions; and misjudgments in the course of preparing forward-looking statements.

PART I

ITEM 1. BUSINESS

THE COMPANY

Mercer International Inc. is a Massachusetts trust organized under the laws of the State of Washington in 1968. Under Washington law, shareholders of a Massachusetts trust have the same limited liability as shareholders of a corporation.

In this document: (i) unless the context otherwise requires, the "Company" or "Mercer" refers to Mercer International Inc. and its subsidiaries; (ii) a "tonne" is one metric ton or 2,204.6 pounds; (iii) "Euro" refers to Euros, the lawful currency of the European Economic Union, and "DM" refers to deutschmarks, the lawful currency of Germany prior to the formal introduction of the Euro in 2002; and (iv) foreign assets and liabilities denominated in Euro have been translated to U.S. dollars at the December 31, 2001 rate of exchange of Euro 1.1227 to $1.00, and revenues and expenses denominated in Euro have been translated to U.S. dollars at the average rate of exchange throughout 2001 of Euro 1.1172 to $1.00.

Mercer is a pulp and paper company with operations primarily located in Germany and Switzerland. The Company's pulp operations are conducted through Spezialpapierfabrik Blankenstein GmbH (formerly called Zellstoff-und Papierfabrik Rosenthal GmbH) and its affiliates ("SPB") and its paper operations are conducted through Dresden Papier GmbH (formerly called Dresden Papier AG) and its affiliates ("DPAG"), all of which are wholly-owned subsidiaries of Mercer. In December 2001, the Company acquired all of the shares of Landqart AG ("Landqart"), a specialty paper producer located in Switzerland, for approximately $2.7 million.

The Company currently employs approximately 975 people. Its manufacturing plants consist of a pulp mill (the "Pulp mill") with an annual production capacity of approximately 295,000 tonnes that produces softwood kraft (sulphate) pulp and three paper mills (the "Paper mills") with an aggregate annual production capacity of approximately 105,500 tonnes that produce printing and specialty papers.

In 1999, the Company completed a major capital project which converted the Pulp mill from the production of sulphite pulp to kraft pulp and increased its annual production capacity from approximately 160,000 tonnes to approximately 280,000 tonnes (the "Conversion Project"). Through subsequent minor capital investments and efficiency improvements, the annual production capacity at the Pulp mill has increased to 295,000 tonnes. As a result of the Conversion Project, the Pulp mill is the only market kraft pulp manufacturing facility in Germany. The aggregate cost of the Conversion Project was approximately $385.7 million. See "Business -- Pulp Mill Conversion Project".

Over the last five years, the Company has expended an aggregate of approximately $423.8 million on capital investments on plant upgrades at its mills to improve efficiency, reduce effluent discharges and emissions and modernize its manufacturing plants. Approximately $104.9 million of such capital investments were financed through non-refundable government grants.

During such period, the Company implemented a strategy to focus on its core operations and rationalize assets that either were not part of such core operations or did not provide the desired level of return. As a result, in 1998, the Company effected the Conversion Project, as well as sold its packaging paper mill in Greiz, Germany and its carton paper mill in Raschau, Germany which had been leased to another party since 1995. In the fourth quarter of 1999, the Company took a special charge of $19.1 million relating to its paper operations, as it intended to pursue strategic alternatives for certain of its Paper mills. Effective June 2000, the Company sold its packaging paper mill located in Trebsen, Germany. As a result, the Company no longer produces packaging papers. Effective November 2000, the Company sold its printing paper mill located in

Hainsberg, Germany. The Company used proceeds resulting from such dispositions to reduce indebtedness and fund working capital and capital expenditures. Effective

December 2001, the Company acquired Landqart, a Swiss company that operates a paper mill in Graubunden, Switzerland that produces specialty paper. Pursuant to this acquisition, the annual production capacity of the Company's paper operations increased from 85,000 tonnes to 105,500 tonnes.

The markets for pulp and paper are highly competitive and sensitive to cyclical changes in industry capacity, the economy, interest rates and fluctuations in foreign currency exchange rates, all of which can have a significant influence on the Company's selling prices and overall profitability. The Company competes with European and international pulp and paper firms ranging from very large integrated firms to smaller specialty firms. Areas of competition include price, innovation, quality and service. The Company's competitive position is influenced by the availability and cost of its raw materials, energy and labour, and its plant efficiencies and productivity in relation to its competitors.

The corporate strategy of the Company is to expand its asset and earnings base both in Europe and internationally through the acquisition of interests in companies and assets in the pulp and paper and related businesses. Effective January 2000, the Company agreed, subject to certain conditions, to acquire a controlling interest in a "greenfield" project to construct and operate a 550,000 tonne softwood kraft pulp mill (the "Stendal mill") to be located at Stendal, Germany (the "Stendal Project"). The Company's participation in the Stendal Project is subject to, among other things, completion of financing for the project. The Stendal Project is currently estimated to cost approximately Euro 884.2 million ($787.6 million) and to be completed by the end of 2004. See "Business -- Stendal Pulp Mill Project".

PRODUCTS

The Company manufactures and sells softwood kraft pulp and two primary classes of paper products. The Company's products are produced from both virgin fibre, being wood chips, pulpwood and chemical woodfree pulp, and recycled fibre, being waste paper. The Company's manufacturing plants are located in Germany in the States of Saxony and Thuringia and in Graubunden, Switzerland. The Pulp mill is situated near the town of Blankenstein, Germany and has an annual production capacity of approximately 295,000 tonnes. The Paper mills are located at Heidenau and Fahrbrucke, Germany and Landqart, Switzerland and have an aggregate annual production capacity of approximately 105,500 tonnes.

The following table sets out the Company's primary classes of paper products and the mills at which they are produced:

PAPER PRODUCT CLASS	MILL	PRODUCT DESCRIPTION
Specialty Paper........................	Heidenau	Coated and uncoated wallpaper
	Fahrbrucke	Greaseproof paper
	Landqart	Banknote and security paper
Printing Paper.........................	Fahrbrucke	Woodfree printing and writing paper

Pulp is generally classified according to fibre type, the process used and the degree to which it is bleached. In December 1999, the Company completed the Conversion Project to permit the Pulp mill to produce kraft pulp. The kraft pulp now produced at the Pulp mill is a long-fibred softwood pulp produced by a sulphate cooking process and manufactured primarily from wood chips and pulpwood. Kraft pulp is noted for its strength, whiteness and absorption properties and is used to produce a variety of products, including lightweight publication grades of paper, tissues and paper related products. A number of factors beyond economic supply and demand have an impact on the market for chemical pulp, including requirements for pulp bleached without any chlorine compounds or without the use of chlorine gas. The Pulp mill has the capability of producing both "totally chlorine free" ("TCF") and "elemental-chlorine free" ("ECF") pulp. TCF pulp is bleached to a high brightness using oxygen and hydrogen peroxide as bleaching agents, whereas ECF pulp is produced by substituting chlorine dioxide for chlorine gas in the

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bleaching process. This substitution virtually eliminates complex chloro-organic compounds from mill effluent.

SALES, MARKETING AND DISTRIBUTION

The Company's paper sales and marketing operations focus primarily on western European countries and are responsible for the majority of the Company's paper sales. In 2001, paper sales conducted through agents were approximately 30% of total paper sales, compared to approximately 29% in 2000 and 32% in 1999. The majority of the Company's paper products are sold to paper converters, printers and wallpaper manufacturers.

Most of the Company's kraft pulp sales in Western Europe are handled through a sales agency agreement with Oy Metsa Botnia Ab ("Metsa"), a member of the M-Real Group of Finland. Such sales comprised approximately 37% of the Company's total pulp sales in 2001 and are currently expected to comprise approximately 50-55% over the next two years. Sales and marketing in other countries are conducted by the Company's own sales staff through other independent agents. The Company's kraft pulp is sold principally to tissue and paper mills.

Pulp and paper sales are made on terms customary to the industry. At December 31, 2001, there were no material payment delinquencies. The Company's products are delivered to market by truck, rail and ship.

The distribution of the Company's sales by volume, product class and geographic area is set out in the following table for the periods indicated:

	YEARS ENDED DECEMBER 31,		
	2001	2000	1999
		(TONNES)	
SALES BY VOLUME			
Papers			
Packaging Papers	--	29,111(1)	68,615
Specialty Papers	40,437(2)	41,422	36,518
Printing Papers	26,815	53,552(3)	57,714
Total Papers	67,252	124,085	162,847
Pulp	285,654	239,552	94,523

Total(5)	352,906	363,637	257,370

	YEARS ENDED DECEMBER 31,		
	2001	2000	1999
		(IN THOUSANDS)	
SALES BY PRODUCT CLASS			
Papers			
Packaging Papers	$ --	$ 8,758(1)	$ 17,822
Specialty Papers	32,187(2)	33,112	29,658
Printing Papers	20,406	36,708(3)	38,010
Total Papers	52,593	78,578	85,490
Pulp	130,903	147,048	40,080
Total(5)	$183,496	$225,626	$125,570
SALES BY GEOGRAPHIC AREA			
Germany	$ 84,574	$ 95,376	$ 72,129
European Union(6)	64,406	76,827	47,498
Eastern Europe and Other	34,516	53,423	5,943
Total(5)	$183,496	$225,626	$125,570

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(1) The Company sold its packaging paper mill in Trebsen effective June 2000. As a result, the Company no longer produces packaging papers. Paper sales from the Trebsen mill prior to its sale are included in the Company's results of operations for 2000. The Trebsen mill sold approximately 29,111 tonnes of packaging paper for approximately $8.8 million in 2000.

(2) The Company acquired the specialty paper mill in Landqart in December 2001. These amounts do not include the results from the Landqart mill. The Landqart mill sold approximately 18,613 tonnes of specialty paper for approximately $38.7 million in 2001.

(3) The Company sold its printing paper mill in Hainsberg effective November 2000. Paper sales from the Hainsberg mill prior to its sale are included in the Company's results of operations for 2000. The Hainsberg mill sold approximately 24,964 tonnes of printing paper for approximately $15.5 million in 2000.

(4) The Company converted its Pulp mill from the production of sulphite pulp to the production of kraft pulp in 1999 and took approximately 4 1/2 months of downtime.

(5) Excluding intercompany sales of 10,447, 1,893 and 201 tonnes of pulp in 2001, 2000 and 1999, respectively.

(6) Not including Germany.

The following charts illustrate the geographic distribution of the Company's sales for the periods indicated:

Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999
[LOGO]	[LOGO]	[LOGO]

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(1) Not including Germany.

In 2001 two customers accounted for approximately 22%, and in 2000 one customer accounted for approximately 27%, of the Company's pulp sales, while in 1999 no single customer accounted for more than 10% of the Company's pulp sales. No single customer accounted for more than 10% of the Company's paper sales in 2001, 2000 or 1999. The Company's paper sales are not dependent upon a single customer or upon a concentrated group of major customers and the loss of any one customer would not have a material adverse effect on the Company. The Company's pulp sales are conducted primarily through Metsa, which is a member of the M-Real Group of Finland. The M-Real Group operates a number of different paper mills. As the Company's pulp is delivered to a number of different paper mills of the M-Real Group and its affiliates, pulp sales are not dependent upon the activities of any single paper operation. The loss of the M-Real Group as a customer may have a short-term material adverse effect on the Company.

FIBRE

The fibre used by the Paper mills consists of waste paper (recycled paper) and pulp, which are cyclical in both price and supply. The cost of such fibre is primarily affected by the supply and demand for paper and pulp. Approximately 25% of the fibre used in the Company's paper operations consists of waste paper. Germany has extensive waste paper recycling and collection laws which result in a readily available supply. The cost of lower grade waste paper is currently relatively low in comparison to virgin pulp fibre. The remaining 75% of the fibre is made up of market pulps and chemical additives, both of which are available at market prices from various suppliers throughout Europe. In 2001, the Paper mills consumed approximately 15,270 tonnes of waste paper.

The fibre used by the Pulp mill consists of wood chips produced by local sawmills and pulpwood, which are cyclical in both price and supply. Wood chips are small pieces of wood used to make pulp and are a product of either wood waste from sawmills or pulpwood processed especially for this purpose. Pulpwood consists of lower quality logs not used in the production of lumber. The costs of wood chips and pulpwood are primarily affected by the supply and demand for lumber. The Pulp mill is situated in a region which offers a stable fibre supply. The wood chips are procured from approximately 60 sawmills located in the States of Bavaria and Thuringia within a 150 kilometre radius of the Pulp mill. Within this radius, the Pulp mill is by far the largest consumer of wood chips. Wood chips are normally procured from sawmills pursuant to one year supply contracts, which provide for quarterly price adjustments. Pulpwood is partly procured from the state forest agency in Thuringia on a contract basis and partly from private holders. The Pulp mill's fibre requirements are handled and procured primarily by SCA Holz, which is the largest wood procurement company in Germany and handles a total volume of approximately five million cubic metres

per year. In 2001, the Pulp mill consumed approximately 1,585,791 cubic metres of fibre comprised of approximately 1,098,187 cubic metres of wood chips and 487,604 cubic metres of pulpwood.

The Conversion Project increased the annual production capacity of the Pulp mill from approximately 160,000 tonnes to the current approximately 295,000 tonnes. The additional fibre necessary for the increase in production has been met primarily from the Company's existing fibre sources. In late 1998, to ensure an adequate supply of wood chips at the start-up of the Pulp mill upon completion of the Conversion Project, the Company entered into a fixed price contract to secure approximately 35% of the Pulp mill's requirements for wood chips to the end of 2002. While fibre costs and supply are subject to cyclical changes, the Company expects that it will be able to obtain an adequate supply of fibre on reasonably satisfactory terms due to the location of the Pulp mill and its long-term relationships with suppliers.

CAPITAL EXPENDITURES AND GOVERNMENT FINANCING

In 2001, the Company continued with its capital investment programs designed to improve efficiency, reduce effluent discharges and emissions and increase production capacity at its manufacturing plants. Such capital investments were partially financed through non-refundable grants made available by German federal and state governments and were used to offset certain wastewater fees.

Under legislation adopted by the federal and certain state governments of Germany, non-refundable grants are provided to qualifying businesses operating in eastern Germany to finance capital investments. The grants are made to encourage investment and job creation. Pursuant to the current terms of such grants, federal and state governments will provide funding for up to 35% of the cost of qualified investments. These grants are not recorded in the income of the Company, but instead reduce the cost basis of the assets purchased by the proceeds thereof.

Loan guarantees are also available from German federal and state governments for up to 80% of the loan for qualifying investments. These guarantees are provided by such federal and state governments to assist qualifying businesses with financing capital investments. The guarantees permit such businesses to obtain term loans at below market interest rates. In addition, subsidized interest rate loans are also available from public financial institutions in Germany, which provide loans at below market interest rates for qualified investments.

The capital investments made by the Company to reduce effluent discharges have been applied to offset wastewater fees that would otherwise be payable. At December 31, 2001, the aggregate wastewater fees saved by the Company over the last five years as a result of environmental capital expenditures were approximately $16.9 million. See "Business -- Environmental".

The following table sets out the Company's capital expenditures and non-refundable grants recorded for the periods indicated:

YEARS ENDED DECEMBER 31,

	TOTAL	2001	2000	1999	1998	
			(IN THOUSANDS)			
Capital expenditures...............	$423,777(1)	$9,038	$24,884	$289,110	$85,954	$
Non-refundable grants..............	$104,935	$2,193	$50,967	$ 33,927	$16,125	$

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(1) The Company spent an aggregate of approximately $385.7 million on the Conversion Project. Over the last five years, aggregate wastewater fees saved by the Company as a result of environmental capital expenditures were approximately $16.9 million.

Capital investments in 2001 included a variety of smaller projects, none of which exceeded $1.0 million. The largest projects were the replacement of a gas turbine at the Fahrbrucke mill and the

addition of a new flotation plant at the Heidenau mill, at a cost of approximately $0.8 million each. The Company anticipates that capital investments at its Paper mills for maintenance and environmental projects will total approximately $9.8 million in 2002. The Company is reviewing a number of strategic initiatives designed to upgrade the product mix at the Paper mills and enhance returns.

Pursuant to the terms of their acquisition from Bundesanstalt fur Vereinigungsbedingte Sonderaufgaben ("BVS"), the privatization agency of the German government, the Company's pulp and paper operations in Germany were obligated, among other things, to make a predetermined amount of capital investments and maintain certain employment levels for specified periods. The obligations in respect of the Company's pulp operations expired on December 31, 1998 and the obligations in respect of the Company's paper operations in Germany expired in 2000.

PULP MILL CONVERSION PROJECT

In December 1999, the Company completed the Conversion Project to convert the Pulp mill to the production of kraft pulp and increase its annual production capacity to approximately 280,000 tonnes. Through subsequent minor capital investments and efficiency improvements, the annual production capacity at the Pulp mill has increased to 295,000 tonnes. The Conversion Project has also substantially reduced effluent and sulphur dioxide emissions and reduced energy costs. In connection with the Conversion Project, the Pulp mill took approximately 4 1/2 months of downtime commencing in August 1999 and operations were successfully re-started in December 1999. The Pulp mill ramped up production in early 2000 and has operated in excess of 90% of capacity since the beginning of the second quarter of 2000.

The Pulp mill is the only producer of market kraft pulp in Germany. Kraft pulp is primarily used in the production of paper, tissues and paper related products. Kraft pulp is the main type of pulp imported and sold in the European market and Germany is the most significant pulp market in Europe. As a result, the majority of the Company's kraft pulp production is sold in the European market, with Germany comprising a significant portion of sales.

The aggregate costs of the Conversion Project, including project financing, capitalized interest of approximately $15.2 million and related costs and an amount for contingencies, were approximately $385.7 million. The Conversion Project was financed through a combination of a project loan, non-refundable governmental grants, governmental assistance and guarantees for long-term project financing and an equity investment by the Company.

In 1998, SPB entered into a project loan agreement, as amended (the "Project Loan Agreement") having a 15 year term with a German bank (the "Bank") and other syndicated lenders (the "Lenders"), in the aggregate amount of Euro 259.7 million (DM 508.0 million or $231.3 million) (the "Loan Facility"), to finance the Conversion Project. The following summary of the material provisions of the Project Loan Agreement is not complete and such provisions, including definitions of certain terms, are qualified by reference to the Project Loan Agreement and the applicable amendment agreements.

The Loan Facility of Euro 259.7 million (DM 508.0 million or $231.3 million) included a main facility of Euro 231.6 million (DM 453.0 million or $206.3 million) for costs and expenses associated with the project (the "General Tranche"), a working capital facility (the "Working Capital Tranche") of Euro 14.3 million (DM 28.0 million or $12.8 million) which could also be utilized by SPB for project costs, and a cost overrun facility (the "Cost Overrun Tranche") of Euro 13.8 million (DM 27.0 million or $12.3 million). The Cost Overrun Tranche was never utilized by SPB. As a result of the Conversion Project being completed, SPB agreed in December 2000 in amendment agreement No. 4 (the "Amendment Agreement") to the Project Loan Agreement, which was approved in the first quarter of 2001, not to draw down the Cost Overrun Tranche.

Pursuant to the Project Loan Agreement, SPB deposited Euro 12.8 million (DM 25.0 million or $11.4 million) into a restricted account (the "Overrun Account") with the Lenders in 1998 to fund cost

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overruns, if any, for the project. Pursuant to the Amendment Agreement, the Lenders agreed to release SPB from its fixed-term deposit, if and to the extent that SPB makes available this amount for the purposes of financing a portion of the required balance on the debt service reserve account (the "Debt Service Reserve Account") pledged in favour of the Lenders under the Project Loan Agreement. SPB's obligation to provide further equity of up to Euro 12.8 million (DM 25.0 million or $11.4 million) when needed to prevent the occurrence of bankruptcy or similar proceedings will remain unaffected.

The Amendment Agreement provided, among other things, that the amount of the required balance on the Debt Service Reserve Account would be increased from March 31, 2002 by an additional reserve amount of up to Euro 5.1 million (DM 10.0 million or $4.6 million). This amount is to be comprised of annual transfers to the Debt Service Reserve Account of 15% of the balance of all amounts distributable to SPB which are credited at any repayment date to the proceeds account (the "Proceeds Account") pledged by SPB in favour of the Lenders under the Project Loan Agreement. The Amendment Agreement also provided that all amounts credited to the Proceeds Account and the Debt Service Reserve Account could be invested by SPB in short-term debt instruments that have been given a short-term rating of A1 or a long-term rating of A- or higher by Standard & Poor's Corporation, or a corresponding rating by another recognized rating agency.

Pursuant to the Amendment Agreement, the Bank provided to SPB a facility by way of bank guarantee in the amount of up to Euro 2.6 million (DM 5.0 million or $2.3 million).

The German federal government and the state government of Thuringia provided a guarantee (the "Governmental Guarantee") for 80% of the Loan Facility and the

Loan Facility is also secured by liens on substantially all of the assets of SPB. In addition to the Governmental Guarantee, the state government of Thuringia agreed to provide governmental grants of Euro 73.6 million (DM 144.0 million) in respect of the project. These grants are non-repayable provided that SPB maintains certain employment levels for a period of five years after the completion of the project. In addition, the German federal government agreed to provide, under existing programs, non-repayable investment subsidies and grants totalling Euro 27.1 million (DM 53.0 million) in respect of the project. To December 31, 2001, SPB had received government grants totalling approximately $100.8 million. Such grants are applied to reduce the costs of the assets acquired with the same.

As provided for in the Loan Facility, an aggregate of Euro 142.7 million ($127.1 million) was drawn as at December 31, 2001 by SPB pursuant to special credit programs (the "Special Credits") established by certain German public banks for projects which enhance environmental performance. The amounts drawn as Special Credits are part of the overall Loan Facility and repayment structure. The rates of interest for the Special Credits are fixed for the first 10 years at an annual amount equal to the Lenders' costs of such funds. The rate of interest will be adjusted and reset after 10 years for the balance of the term. These Special Credits permit qualifying borrowers to borrow money at favourable rates of interest.

The rate of interest for the Loan Facility (other than for amounts drawn as Special Credits) is an amount equal to the three or six month Euribor rates plus a margin of between 60 and 75 basis points. In connection with the Loan Facility, SPB paid to the Lenders a 1% up front commitment/loan fee, and has been paying a quarterly standby fee of 0.375% on the undrawn portions of the Loan Facility less the amount of Special Credits and certain annual administration fees during the term of the Loan Facility.

The Loan Facility was available for drawdown by SPB until the earlier of the official completion of the Conversion Project (as determined under the Project Loan Agreement) or February 28, 2001. Pursuant to the Amendment Agreement, the parties agreed that the completion date for the Conversion Project was June 30, 2000. Repayment of the General Tranche commenced on March 31, 2001 with semi-annual payments on each March 31 and September 30 thereafter until final maturity on September 30, 2013. The actual amounts of repayments will be based upon a percentage of SPB's overall debt service profile. The Working Capital Tranche was repaid in full in March 2001 as part of an extraordinary repayment. As at

December 31, 2001, Euro 217.4 million ($193.6 million) had been drawn and was outstanding under the Loan Facility in respect of the Conversion Project.

The Company has hedged certain amounts under the Loan Facility against currency risks. See "Quantitative and Qualitative Disclosures about Market Risk".

The Project Loan Agreement contains representations, warranties and covenants customary to term project/construction loans of this nature, including, without limitation, covenants to maintain an Annual Debt Service Cover Ratio (as defined therein) of 1.1:1 and restrictions on encumbrances, distributions, dispositions of material assets and further indebtedness for borrowed money. The Project Loan Agreement contains various events of default customary for term project/construction loans of this type which, after expiry of any applicable curative periods, permit the Lenders to accelerate the Loan Facility, including failure to make required payments, failure to comply with the covenants in the Project Loan Agreement, failure to comply with certain other obligations and the Company ceasing, without the prior consent of the

Lenders, not to be unreasonably withheld, to own directly or indirectly 51% or more of the outstanding voting securities of SPB, unless a new third party owns at least 51% of the voting securities of SPB and assumes all of the Company's obligations to the Lenders.

STENDAL PULP MILL PROJECT

Effective January 2000, the Company entered into a subscription agreement with Zellstoff Stendal GmbH ("ZSG") and its three founding shareholders to initially acquire a 25% interest in ZSG, which was to be increased to a 50.1% interest subject to certain conditions. ZSG is a project company formed to construct an approximately Euro 884.2 million ($787.6 million) "greenfield" 550,000 tonne softwood kraft pulp mill near the town of Stendal, in the German State of Sachsen-Anhalt. The other shareholders of ZSG at the time were Altmark-Industrie AG, Thyssen Rheinstahl Technik GmbH ("TRT"), a subsidiary of ThyssenKrupp AG of Germany, and RWE Industrielosungen GmbH (formerly Tessag Industrie-Anlagen GmbH), a subsidiary of RWE, a leading German power company.

Under the terms of the subscription agreement, the Company initially subscribed for a 25% interest in ZSG for a nominal sum, with the intention to increase this to a 50.1% ownership position with an additional contribution of approximately Euro 41.0 million (DM 80.2 million or $36.5 million). In April 2001, TRT removed itself from the Stendal Project pursuant to a corporate reorganization and its PRO RATA share of the project was redistributed among the remaining shareholders for a nominal amount. Accordingly, the Company's participation in the Stendal Project increased to approximately 37%. Given the increase in the Company's participation in the Stendal Project, pursuant to the terms of the subscription agreement, the Company's participation in the Stendal Project will increase to approximately 57% with an additional contribution of approximately Euro 51.7 million ($46.0). The increase in ownership is subject to certain conditions, including the entering into of a formal shareholders' agreement and the completion of financing in connection with the Stendal Project. ZSG has already received the necessary permits for the construction of the Stendal mill, as well as commitments for German federal and state grants and subsidies. In July 2001, the Stendal Project received a financing commitment letter from Hypovereinsbank ("HVB"). The commitment letter contains representations, warranties, covenants and conditions customary for commitment letters of this nature. The Company is in the process of trying to complete definitive agreements relating to the commitment letter. The implementation of the Stendal Project is expected to commence in 2002 and be completed by the end of 2004.

The Stendal mill will be located approximately 350 kilometres from the Company's Pulp mill. As a result, the Company believes it will be able to realize significant operating synergies between the two operations, particularly in the area of raw material costs, production engineering and marketing.

When completed, the Stendal mill is anticipated to be the largest pulp facility in Germany and only the second market kraft pulp mill in Germany, both of which will be owned by the Company. Furthermore, the Company anticipates that the addition of production from the Stendal mill will allow the Company to

expand its customer base, as its two pulp mills will produce slightly different grades of softwood kraft pulp. Germany is the largest importer of market pulp in Europe.

Financing for the Stendal mill is expected to come from three sources: government financing, project financing and third party contributions. Government financing includes investment grants and subsidies already committed to the Stendal Project, as well as a deficiency payment bond to be granted by

German federal and state authorities to ZSG. Project financing will be sought from banks or other lenders to complete the Stendal Project and finance the start-up and ongoing operations of the Stendal mill. In July 2001, the Stendal Project received a financing commitment from HVB in Germany for an aggregate principal amount of approximately Euro 830 million to be provided in various tranches. The financing commitment is subject to, among other things, completion of due diligence and financial assistance from state and federal governments in Germany. The Stendal Project has already received commitments for German federal and state grants and subsidies. These commitments are awaiting final approval from the European Union. Third party contributions will be sought by ZSG from financial investors and/or engineering or supply partners to be advanced as quasi equity and/or a subordinated loan. The Company is currently in the process of determining the proportionate financing contributions of the shareholders of ZSG, including the Company, the government financing, the project financing and the third party contributions.

Although the project to construct and operate the Stendal mill has received favourable support from German governmental and regulatory bodies to date, there can be no assurance that current governmental assistance programs will not be amended in the future or that financial assistance will be provided to ZSG on terms satisfactory to it or its shareholders, if at all, or that all necessary environmental permits will be received on satisfactory terms upon completion, if at all, or in time to permit ZSG and other investors in ZSG, including the Company, to proceed with and complete the project as currently planned. In addition, the Stendal Project is subject to customary risks and uncertainties inherent for large capital projects which include, among other things, risks that sufficient financing will not be available when needed or, if available, on terms satisfactory to the Company, that the construction of the Stendal mill will not occur on schedule or without cost over-runs, and that the Stendal mill will not experience operating difficulties or delays during the start-up or ramp-up period.

ENVIRONMENTAL

The Company's operations are subject to a broad range of German federal, state and local environmental laws and regulations, dealing primarily with water, air and land pollution control. In recent years, the Company has devoted significant financial and management resources to comply with all applicable environmental laws and regulations. The Company's total capital expenditures on environmental projects, excluding those incurred in connection with the Conversion Project, were approximately $1.3 million in 2001 and are expected to be approximately $0.8 million in 2002.

The Company believes its operations are currently in substantial compliance with the requirements of all applicable environmental legislation and regulations and its respective operating permits.

The Company has until the end of 2002 to reduce levels of NOx emitted from the Pulp mill's gas burner. The Company has made a claim under a warranty provided by a supplier in connection with the Pulp mill's gas burner to reduce levels of NOx emitted by such gas burner. The Company expects that the matter will be resolved prior to the end of 2002.

In January 2000, the Company completed construction of a wastewater treatment plant on land owned by the Company at the Heidenau mill, at a cost of approximately $1.9 million.

The Pulp mill has a relatively modern biological wastewater treatment and oxygen bleaching facility. The Company has reduced its levels of AOX (Adsorbable Organic Halogen) discharge to 0.02 kilograms per tonne of pulp produced, which is in compliance with State regulations with respect to effluent discharges. Effective January 1, 2001, the Pulp mill is required to maintain levels of COD (Chemical Oxygen Demand) discharge at the Pulp mill below 25 kilograms per tonne. The Pulp mill is currently in compliance with these levels of COD discharge. The Company will continue to modify its wastewater and bleaching facilities at the Pulp mill to meet or exceed prescribed regulations, which have been further enhanced as a result of the Conversion Project.

Under German state environmental rules relating to effluent discharges, industrial users are required to pay wastewater fees based upon the amount of their effluent discharge. These rules also provide that an industrial user which undertakes environmental capital expenditures and lowers certain effluent discharges to prescribed levels may offset the amount of such expenditures against the wastewater fees that would otherwise be payable. As a result, the aggregate wastewater fees saved by the Company in 2001 as a result of environmental capital expenditures made at the manufacturing plants were approximately $3.4 million. The Company expects that its capital investment programs for its manufacturing plants will offset the full amount of wastewater fees that may be payable in respect of 2001 and 2002 and will ensure that its operations continue in substantial compliance with prescribed standards.

The Company periodically performs environmental audits of operational sites and procedures both with Company personnel and outside consultants.

HUMAN RESOURCES

The Company currently employs or holds positions for approximately 975 people. The Company employs or holds positions for approximately 727 people at its German operations, of which approximately 221 are engaged in paper operations and approximately 504 in pulp operations, including the Company's transportation subsidiaries. In connection with the Conversion Project, the Company has agreed with state government authorities to maintain at least 504 jobs at its pulp operations until June 30, 2005. The Company also established transportation subsidiaries to deliver raw materials for the production of pulp to the Pulp mill and deliver pulp products to its customers. The Landqart mill in Switzerland currently employs approximately 246 people.

The majority of the Company's employees in Germany are represented by the Industriegewerkschaft Bergbau-Chemie-Energie (the "IG-BCE"), a national union which represents pulp and paper workers in Germany. In 1998, the labour agreement for workers at the Company's Paper mills in Germany was renewed until the end of 1999, upon terms which provided for wage increases of 1.2% in October 1998, 1.3% in July 1999 and 1.3% in December 1999. A new agreement was reached in 1999 upon terms which provided for wage increases of 1.5% in July 2000 and January 2001. The expiry date of this agreement was extended to July 31, 2002 and the Company expects negotiations on another agreement to take place in September 2002. The Company's employees at the Landqart mill are not subject to any collective bargaining agreement.

In 1997, the Company entered into a new five year labour agreement with its pulp workers which provides for, among other things, wage increases of 1.5% in September 1997, 2.0% in January 1998, 1.5% in August 1998, and 2.5% in January 1999 and 2000, respectively; a profit sharing plan; and the Company to maintain its existing employment levels until December 31, 2002. The labour agreement established a wage rate of approximately 95% of the union wage rate in the year 2001 for pulp workers in western Germany and at par with such rate in the year 2002. The agreement is effective until the end of 2002 and a new agreement will be negotiated in 2002 for subsequent years.

ITEM 2. PROPERTIES

The Company has an office located in Zurich, Switzerland which is leased. The Company also maintains offices in Germany and Switzerland which are owned.

The Company's Paper mills and the Pulp mill are located in Germany in the States of Saxony and Thuringia and in Graubunden, Switzerland. All of the mills are situated on property owned by the Company. The German Paper mills operate their own power plants to produce electricity and steam.

The Heidenau paper mill serves as headquarters for the Company's German paper operations. It produces specialty papers and has an annual production capacity of 45,000 tonnes. The Fahrbrucke mill produces both specialty and printing papers and has an annual production capacity of 40,000 tonnes. The Fahrbrucke mill uses virgin fibre in producing various grades of printing papers. The Landqart mill produces specialty paper and has an annual production capacity of 20,500 tonnes.

The Pulp mill has an annual production capacity of 295,000 tonnes and is situated on a 220 acre site in close proximity to the Saale River and the town of Blankenstein in the State of Thuringia. The Pulp mill was constructed between 1973 and 1977 and has been upgraded in several stages. Its facilities include a complete wood fibre processing line with an oxygen bleaching plant, chemical recovery systems, power plant, a biological wastewater treatment facility and a waste disposal site. In December 1999, the Company completed the Conversion Project. See "Business -- Pulp Mill Conversion Project".

The following table sets out, by primary product class, the production capacity and actual production of the Company for the periods indicated:

		PRODUCTION(1)		
		YEARS ENDED DECEMBER 31,		
PRODUCT CLASS	ANNUAL PRODUCTION CAPACITY(1)(2)	2001	2000	
		(TONNES)		
Papers				
Packaging Papers	--	--(3)	28,762(4)	
Specialty Papers	45,000	40,275	41,881	
Printing Papers	40,000	26,852(5)	53,601(6)	
Total Papers	85,000	67,127	124,244	1
Pulp	295,000	290,046	251,743	
Total	380,000	357,173	375,987	2

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(1) These amounts do not include the results of the Landqart mill which was acquired in December 2001 by the Company. The Landqart mill has an annual production capacity of approximately 20,500 tonnes and produced approximately 18,500 tonnes of specialty paper in 2001.

(2) Capacity is stated upon the rated capacity of the plants as at December 31, 2001, which is based upon production for 365 days a year. Actual production

is generally based upon 340 days per year for the Paper mills and 353 days per year for the Pulp mill.

(3) The Company sold its packaging paper mill located in Trebsen, Germany effective June 2000. As a result, the Company no longer produces packaging papers.

(4) Includes production of approximately 28,762 tonnes from the Trebsen mill prior to its sale effective June 2000.

(5) The Company sold its printing paper mill located in Hainsberg, Germany effective November 2000.

(6) Includes production of approximately 25,463 tonnes from the Hainsberg mill prior to its sale effective November 2000.

(7) The Company converted its Pulp mill from the production of sulphite pulp to the production of kraft pulp in 1999 and took approximately 4 1/2 months of downtime.

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The Company owns a substantial amount of real estate adjacent to its Paper mills, which is excess to its production requirements and may be divested.

ITEM 3. LEGAL PROCEEDINGS

The Company is subject to routine litigation incidental to its business. The Company does not believe that the outcome of such litigation will have a material adverse effect on its business or financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) MARKET INFORMATION. The Company's shares of beneficial interest trade on the NASDAQ Stock Market's National Market under the symbol "MERCS" and on NASDAQ Europe under the symbol "MERC". The following table sets forth the quarterly high and low closing prices on NASDAQ for the two years ended December 31, 2000 and 2001, and for the period ended March 26, 2002:

FISCAL QUARTER ENDED	HIGH	LOW
2000		
March 31	$ 9.00	$4.50
June 30	$ 9.75	$7.50
September 30	$11.06	$7.56
December 31	$ 8.00	$5.75
2001		
March 31	$ 9.00	$6.75
June 30	$ 7.91	$6.70
September 30	$ 9.05	$6.25

December 31	$ 7.51	$5.40
2002		
Period ended March 26	$ 7.90	$6.05

(b) SHAREHOLDER INFORMATION. As of March 26, 2002, there were approximately 568 holders of record of the Company's shares and a total of 16,794,899 shares were outstanding.

(c) DIVIDEND INFORMATION. The Company did not pay a dividend on its shares of beneficial interest in 2000 or 2001. The actual timing, payment and amount of future dividends paid by the Company will be determined by the board of trustees of the Company from time to time based upon, among other things, the cash flow, results of operations and financial condition of the Company, the need for funds to finance ongoing operations and such other business considerations as the board of trustees of the Company considers relevant.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial information for the Company for each of the last five years. The following financial information has been reclassified to conform with the current year's presentation.

The following selected financial data is qualified in its entirety by, and should be read in conjunction with, the more detailed financial statements and related notes contained elsewhere herein.

	YEARS ENDED DECEMBER 31,				
	2001	2000	1999	1998	1997
	(IN THOUSANDS, OTHER THAN PER SHARE AMOUNTS)				
Revenues	$196,989	$236,202	$127,867	$174,896	$184,107
Net income (loss) from continuing operations	$ (2,527)	$ 29,474	$(38,109)(1)	$ 9,012	$(32,623)(2)
Net income (loss) from continuing operations, per common share,					
Basic	$ (0.15)	$ 1.76	$ (2.33)(1)	$ 0.59	$ (2.18)(2)
Diluted	$ (0.15)	$ 1.72	$ (2.33)(1)	$ 0.59	$ (2.18)(2)
Weighted average common shares outstanding,					
Basic	16,875	16,779	16,390	15,352	14,995
Diluted	16,875	17,144	16,390	15,384	14,995
Current assets	$ 83,025	$ 92,881	$ 69,116	$121,716	$100,384
Current liabilities	$ 69,179	$ 66,216	$116,156	$ 56,695	$ 57,753
Working capital	$ 13,846	$ 26,665	$(47,040)	$ 65,021	$ 42,631
Total assets	$382,643	$403,659	$455,845	$333,284	$210,294
Long-term liabilities	$196,234	$212,036	$236,669	$123,570	$ 17,066
Shareholders' equity	$117,230	$125,407	$103,020	$153,019	$135,475
Cash dividends	$ --	$ --	$ 834	$ 610	$ 450
Cash dividends per share	$ --	$ --	$ 0.05	$ 0.04	$ 0.03

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(1) Net loss from continuing operations before the special charge was

$16.0 million, or $0.97 per share.

(2) Net income from continuing operations before the special charge was $15.8 million, or $1.06 per share.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and results of operations of the Company as at and for the three years ended December 31, 2001 should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this annual report. Certain amounts in the Company's financial statements and related notes have been restated to conform to the current presentation. The following management discussion and analysis of financial condition and results of operations are based upon the restated financial statements for all prior years as aforesaid.

In December 2001, the Company acquired the Landqart mill for approximately $2.7 million. Results of the Landqart mill are not included in this discussion.

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RESULTS OF OPERATIONS

Selected sales data for the Company for each of the last three years is as follows:

	YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	(IN THOUSANDS)		
SALES BY PRODUCT CLASS			
Papers			
Packaging Papers	$ --	$ 8,758(1)	$ 17,822
Specialty Papers	32,187(2)	33,112	29,658
Printing Papers	20,406	36,708(3)	38,010
Total Papers	52,593	78,578	85,490
Pulp	130,903	147,048	40,080
Total	$183,496	$225,626	$125,570
	(TONNES)		
SALES BY VOLUME			
Papers			
Packaging Papers	--	29,111(1)	68,615
Specialty Papers	40,437(2)	41,422	36,518
Printing Papers	26,815	53,552(3)	57,714
Total Papers	67,252	124,085	162,847
Pulp	285,654	239,552	94,523

Total(4)	352,906	363,637	257,370

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(1) The Company sold its packaging paper mill in Trebsen effective June 2000. As a result, the Company no longer produces packaging papers. Paper sales from Trebsen mill prior to its sale are included in the Company's results of operations for 2000. The Trebsen mill sold approximately 29,111 tonnes of packaging paper for approximately $8.8 million in 2000.

(2) The Company acquired the specialty paper mill in Landqart in December 2001. These amounts do not include the results from the Landqart mill. The Landqart mill sold approximately 18,613 tonnes of specialty paper for approximately $38.7 million in 2001.

(3) The Company sold its printing paper mill in Hainsberg effective November 2000. Paper sales from the Hainsberg mill prior to its sale are included in the Company's results of operations for 2000. The Hainsberg mill sold approximately 24,964 tonnes of printing paper for approximately $15.5 million in 2000.

(4) Excluding intercompany sales of 10,447, 1,893 and 201 tonnes of pulp in 2001, 2000 and 1999, respectively.

YEAR ENDED DECEMBER 31, 2001 COMPARED TO THE YEAR ENDED DECEMBER 31, 2000

In 2001, revenues decreased by $39.2 million to $197.0 million from $236.2 million in 2000, primarily as a result of lower pulp prices and lower paper sales. The Company completed the Conversion Project in late 1999 to convert the Pulp mill's production to kraft pulp and increase its annual production capacity. The Pulp mill ramped up production in early 2000 and operated in excess of 90% of capacity after the first quarter of 2000.

Costs and expenses were $199.4 million in 2001, compared to $206.6 million in 2000. Cost of sales decreased to $161.7 million in 2001 from $175.4 million in 2000, primarily as a result of lower paper sales volumes. General and administrative expenses increased to $16.5 million in 2001, from $14.3 million in 2000, primarily as a result of payments made in connection with profit sharing bonuses for the prior year and costs related to specific projects. Interest expense in 2001 increased to $14.5 million from $14.0 million in 2000.

The Company sold its printing paper mill located in Hainsberg, Germany effective November 2000 for approximately $4.6 million plus an amount equal to the net working capital associated with the Hainsberg mill from the sale. The Company also sold its packaging paper mill located in Trebsen, Germany effective June 2000 for approximately $8.7 million plus an amount equal to the net working capital associated with the Trebsen mill from the sale. As a result, the Company no longer produces packaging papers.

In 2001, the Company reported a net loss of $2.5 million, or $0.15 per share on a basic and diluted basis, compared to net income of $29.5 million, or $1.76 per share on a basic basis and $1.72 per share on a diluted basis, in 2000.

In 2001, the Company's pulp and paper sales decreased by approximately 18.7% to $183.5 million from $225.6 million in 2000 on an 11.0% decrease in pulp sales and a 33.1% decrease in paper sales. In 2001, pulp sales were lower than in 2000 as a result of weakening demand due to global economic weakness and high producer inventory levels that lead to a decline in prices. Overall, in 2001, paper markets were generally stable with prices increasing marginally.

On average, pulp prices realized by the Company in 2001 decreased by approximately 25.4% compared to 2000. Pulp sales decreased to $130.9 million in 2001 from $147.0 million in 2000, primarily as a result of a decrease in pulp prices. Pulp sales volumes increased in 2001 as a result of increased production. List prices for kraft pulp in Europe decreased from approximately $710 per tonne at the end of 2000 to approximately $650 per tonne during the first quarter of 2001, approximately $530 per tonne during the second quarter of 2001, approximately $460 per tonne during the third quarter of 2001 and approximately $470 per tonne during the fourth quarter of 2001. Kraft pulp prices continued to weaken at the end of 2001 as a result of high product inventories and such weakening of prices continued in the early part of 2002. The Company undertook a planned eight-day maintenance and modification shutdown at its Pulp mill in August 2001 and was shutdown for 19 days over the year to correct technical difficulties.

Paper prices realized by the Company on average increased by approximately 23.5% in 2001, compared to 2000, primarily as a result of the disposition of lower priced product lines. Paper sales in 2001 decreased to $52.6 million from $78.6 million in 2000, on a volume decrease of 45.8%. In 2001, sales volumes for printing papers decreased by approximately 49.9%, primarily due to the sale of the printing paper mill in Hainsberg effective November 2000. Sales volumes for specialty papers decreased by 2.4% compared to 2000. The Company did not sell any packaging paper in 2001 as a result of the sale of its packaging paper mill in 2000.

On average, the Company's per tonne fibre costs for pulp production in 2001 increased by approximately 6.3%, compared to 2000, and remained among the lowest in Europe. While prices for waste paper, which comprises approximately 25% of the fibre for the Paper mills, increased by approximately 30.0% in 2001 compared to 2000, they remained relatively low compared to the cost of virgin fibre.

YEAR ENDED DECEMBER 31, 2000 COMPARED TO THE YEAR ENDED DECEMBER 31, 1999

In 2000, revenues increased by $108.3 million to $236.2 million from $127.9 million in 1999, primarily as a result of higher pulp sales. The Company completed the Conversion Project in late 1999 to convert the Pulp mill's production to kraft pulp and increase its annual production capacity. The Pulp mill ramped up production in early 2000 and operated in excess of 90% of capacity after the first quarter of 2000. As the Company's products are principally sold in Euro, the depreciation of the Euro against the U.S. dollar by

approximately 13.6% on average in 2000, compared to the same period in 1999, resulted in lower prices in U.S. dollar terms for the Company's products.

Costs and expenses were $206.6 million in 2000, compared to $164.9 million in 1999. Cost of sales increased to $175.4 million in 2000 from $117.3 million in 1999, primarily as a result of higher pulp sales volumes. General and administrative expenses decreased to $14.3 million in 2000, from $22.4 million in 1999. Interest expense in 2000 increased to $14.0 million from $3.0 million in 1999. In 1999, interest expense of $9.9 million in respect of the Conversion Project was capitalized.

The Company sold its printing paper mill located in Hainsberg, Germany effective November 2000 for approximately $4.6 million plus an amount equal to the net working capital associated with the Hainsberg mill from the sale. The Company also sold its packaging paper mill located in Trebsen, Germany effective

June 2000 for approximately $8.7 million plus an amount equal to the net working capital associated with the Trebsen mill from the sale.

In 2000, the Company reported net income of $29.5 million, or $1.76 per share on a basic basis and $1.72 per share on a diluted basis, compared to a net loss of $38.1 million, or $2.33 per share on a basic and diluted basis, in 1999.

In 2000, the Company's pulp and paper sales increased by approximately 79.7% to $225.6 million from $125.6 million in 1999 on a 266.9% increase in pulp revenues and an 8.1% decrease in paper sales. In 2000, pulp sales were significantly higher than in 1999 as a result of the completion of the Conversion Project in late 1999, and the subsequent ramping-up of production of kraft pulp in 2000. Overall, in 2000, paper markets were generally stable with prices increasing marginally.

On average, pulp prices realized by the Company in 2000 increased by approximately 44.8% compared to 1999. Pulp sales increased to $147.0 million in 2000 from $40.1 million in 1999, primarily as a result of a sales volume increase of 153.4%. Pulp sales were strong in 2000 as a result of increased demand and low producer inventories. List prices for kraft pulp in Europe increased from approximately $600 per tonne at the end of 1999 to approximately $630 per tonne during the first quarter of 2000, approximately $670 per tonne during the second quarter of 2000 and approximately $710 per tonne during the last six months of 2000. Kraft pulp prices started to weaken at the end of 2000 as a result of high product inventories and such weakening of prices continued in the early part of 2001. The Company undertook a planned nine-day maintenance and modification shutdown at its Pulp mill in late-September 2000. The shutdown extended for an additional two days into October 2000.

Paper prices realized by the Company on average increased by approximately 20.6% in 2000, compared to 1999, primarily as a result of rising costs of materials. Paper sales in 2000 decreased to $78.6 million from $85.5 million in 1999, on a volume decrease of 23.8%. In 2000, sales volumes for packaging and printing papers decreased by approximately 57.6% and 7.2%, respectively, primarily due to the sale of the packaging paper mill in Trebsen effective June 2000 and the printing paper mill in Hainsberg effective November 2000. Sales volumes for specialty papers increased by 13.4% compared to 1999.

On average, the Company's per tonne fibre costs for pulp production in 2000 increased by approximately 14.5%, compared to 1999, and remained among the lowest in Europe. While prices for waste paper, which comprises approximately 25% of the fibre for the Paper mills, increased by approximately 147.6% in 2000 compared to 1999, they remained relatively low compared to the cost of virgin fibre.

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LIQUIDITY AND CAPITAL RESOURCES

The following table is a summary of selected financial information concerning the Company for the periods indicated:

	DECEMBER 31, 2001	DECEMBER 31, 2000
	(IN THOUSANDS)	
FINANCIAL POSITION		
Working capital	$ 13,846	$ 26,665
Property, plant and equipment (net)	248,167	265,607

Total assets	382,643	403,659
Long-term debt	193,169	208,315
Shareholders' equity	117,230	125,407

At December 31, 2001, the Company's cash and cash equivalents totalled $10.5 million, a net decrease of $8.0 million from $18.5 million at the end of 2000. At December 31, 2001, the Company had short-term trading securities totalling $4.1 million, compared to $5.3 million at December 31, 2000.

OPERATING ACTIVITIES

Operating activities in 2001 provided cash of $26.7 million, compared to $40.0 million in 2000. Net changes in trading securities provided cash of $0.5 million in 2001, compared to using cash of $0.8 million in 2000. A decrease in receivables and inventories provided cash of $7.0 million and $2.3 million, respectively, in the current period, compared to an increase in receivables and inventories using cash of $7.2 million and $3.4 million, respectively, in 2000. A decrease in accounts payable and accrued liabilities used cash of $0.8 million in 2001, compared to an increase in accounts payable and accrued liabilities providing cash of $0.3 million in 2000. The Company expects to generate sufficient cash flow from operations to meet its working capital requirements for its paper operations. Working capital for the Company's pulp operations will be funded from cash flow from operations.

INVESTING ACTIVITIES

Investing activities in 2001 used cash of $9.3 million, consisting primarily of capital expenditures on properties, compared to providing cash of $38.3 million in 2000, primarily due to investment grants received by the Company and sales of properties.

The Company expects aggregate capital expenditures in 2002 to be approximately $17.1 million, which will be funded from cash, cash flow from operations and borrowings. In 2001, aggregate capital expenditures, excluding costs in respect of the Conversion Project, were approximately $9.0 million, compared to approximately $8.8 million in the same period of 2000.

The Company completed the Conversion Project in the fourth quarter of 1999. The Company's aggregate capital expenditures in respect of the Conversion Project to December 31, 2001 were approximately $385.7 million. The Conversion Project was financed by a combination of borrowings under the Project Loan Agreement, non-refundable governmental grants, governmental assistance and guarantees for long-term project financing and an equity investment by the Company. See "Business -- Pulp Mill Conversion Project".

In December 2001, the Company acquired the Landqart mill for approximately $2.7 million, which was financed by working capital. The purchase agreement in connection with the acquisition of the Landqart mill provides for an additional cash payment of approximately $2.0 million based on certain profitability criteria being met prior to September 30, 2003. The purchase price may be further increased if certain parcels of real estate are sold prior to January 1, 2004.

FINANCING ACTIVITIES

In 2001, financing activities used cash of $26.9 million, primarily as a result of the repayment of $25.6 million of amounts due in connection with the Conversion Project, compared to using cash of $61.5 million in 2000.

The Company's pulp and paper operations had net operating tax losses of approximately $175.0 million at December 31, 2001, which under former German tax laws could be carried forward indefinitely. However, the German government has amended its tax laws to restrict the use of tax losses to offset future taxable income in taxation years completed after 1996. The Company provided a valuation reserve for much of these losses.

Other than the agreement relating to the Stendal Project, the Company had no material commitments to acquire assets or operating businesses. The Company anticipates that there will be acquisitions of businesses or commitments to projects in the future. To achieve its long-term goals of expanding the asset and earnings base by mergers and acquisitions, the Company will require substantial capital resources. The required necessary resources will be generated from cash flow from operations, cash on hand, borrowing against its assets and/or the sale of assets.

FOREIGN CURRENCY

Substantially all of the Company's operations are conducted in international markets and its consolidated financial results are subject to foreign currency exchange rate fluctuations, in particular, those in Germany. In 2002, Germany formally adopted the Euro as its currency in place of deutschmarks. The conversion to the Euro did not materially affect the Company's financial condition or results of operations. The Company's pulp and paper products are principally sold in Euro and approximately 99% of the Company's revenues are denominated in Euro.

The Company translates foreign assets and liabilities into U.S. dollars 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. Unrealized gains or losses from these translations are recorded as shareholders' equity on the balance sheet and do not affect the net earnings of the Company.

Since substantially all of the Company's revenues are received in Euro, the financial position of the Company for any given period, when reported in U.S. dollars, can be significantly affected by the exchange rate for Euro prevailing during that period. In the year ended December 31, 2001, the Company reported a net $7.7 million foreign exchange translation loss and, as a result, the cumulative foreign exchange translation loss increased to $64.0 million at December 31, 2001 from $56.3 million at December 31, 2000.

The average and period end exchange rates for the U.S. dollar to the Euro for the periods indicated are as follows:

			YEARS ENDED DECEMBER 31,		
	2002		2001		20
	MARCH 26	PERIOD AVERAGE TO MARCH 26	PERIOD END	PERIOD AVERAGE	PERIOD END
RATES OF EXCHANGE......					
Euro..................	1.1407	1.1395	1.1227	1.1172	1.0646

Based upon the period average exchange rate in 2001, the U.S. dollar increased by approximately 2.9% in value against the Euro since December 31, 2000.

CYCLICAL NATURE OF BUSINESS; COMPETITIVE POSITION

The pulp and paper business is cyclical in nature and markets for the Company's principal products are characterized by periods of supply and demand imbalance, which in turn affects product prices. The markets for pulp and paper are highly competitive and sensitive to cyclical changes in industry capacity and in the economy, both of which can have a significant influence on selling prices and the earnings of the Company. Demand for pulp and paper products has historically been determined by the level of economic growth and has been closely tied to overall business activity. During the past three years, pulp prices have both risen and fallen at rates faster than previously experienced by the industry. The competitive position of the Company is influenced by the availability and quality of raw materials (fibre) and its experience in relation to other producers with respect to inflation, energy, transportation, labour costs and productivity.

STENDAL PULP MILL PROJECT UNCERTAINTIES

The Company's participation in the Stendal Project is subject to certain conditions, including completion of its due diligence and entering into a shareholders' agreement. In addition, the Stendal Project itself is subject to various risks and uncertainties customary to large "greenfield" projects of this nature which may result in the Stendal Project not proceeding as currently planned, or at all, such as availability and cost of materials and labour, construction delays, cost overruns, weather conditions, governmental regulations, availability of adequate financing, increases in long-term interest rates and increases in taxes and other governmental fees. The Stendal Project will also be subject to extensive and complex regulations and environmental compliance which may result in delays, in ZSG and/or its shareholders, including the Company, incurring substantial costs in relation thereto or in the Stendal Project being amended or not proceeding at all.

The implementation of the Stendal Project is currently expected to commence in 2002 and be completed by the end of 2004. However, there can be no assurance that the Stendal Project will proceed as currently planned, or at all. See "Business -- Stendal Pulp Mill Project".

LABOUR DISPUTES

The majority of the Company's employees in Germany are unionized and are represented by the IG-BCE, a national union that represents pulp and paper workers in Germany. The collective agreement relating to employees at the Company's paper mills in Germany expires on July 31, 2002. The collective agreement relating to employees at the Company's pulp mill in Germany expires at the end of 2002. The Company expects to negotiate new collective agreements with its pulp and paper workers in Germany in 2002. However, there can be no assurance that the Company will be able to negotiate acceptable collective agreements with its employees upon expiration of the existing collective agreements. This could result in a strike or work stoppage by the affected workers. The renewal of the collective agreements could result in higher wages or benefits paid to union members. Accordingly, the Company could experience a significant disruption of its operations in Germany or higher ongoing labour costs, which could have a material adverse effect on the business, financial condition, result of operations and cash flow of the Company.

INFLATION

The Company does not believe that inflation has had a material impact on revenues or income during 2001.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risks from changes in interest rates, foreign currency exchange rates and equity prices which may affect its results of operations and financial condition. The Company manages these risks through internal risk management policies which are administered by management.

Pursuant to this strategy, approximately Euro 148.3 million of the principal amount of the fixed interest credits portion of SPB's indebtedness as at December 29, 2000 has been converted into approximately $124.7 million at a forward rate of $0.841225 to Euro 1.00. The $124.7 million debt portion bears a fixed interest rate of 5.83% per annum, payable quarterly in U.S. dollars. The underlying term of the foreign currency forward rate swap covers the period from December 29, 2000 to September 30, 2008, on which date the interest rate on the fixed interest credits portion of SPB's indebtedness will be readjusted.

In addition, approximately Euro 75.0 million of the principal amount of the commercial debt portion of SPB's indebtedness as at March 31, 2001 was converted into approximately $63.3 million at a forward rate of $0.844525 to Euro 1.00. The $63.3 million debt portion bears a fixed interest rate of 6.80% per annum, payable semi-annually in U.S. dollars, not including the bank margin of 0.6-0.7% per annum which remains payable in Euro on the underlying Euro principal amount. The underlying term of the foreign currency forward rate swap covers the period from March 31, 2001 to September 30, 2013, the maturity date of the aggregate principal amount due under the Project Loan Agreement.

As of December 31, 2001, the current nominal amount of the two currency swap contracts was approximately Euro 217.4 million and a fair value gain of $0.4 million on these contracts was recognized during the year.

Beginning in 2001, up to 30% of the quantity of pulp which represents one-twelfth of the annual sales revenues of SPB may be hedged monthly to ensure that a price of at least Euro 520.00 is hedged per tonne of pulp. The percentage amount may be increased to a maximum of 70%. As at December 31, 2001, no derivative contract had been executed with respect to pulp prices.

During the first quarter of 2001, the Company entered into a U.S. dollar/Euro forward contract in the amount of approximately Euro 35.0 million, which was settled in March 2001. The contract resulted in a $2.3 million loss.

During the second quarter of 2001, the Company entered into two U.S. dollar/Euro forward contracts in the aggregate amount of approximately Euro 22.4 million, maturing in the second quarter of 2002. A fair value loss of $0.4 million on these contracts was recognized during the year.

Any change in the fair value of derivative instruments is included in the determination of earnings.

SPB agreed to grant to the Lenders a security interest by way of a pledge on its claims against the Bank under all hedging agreements. Furthermore, the parties to the Amendment Agreement agreed that the Bank's claims against SPB under any hedging agreement is secured pari passu by all security interests granted by SPB to the Lenders under the Project Loan Agreement (except the "C&L Ausfallburgschaft", as defined in the Project Loan Agreement). To this effect, certain amendment agreements to the security interest agreements and the security pooling agreement under the Project Loan Agreement were executed by the parties.

INTEREST RATE RISK

Fluctuations in interest rates may affect the fair value of fixed interest rate financial instruments. An increase in interest rates may decrease the fair value of financial instrument assets and increase the fair value of financial instrument liabilities. A decrease in interest rates may increase the fair value of financial instrument assets and decrease the fair value of financial instrument liabilities. The Company's financial instruments which may be sensitive to interest rate fluctuations are investments, cash restricted, notes receivable and debt obligations. The following tables provide information about the Company's exposure to interest rate fluctuations for the carrying amount of financial instruments that may be sensitive to such

fluctuations as at December 31, 2001 and 2000, respectively, and expected cash flows from these instruments:

AS AT DECEMBER 31, 2001

	CARRYING VALUE	FAIR VALUE	EXPECTED FUTURE CASH FLOW* 2002	2003	2004	2005	2006
			(THOUSANDS)				
Investments(1)........	$ 2,157	$ 2,157	$ 2,157	$ --	$ --	$ --	$ --
Cash restricted.......	29,739	29,739	8,524	884	884	884	884
Notes receivable......	4,877	4,877	341	5,218	--	--	--
Debt obligations(2)...	203,806	203,806	24,974	28,953	21,677	21,732	21,831

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* Including dividends and interest where applicable.

(1) Investments consist of debt securities.

(2) Debt obligations consist of the Company's notes and loan payable.

AS AT DECEMBER 31, 2000

	CARRYING VALUE	FAIR VALUE	EXPECTED FUTURE CASH FLOW* 2001	2002	2003	2004	2005
			(THOUSANDS)				
Investments(1)........	$ 4,164	$ 4,164	$ 4,164	$ --	$ --	$ --	$ --
Cash restricted.......	25,150	25,150	1,006	1,006	1,006	1,006	1,006
Notes receivable......	4,296	4,296	344	344	4,640	--	--
Debt obligations(2)...	143,417	143,417	11,494	17,423	20,951	15,880	15,274

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* Including dividends and interest where applicable.

(1) Investments consist of debt securities.

(2) Debt obligations consist of the Company's notes and loan payable.

FOREIGN CURRENCY EXCHANGE RATE RISK

The reporting currency of the Company is the U.S. dollar. The Company held financial instruments primarily denominated in Euro and, to a lesser extent, in Swiss francs and Canadian dollars. A depreciation of such currencies against the U.S. dollar will decrease the fair value of financial instrument assets and financial instrument liabilities. An appreciation of such currencies against the U.S. dollar will increase the fair value of financial instrument assets and financial instrument liabilities. The Company's financial instruments which may be sensitive to foreign currency exchange rate fluctuations are investments, cash restricted and debt obligations. Foreign currency debt obligations subject to U.S. dollar currency swap contracts are not subject to foreign currency exchange risk. The following tables provide information about the Company's exposure to foreign currency exchange rate fluctuations for the carrying

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amount of financial instruments that may be sensitive to such fluctuations as at December 31, 2001 and 2000, respectively, and expected cash flows from these instruments:

AS AT DECEMBER 31, 2001

	CARRYING VALUE	FAIR VALUE	EXPECTED FUTURE CASH FLO 2002	2003	2004	2005
			(THOUSANDS)			
Investments(1)................	$ 3,682	$ 3,682	$2,796	$ --	$ --	$ --
Cash restricted..............	29,739	29,739	8,524	884	884	884
Debt obligations(2)..........	11,495	11,495	3,483	8,799	--	--

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* Including dividends and interest where applicable.

(1) Investments consist of debt and equity securities. Debt securities are denominated in Euro. Equity securities are denominated primarily in Euro, and to a lesser extent, in Canadian dollars.

(2) Debt obligations consist of the Company's notes and loan payable, denominated in Euro and Swiss francs.

AS AT DECEMBER 31, 2000

	CARRYING VALUE	FAIR VALUE	EXPECTED FUTURE CASH FLOW* 2001	2002	2003	2004	20
			(THOUSANDS)				
Investments(1)..........	$ 2,833	$ 2,833	$ 1,710	$ --	$ --	$ --	$
Cash restricted.........	25,150	25,150	1,006	1,006	1,006	1,006	1,

Debt obligations(2)......	21,652	21,652	23,937	--	--	--

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* Including dividends and interest where applicable.

(1) Investments consist of debt and equity securities. Debt securities are denominated in Euro. Equity securities are denominated primarily in Euro, and to a lesser extent, in Canadian dollars.

(2) Debt obligations consist of the Company's notes and loan payable, denominated in Euro.

EQUITY PRICE RISK

Changes in trading prices of equity securities may affect the fair value of equity securities or the fair value of other securities convertible into equity securities. An increase in trading prices will increase the fair value and a decrease in trading prices will decrease the fair value of equity securities or instruments convertible into equity securities. The Company's financial instruments which may be sensitive to fluctuations in equity prices are investments. The following tables provide information about the Company's exposure to fluctuations in equity prices for the carrying amount of financial instruments sensitive to such fluctuations as at December 31, 2001 and 2000, respectively, and expected cash flows from these instruments:

AS AT DECEMBER 31, 2001

	CARRYING VALUE	FAIR VALUE	EXPECTED FUTURE CASH FLOW* 2002	2003	2004	2005	2
			(THOUSANDS)				
Investments(1)...........	$9,552	$9,552	$1,894	$ --	$ --	$ --	$

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* Including dividends where applicable.

(1) Investments consist of equity securities.

AS AT DECEMBER 31, 2000

	CARRYING VALUE	FAIR VALUE	EXPECTED FUTURE CASH FLOW* 2001	2002	2003	2004	2
			(THOUSANDS)				
Investments(1)...........	$10,566	$10,566	$5,320	$ --	$ --	$ --	$

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* Including dividends where applicable.

(1) Investments consist of equity securities and debt securities convertible into equity securities.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and supplementary data required with respect to this Item 8, and as listed in Item 14 of this annual report, are included in this annual report commencing on page 32.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

As a Massachusetts trust, the Company is managed by "trustees", who have comparable duties and responsibilities as directors of corporations.

J.S.H. LEE, age 45, has been a Trustee since May 1985 and President and Chief Executive Officer since 1992. Previously, Mr. Lee served with MFC Bancorp Ltd. as a director from 1986, Chairman from 1987 and President from 1988 to December 1996, respectively.

C.S. MOON, age 55, has been a Trustee since June 1994. Mr. Moon is an independent consultant. He was formerly the Executive Director of Shin Ho Group of Korea, an international paper manufacturer headquartered in Korea until 1998. Mr. Moon joined Shin Ho Group in 1990 and previously served in managerial positions with Moo Kim Paper Manufacturing Co., Ltd. and Sam Yung Pulp Co., Ltd.

M. ARNULPHY, age 68, has been a Trustee since June 1995. Mr. Arnulphy has been the Managing Director of Electro Orient Ltd., a merchandise trading company located in Hong Kong, since 1998. From 1975 to 1998, Mr. Arnulphy was the Managing Director of J. Mortenson & Co., Ltd. in Hong Kong, a water treatment equipment manufacturing company.

M. REIDEL, age 39, has been a Trustee since December 1996. Mr. Reidel has been the Chief Financial Officer of Ision Internet AG since August 1999. Mr. Reidel was a Managing Director of SPB from 1994 to 1999 and the Chairman of the Management Board of DPAG from 1995 to 1998. Previously, he was a member of the Supervisory Board of DPAG from 1992 to 1994, a member of BVS responsible for portfolios of service industry and wood and paper industry companies from 1992 to 1994, and an accountant with Arthur Andersen & Co. from 1987 to 1992.

R.I. RIGG, age 59, has been a Trustee since July 1999 and Secretary and Chief Financial Officer since October 1999. Mr. Rigg has been Chief Financial Officer and a director of Advanced Projects Ltd. since 1996 and of Terrawest Industries, Inc. since 1989. He is also a director of Carlin Resources Corp. and a nominee director and officer of Bank Gospodarki of Poland. Mr. Rigg is a chartered accountant in Canada.

A. MILLIGAN, age 77, has been a Trustee since July 2001. Mr. Milligan has been President and Chief Executive Officer of Stockscape Technologies Inc. since 1999. From 1986 to 1999, he was the President and Chief Executive Officer of

Cornucopia Resources Ltd., which acquired Stockscape Technologies Inc. in 1999 and changed its business accordingly. He is also a director of Skye Resources Inc., Lysander Minerals Corporation and Great Basin Gold Ltd. Mr. Milligan is an economist by profession.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from Registrant's definitive proxy statement to be filed within 120 days of the end of Registrant's fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated by reference from Registrant's definitive proxy statement to be filed within 120 days of the end of Registrant's fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference from Registrant's definitive proxy statement to be filed within 120 days of the end of Registrant's fiscal year.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) FINANCIAL STATEMENTS

(2) LIST OF EXHIBITS

3.1	(a) *	Restated Declaration of Trust of the Company as filed with the Secretary of State of Washington on June 11, 1990 together with an Amendment to Declaration of Trust dated December 12, 1991.
	(b) *	Amendments to Declaration of Trust dated July 8, 1993; August 17, 1993; and September 9, 1993.
3.2*		Trustees' Regulations dated September 24, 1973.
4.1		Shareholder Rights Plan. Incorporated by reference from Form 8-A dated August 17, 1993.
10.1		Acquisition Agreement among Treuhandanstalt, Dresden Papier AG, Dresden Papier Holding GmbH, Mercer International Inc., and Shin Ho Paper Mfg. Co., Ltd.

	Incorporated by reference from Form 8-K dated September 20, 1993.
10.2	Acquisition Agreement among Treuhandanstalt, Zellstoff-und Papierfabrik Rosenthal GmbH, Raboisen Einhundertsechsundfunfzigste Vermogensverwaltungs-gesellschaft GmbH, to be renamed ZPR Zellstoff-und Papierfabrik Rosenthal Holding GmbH, Mercer International Inc. and 448380 B.C. Ltd. dated July 3, 1994. Incorporated by reference from Form 8-K dated July 3, 1994.
10.3	Amended and Restated 1992 Stock Option Plan. Incorporated by reference from Form S-8 dated March 2, 2000.
10.4*	1994 Employee Incentive Bonus Plan.
10.5*	Form of Separation Agreement between Mercer International Inc. and Arbatax International Inc.
10.6	English Translation of a Loan Agreement in the amount of DM 508,000,000 between Zellstoff-und Papierfabrik Rosenthal GmbH & Co. KG, Blankenstein on the one hand and Bayerische Hypotheken-und Wechsel-Bank Aktiengesellschaft, Munich and Bayerische Vereinsbank Aktiengesellschaft, Munich on the other hand dated July 6, 1998. Incorporated by reference from Form 8-K dated July 16, 1998.
10.7*	Amended and Restated Employment Agreement between Mercer International Inc. and Jimmy S.H. Lee dated November 20, 2000.
10.8*	Trustee's Indemnity Agreement between Mercer International Inc. and Jimmy S.H. Lee dated November 20, 2000.
10.9	English Translation of Amendment Agreement No. 4 dated December 13, 2000 between Zellstoff-und Papierfabrik Rosenthal GmbH & Co. KG and Bayerische Hypo-und Vereinsbank Aktiengesellschaft to the Loan Agreement dated July 6, 1998. Incorporated by reference from Form 8-K dated January 23, 2001.
10.10	Purchase Agreement between Sihl and Mercer International Inc. dated December 14, 2001 relating to the acquisition of Landqart AG.
21	List of Subsidiaries of Registrant.
23	Independent Auditors Consent.

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* Filed in Form 10-K for prior years.

(b) The Registrant filed the following reports on Form 8-K with respect to the indicated items during the fourth quarter of the fiscal year:
None.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders

Mercer International Inc.

We have audited the accompanying consolidated balance sheets of Mercer

International Inc. and Subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for the years ended December 31, 2001, 2000 and 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mercer International Inc. and Subsidiaries as of December 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years ended December 31, 2001, 2000 and 1999, in conformity with accounting principles generally accepted in the United States.

/s/ PETERSON SULLIVAN P.L.L.C.

Seattle, Washington
March 15, 2002

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MERCER INTERNATIONAL INC.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2001 AND 2000
(IN THOUSANDS OF DOLLARS)

	2001	2000
ASSETS		
Current Assets		
Cash and cash equivalents	$ 10,458	$ 18,496
Investments	4,052	5,320
Receivables	42,658	46,088
Inventories	22,323	19,977
Prepaid and other	3,534	3,000
Total current assets	83,025	92,881
Long-Term Assets		
Cash restricted	29,739	25,150
Properties	248,167	265,607
Investments	7,658	6,101
Notes receivable	4,877	4,296
Deferred income tax	9,177	9,624
	299,618	310,778

	$382,643	$403,659
	========	========
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	$ 46,242	$ 38,204
Notes payable	6,584	839
Debt	16,353	27,173
Total current liabilities	69,179	66,216
Long-Term Liabilities		
Debt	193,169	208,315
Other	3,065	3,721
	196,234	212,036
Total liabilities	265,413	278,252
SHAREHOLDERS' EQUITY		
Shareholders' Equity		
Preferred shares, no par value: 50,000,000 authorized and issuable in series:		
Series A, 500,000 authorized, none issued and outstanding	--	--
Series B, 3,500,000 authorized, none issued and outstanding	--	--
Shares of beneficial interest, $1 par value: unlimited authorized and 16,794,899 issued and outstanding at December 31, 2001 and 2000	99,995	99,995
Retained earnings	86,171	88,698
Accumulated other comprehensive loss	(68,936)	(63,286)
	117,230	125,407
	$382,643	$403,659
	========	========

The accompanying notes are an integral part of these financial statements.

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MERCER INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999
(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE DATA)

	2001	2000	1999
Revenues			
Sales of pulp and paper	$183,496	$225,626	$125,570
Transportation	4,915	3,857	--
Other	8,578	6,719	2,297
	196,989	236,202	127,867
Expenses			
Cost of pulp and paper	161,659	175,420	117,314

Transportation	3,648	2,923	--
Special charges	--	--	22,155
General, administrative and other	16,502	14,284	22,420
Loss on foreign currency derivative contracts	2,241	--	--
Litigation settlement	918	--	--
Interest expense	14,474	13,993	2,995
	199,442	206,620	164,884
Income (loss) before income taxes	(2,453)	29,582	(37,017)
Income tax provision	(74)	(108)	(1,092)
Net income (loss)	$ (2,527)	$ 29,474	$(38,109)
Earnings (loss) per share			
Basic	$ (0.15)	$ 1.76	$ (2.33)
Diluted	$ (0.15)	$ 1.72	$ (2.33)

The accompanying notes are an integral part of these financial statements.

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MERCER INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999
(IN THOUSANDS OF DOLLARS)

	2001	2000	1999
Net income (loss)	$(2,527)	$29,474	$(38,109)
Other comprehensive income			
Foreign currency translation adjustment	(7,687)	(6,400)	(21,266)
Unrealized gains (losses) on securities			
Unrealized holding gains (losses) arising during the period	2,037	(1,729)	1,745
Reclassification adjustment for losses included in net income (loss)	--	85	1,340
	2,037	(1,644)	3,085
Other comprehensive loss	(5,650)	(8,044)	(18,181)
Comprehensive income (loss)	$(8,177)	$21,430	$(56,290)

The accompanying notes are an integral part of these financial statements.

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MERCER INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999
(IN THOUSANDS OF DOLLARS)

	SHARES OF BENEFICIAL INTEREST				ACCUMU
	NUMBER OF SHARES	PAR VALUE	AMOUNT PAID IN EXCESS OF PAR VALUE	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATIO ADJUSTMENT
Balance at December 31, 1998.........	15,440,122	$15,440	$76,473	$98,167	$(28,663)
Shares issued for exercise of warrants..........................	1,245,277	1,245	6,097	--	--
Repurchase of shares................	(50,000)	(50)	(167)	--	--
Payment of dividends................	--	--	--	(834)	--
Net loss............................	--	--	--	(38,109)	--
Other comprehensive income (loss)....	--	--	--	--	(21,266)
Balance at December 31, 1999.........	16,635,399	16,635	82,403	59,224	(49,929)
Shares issued for exercise of options...........................	159,500	160	797	--	--
Net income..........................	--	--	--	29,474	--
Other comprehensive income (loss)....	--	--	--	--	(6,400)
Balance at December 31, 2000.........	16,794,899	16,795	83,200	88,698	(56,329)
Net loss............................	--	--	--	(2,527)	--
Other comprehensive income (loss)....	--	--	--	--	(7,687)
Balance at December 31, 2001.........	16,794,899	$16,795	$83,200	$86,171	$(64,016)

	SHAREHOLDERS' EQUITY
Balance at December 31, 1998.........	$153,019
Shares issued for exercise of warrants..........................	7,342
Repurchase of shares................	(217)
Payment of dividends................	(834)
Net loss............................	(38,109)
Other comprehensive income (loss)....	(18,181)
Balance at December 31, 1999.........	103,020
Shares issued for exercise of options...........................	957
Net income..........................	29,474
Other comprehensive income (loss)....	(8,044)
Balance at December 31, 2000.........	125,407
Net loss............................	(2,527)
Other comprehensive income (loss)....	(5,650)
Balance at December 31, 2001.........	$117,230

The accompanying notes are an integral part of these financial statements.

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MERCER INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999
(IN THOUSANDS OF DOLLARS)

	2001	2000	1999
Cash Flows from Operating Activities			
Net income (loss)	$(2,527)	$29,474	$(38,109)
Adjustments to reconcile net income (loss) to cash flows from operating activities			
Special charges	--	--	22,155
Depreciation	20,557	22,139	7,018
Changes in current assets and liabilities			
Investment in trading securities	460	(806)	8,478
Inventories	2,337	(3,391)	(996)
Receivables	6,955	(7,227)	(12,489)
Accounts payable and accrued expenses	(841)	267	7,718
Prepaid and other	(282)	(504)	(2,411)
Net cash provided by (used in) operating activities	26,659	39,952	(8,636)
Cash Flows from Investing Activities			
Proceeds from the sales of available-for-sale securities	--	189	6,867
Proceeds from the sales of long-term investments	605	--	--
Purchases of available-for-sale securities	(569)	(1,918)	(1,264)
Sale of properties	--	13,346	--
Acquisition of properties, net of investment grants	(6,845)	26,073	(255,186)
Purchase of subsidiary, net of cash acquired	(1,839)	--	--
Change in notes receivable	(605)	585	4,178
Net cash provided by (used in) investing activities	(9,253)	38,275	(245,405)
Cash Flows from Financing Activities			
Cash restricted	(5,921)	(12,285)	--
Increase (decrease) in pulp mill costs payable	(902)	(50,286)	47,701
Increase in notes payable and debt	5,821	5,649	162,863
Decrease in notes payable and debt	(25,924)	(5,582)	(2,299)
Shares of beneficial interest issued for cash	--	957	--
Repurchase shares of beneficial interest	--	--	(217)
Dividends	--	--	(834)
Other	--	--	3
Net cash provided by (used in) financing activities	(26,926)	(61,547)	207,217
Effect of exchange rate changes on cash and cash equivalents	1,482	94	(4,704)
Net increase (decrease) in cash and cash equivalents	(8,038)	16,774	(51,528)
Cash and Cash Equivalents, beginning of year	18,496	1,722	53,250
Cash and Cash Equivalents, end of year	$10,458	$18,496	$ 1,722

The accompanying notes are an integral part of these financial statements.

MERCER INTERNATIONAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mercer International Inc. ("the Company") is a business trust organized under the laws of the State of Washington, USA. Under Washington law, shareholders of a business trust have the same limited liability as shareholders of a corporation. The amounts in the notes are rounded to the nearest thousand except for the per share amounts.

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Company and its subsidiaries. Significant intercompany accounts and transactions have been eliminated.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include highly liquid investments with original maturities of three months or less and are recorded at cost which approximates market. The Company maintains cash balances in foreign financial institutions in excess of insured limits.

INVESTMENTS

The Company's available-for-sale and trading securities are stated at their fair values. Any unrealized holding gains or losses of available-for-sale securities are reported as a separate component of comprehensive income until realized and, for trading securities, any unrealized gains or losses are included in the results of operations. If a loss in value in available-for-sale securities is considered to be other than temporary, it is recognized in the determination of net income. Cost is based on the specific identification method to determine realized gains or losses.

The Company incurs liabilities for security acquisitions where the security transfer is to occur at a future date. However, the liability amount is subject to the ultimate market price of the security.

INVENTORIES

Inventories of pulp are stated at the lower of cost (average-cost method) or market. Paper products are stated at the lower of cost (first-in, first-out method) or market.

PROPERTIES

Depreciable properties are stated at cost unless the estimated future undiscounted cash flows expected to result from either the use of an asset or its eventual disposition is less than its carrying amount in which case an impairment loss is recognized based on the fair value of the asset. Grants received from a government reduce costs of property improvements.

Depreciation of buildings and production equipment is based on the estimated useful lives of the assets and is computed using the straight-line method. Buildings are depreciated over 10 to 50 years and production equipment over 8 to

20 years.

FOREIGN CURRENCY TRANSLATION

The Company translates foreign assets and liabilities of its subsidiaries at the rate of exchange at the balance sheet date. Revenues and expenses are translated at the average rate of exchange throughout the year. Unrealized gains or losses from these translations are reported as a separate component of

comprehensive income. Realized gains or losses are included in general and administrative expenses in the consolidated statements of operations. The translation adjustments do not recognize the effect of income tax because the Company expects to reinvest the amounts indefinitely in operations.

ENVIRONMENTAL CONSERVATION

Liabilities for environmental conservation are recorded when it is probable that obligations have been incurred and the amounts can be reasonably estimated. Any potential recoveries of such liabilities are recorded when there is an agreement with the reimbursing entity.

STOCK-BASED COMPENSATION

Compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee is required to pay for the stock. There was no stock-based compensation included in these consolidated financial statements.

TAXES ON INCOME

The Company accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than enactments of changes in the tax laws or rates.

DERIVATIVE INSTRUMENTS

The Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," effective January 1, 2001. Derivative instruments are measured at fair value and reported in the balance sheet as assets or liabilities. Accounting for gains or losses depends on the Company's intended use of the derivative instruments. Gains or losses on derivative instruments which are not designated hedges are recognized in earnings in the period of the change in fair value. Accounting for gains or losses on derivative instruments designated as hedges depends on the type of hedge and such gains or losses are recognized in either earnings or other comprehensive income.

Retroactive application of this standard was not allowed. There is no cumulative effect in the Company's financial statements as a result of adopting this standard. The Company had a derivative instrument at December 31, 2000, which was entered into at year-end. There was no change in its fair value in 2000.

EARNINGS PER SHARE

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding in the period. Diluted earnings per share takes into consideration common shares outstanding (computed under basic earnings per share) and potentially dilutive common shares.

NOTE 1. THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NEW ACCOUNTING STANDARDS

Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," is to be applied starting with years beginning after December 15, 2001. This standard addresses how intangible assets, other than those acquired in a business combination, should be accounted for. Goodwill and intangible assets that have indefinite useful lives will no longer be amortized but will be tested annually for impairment. Management has not determined the effect this standard may have, if any, on the Company's financial statements.

Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," is effective for years beginning after June 15, 2002. This standard addresses accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated retirement costs. Management has not determined the effect, if any, this standard may have on the Company's financial statements.

Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," is effective for years beginning after December 15, 2001. This standard supersedes the previous standard on this issue as well as others which dealt with accounting for discontinued operations and the elimination of an exception to consolidation. Management has not determined the effect this standard may have on the Company's financial statements.

NOTE 2. INVESTMENTS

Trading securities are classified as current investments and are summarized as follows:

	DECEMBER 31	
	2001	2000

Bonds	$2,158	$4,164
Equity securities	1,894	1,156
	$4,052	$5,320

Included within trading securities is an investment in a bond and common shares of two companies that represent 53% and 46%, respectively, of the total value of trading securities at December 31, 2001. At December 31, 2000, investment in a bond and common shares of a company represented 39% and 18%, respectively, of the total value of trading securities. The change in net unrealized holding gains (losses) on trading securities which has been included in earnings was $1,238, $(171) and $2,411 during 2001, 2000 and 1999, respectively.

NOTE 2. INVESTMENTS (CONTINUED)

Available-for-sale securities consist of bonds and equity securities and have been classified as long-term investments. Equity securities of two companies represented 85% and 91% of the total available-for-sale securities at December 31, 2001 and 2000, respectively. The proceeds from sales of these securities amounted to none, $189 and $6,867 which resulted in realized losses of none, $(77) and $(1,340) during 2001, 2000 and 1999, respectively. The fair value of available-for-sale securities included on the balance sheets at December 31, 2001, 2000 and 1999, was $7,305, $5,247 and $6,925, respectively. The cost of these securities was $12,225, $12,204 and $12,238 which resulted in unrealized losses being recorded in comprehensive income of $(4,920), $(6,957) and $(5,313) at December 31, 2001, 2000 and 1999, respectively. Also, included in long-term investments were equity securities stated at cost of $353 and $854 at December 31, 2001 and 2000, respectively, which did not have a readily determinable fair value. However, management believes that the estimated market value is greater than the carrying value.

NOTE 3. RECEIVABLES

	DECEMBER 31	
	2001	2000
Sale of paper and pulp products	$21,207	$14,869
Securities trading	12,592	17,645
Sale of properties	--	6,147
Value added tax	956	892
Other	7,903	6,535
	$42,658	$46,088

At December 31, 2001 and 2000, the Company pledged $12,592 and $17,645, respectively, in securities trading receivables as collateral for amounts payable for securities.

NOTE 4. INVENTORIES

	DECEMBER 31	
	2001	2000
Pulp and paper		
Raw materials	$13,008	$10,862
Work in process and finished goods	9,315	9,115
	$22,323	$19,977

NOTE 5. PROPERTIES

	DECEMBER 31	
	2001	2000
Land	$ 8,519	$ 7,425
Buildings	17,252	16,346
Production and other equipment	291,428	290,789
	317,199	314,560
Less: Accumulated depreciation	69,032	48,953
	$248,167	$265,607

NOTE 5. PROPERTIES (CONTINUED)

During 1999, management determined that some of the Company's paper mills were impaired. These mills were written down to their estimated fair values based on existing market conditions. This impairment loss, amounting to $19,064, was reflected as special charges in the Company's consolidated statement of operations for the year ended December 31, 1999. Also, included in special charges in 1999, was a loss of $3,091 on abandoned pulp mill equipment.

NOTE 6. NOTES PAYABLE AND DEBT

At December 31, 2001, the Company had two notes payable to banks. One of the notes amounting to $5,821 is due on demand at 7% interest. The other note which had a balance of $763 and $839 at December 31, 2001 and 2000, respectively, is due monthly at 6.75% interest and is secured by inventory.

Long-term debt consists of the following:

	DECEMBER 31 2001	DECEMBER 31 2000
Note payable to bank, interest at rates varying from 4.5% to 6.8% at December 31, 2001, principal due in semi-annual installments based on a percentage of the final loan amount beginning at 2.4% to 5.1% at September 30, 2001, after an initial payment of $21,300 on March 31, 2001, until September 30, 2013 (final payment date), collateralized by receivables, inventory and pulp mill assets with 48% and 32% principal plus interest guaranteed by the Federal Republic of Germany and the State of Thuringia, respectively; cash restricted amounted to $29,739 and $25,150 at December 31, 2001 and 2000, respectively, in connection with this borrowing..........	$193,607	$231,017
Debenture payable, 8% interest payable semi-annually, due 2003, unsecured, with attached warrants which allows a debenture holder to acquire common shares of the Company at the higher of $6 per share or the average price of the stock for the ten days prior to conversion...............	4,135	4,135
Loans payable to a bank, interest at rates varying from 3.875% to 6.5%, payment terms varying from on demand to December 31, 2003, secured by receivables and properties...	11,492	--
Other..	288	336
	209,522	235,488
Less: Current portion....................................	(16,353)	(27,173)
	$193,169	$208,315

On December 29, 2000 and April 1, 2001, the Company entered into foreign currency forward swap agreements in the notational amount of $124,700 and $66,797, respectively, with respect to the long-term note payable to bank. These agreements are with the same bank which holds the note payable. These contracts were entered into by the Company for its own account consistent with its policy to manage foreign currency exchange risks. These agreements cover the period December 29, 2000, to September 30, 2008, and April 1, 2001 to September 30, 2013, respectively. While the Company may be exposed to credit risk with respect to these agreements, it does not anticipate nonperformance by the bank. The Company

recorded a gain from a change in the fair value of these contracts of $412 during the year ended December 31, 2001. Additionally, during 2001, the Company entered into two foreign currency forward agreements in the notational value of $10,000 each. The contracts were entered into by the Company for its own account and are consistent with its policy to manage foreign currency exchange risks. These agreements mature on April 22, 2002 and May 5, 2002. The Company recorded a loss from a change in the fair value of these contracts of $352 during the year ended December 31, 2001. During the first quarter of 2001, the Company entered into a U.S. dollar/euro foreign currency forward contract with a notational amount of approximately $31,000 which was settled in March of 2001. This contract resulted in a loss of $2,301.

As of December 31, 2001, the principal maturities of long-term debt are as follows:

MATURES	AMOUNT
2002	$ 16,353
2003	22,461
2004	12,687
2005	13,513
2006	14,441
Thereafter	130,067
	$209,522

Interest paid amounted to $14,191 in 2001, $11,465 in 2000 and $12,100 ($9,904 capitalized) in 1999.

NOTE 7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	DECEMBER 31	
	2001	2000
Trade payables	$18,875	$14,926
Accounts payable and accrued expenses	17,640	16,357
Payable for securities	7,946	6,921
Other	1,781	--
	$46,242	$38,204

NOTE 8. INCOME TAXES

The provision for income taxes is current and consists of the following:

	YEAR ENDED DECEMBER 31		
	2001	2000	1999
Provision for income taxes, non U.S.	$(74)	$(108)	$(1,092)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8. INCOME TAXES (CONTINUED)

Differences between the U.S. Federal Statutory and the Company's effective rates are as follows:

	YEAR ENDED DECEMBER 31		
	2001	2000	1999
U.S. Federal statutory rates on income from operations benefit (provision)	$ 834	$(10,058)	$12,585
Tax differential on foreign income (loss)	3,152	(800)	8,182
Valuation allowance	(5,494)	10,750	(20,748)
Other	1,434	--	(1,111)
	$ (74)	$ (108)	$(1,092)

Deferred tax assets are composed of the following:

	DECEMBER 31	
	2001	2000
German tax loss carryforwards	$64,140	$63,853
U.S. tax loss carryforwards	6,075	4,272
Swiss tax loss carryforwards	3,084	--
Other	617	744
	73,916	68,869
Valuation allowance	(64,739)	(59,245)
Net deferred tax asset	$ 9,177	$ 9,624

Because of potential restrictions on the use of German preacquisition tax loss carryforwards by successor entities, the Company provided a valuation reserve for much of these losses. German tax losses of approximately $175,000 at December 31, 2001, may be carried forward indefinitely. However, the Company is the subject of income tax audits on a continuing basis in Germany which may result in a change in the German tax loss amount. Management believes that, while realization of the net deferred tax asset on the German tax losses is not assured, it is more likely than not that it will be realized.

The Company's U.S. net operating losses amount to approximately $17,800 at December 31, 2001. Losses of $4,600, $1,900, $1,200, $3,700, $2,800 and $3,600 will expire in 2021, 2020, 2019, 2018, 2012 and 2011, respectively, if not used. Management believes that these tax loss carryforwards are likely not to be utilized under current circumstances and has fully reserved any resulting potential tax benefit.

The Company's Swiss net operating losses amounted to approximately $9,000 at December 31, 2001. Losses of $3,200 and $5,800 will expire in 2004 and 2007, respectively, if not used. Management believes that these tax loss carryforwards are likely not to be utilized under current circumstances and has fully reserved any resulting potential tax benefit.

Income (loss) from foreign source operations amounted to $2,118, $30,152 and $(34,903) for the years ended December 31, 2001, 2000 and 1999, respectively. These amounts are intended to be indefinitely reinvested in operations. Since available-for-sale securities are primarily securities held by foreign

NOTE 8. INCOME TAXES (CONTINUED)

subsidiaries and the proceeds are expected to be reinvested, no tax has been provided in the determination of other comprehensive income for the years ended December 31, 2001, 2000 and 1999.

NOTE 9. SHAREHOLDERS' EQUITY

In a prior year, the Company issued one attached preferred share purchase right for each outstanding share of beneficial interest. A total of 11,958,993 rights were issued which allow the holder to acquire from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock at a price of $75 per one one-hundredth of a preferred share. The rights will expire on December 31, 2003. The Company has the right to repurchase the rights for $.01 each.

The Company has reserved 110,000 Series A Junior Participating Preferred Shares in connection with the rights. The preferred shares are entitled to quarterly dividends of $10 per share and have 100 votes per share. However, the preferred shares will be entitled to an aggregate dividend of 100 times any dividends declared on shares of beneficial interest and an aggregate of 100 times any payment to shares of beneficial interest on merger or liquidation.

Also, during a prior year the Company authorized the issuance of 3.5 million shares of Cumulative Retractable Convertible Preferred Shares, Series B at a price of $20 per share. These shares have a cumulative dividend rate of up to 4%, a liquidation preference of $20 per share plus unpaid dividends, a redemption right beginning January 1, 2004, at $20 per share plus unpaid dividends, and may convert up to 10% of the issued and outstanding shares into shares of beneficial interest based on dividing the issue price plus unpaid dividends by $20 per share.

NOTE 10. ACQUISITION

On December 14, 2001, the Company acquired all of the outstanding common shares of Landqart AG ("Landqart"), a Swiss company, for $2,650 cash. The effective date of this acquisition is December 31, 2001. The results of Landqart's operations will be included in the Company's consolidated financial statements beginning January 1, 2002. Landqart is a manufacturer of specialty paper which is expected to become an integral part of the Company's paper segment.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets...	$11,542

Properties	9,912
Total assets acquired	21,454
Current liabilities	12,237
Long-term liabilities	6,567
Total liabilities assumed	18,804
Net assets acquired	$ 2,650

The following unaudited pro forma information presents the results of operations of the Company as if this acquisition had taken place on January 1, 2001 and 2000, respectively. The pro forma information is not necessarily indicative of the results that would have occurred had the acquisition taken place at the

NOTE 10. ACQUISITION (CONTINUED)

beginning of the periods presented. Further, the pro forma information is not necessarily indicative of future results.

	YEAR ENDED DECEMBER 31	
	2001	2000
Revenues	$232,851	$270,659
Net income (loss)	$ (3,251)	$ 29,473
Earnings per share		
Basic	$ (0.19)	$ 1.76
Diluted	$ (0.19)	$ 1.72

The purchase agreement provides for an additional payment of up to $1,958 based on profitability criteria being met during the period January 1 through September 30, 2003. The purchase price may be further increased if certain parcels of real estate are sold prior to January 1, 2004. This increase will amount to 30% of the difference between the carrying value of the parcel at December 31, 2000, and its net sales price. If any of these contingent payments which are to be paid in cash, become due, they will be treated as an additional cost of acquisition.

NOTE 11. STOCK-BASED COMPENSATION

The Company has a non-qualified stock option plan which provides for options to be granted to officers and employees to acquire a maximum of 3,600,000 shares of beneficial interest including options for 130,000 shares to trustees who are not officers or employees.

During 2000, options to acquire 1,600,000 shares of beneficial interest at $6.375 per share were granted to officers and employees of the Company which vest one-third at grant date and one-third each for the next two years. These options expire in ten years. The weighted fair value of these options was $3.60 each.

Following is a summary of the status of the plan during 2001, 2000 and 1999:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at December 31, 1999 and 1998..................	765,500	$10.03
Granted..	1,600,000	6.375
Exercised..	(159,500)	6.00
Outstanding at December 31, 2001 and 2000..................	2,206,000	$ 7.67

MERCER INTERNATIONAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 11. STOCK-BASED COMPENSATION (CONTINUED)

Following is a summary of the status of options outstanding at December 31, 2001:

OUTSTANDING OPTIONS				EXERCISABLE OPTIONS	
EXERCISE PRICE RANGE	NUMBER	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE
6.00$- 6.375..	1,770,000	8.0	$ 6.34	1,236,666	$ 6.33
8.50 - 11.66..	231,500	5.1	9.19	231,500	9.19
16.89 - 18.47..	204,500	3.9	17.50	204,500	17.50

COMPENSATION

Proforma information with respect to fair value accounting for the Company's stock option plan is as follows:

	2001	2000	1999
Net Income (Loss)			
As reported..	$(2,527)	$29,474	$(38,109)
Proforma...	$(5,403)	$26,598	$(38,421)
Basic Earnings (Loss) Per Share			
As reported..	$ (.15)	$ 1.76	$ (2.33)

Proforma	$ (.32)	$ 1.59	$ (2.34)
Diluted Earnings (Loss) Per Share			
As reported	$ (.15)	$ 1.72	$ (2.33)
Proforma	$ (.32)	$ 1.55	$ (2.34)

The fair value of each option granted is estimated on the grant date using the Black Scholes Model. The assumptions used in calculating fair value are as follows:

	2001	2000	1999
Risk-free interest rate	4.5%	8.5%	6.0%
Expected life of the options	2 years	2 years	2 years
Expected volatility	68.9%	78.4%	60.0%
Expected dividend yield	0.0%	0.0%	0.0%

MERCER INTERNATIONAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 12. EARNINGS PER SHARE

Earnings per share data for years ended December 31 is summarized as follows:

	NET INCOME (LOSS)		
	2001	2000	1999
Net income (loss) available to shareholders of beneficial interest	$(2,527)	$29,474	$(38,109)

	SHARES		
	2001	2000	1999
Weighted average number of shares outstanding -- basic	16,874,899	16,778,962	16,389,944
Effect of dilutive securities:			
Options	--	365,528	--
Weighted average number of shares outstanding -- diluted	16,874,899	17,144,490	16,389,944

For 2001 and 1999, warrants and options were not included in the computation of diluted earnings per share because they were anti-dilutive.

NOTE 13. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO STATEMENTS OF CASH FLOWS

There were no significant noncash transactions in 2001 and 2000.

Significant noncash transactions in 1999 include:

- The Company issued shares of beneficial interest amounting to $7,342 upon the conversion of outstanding debentures.

- The Company surrendered preferred shares in an entity valued at $2,621 in a settlement.

NOTE 14. BUSINESS SEGMENT INFORMATION

The Company operates in two reportable business segments: pulp and paper. The segments are managed separately because each business requires different production and marketing strategies.

The pulp segment consists of a single mill located in Germany which currently produces and markets kraft pulp. The paper segment consists of two mills located in Germany and one located in Switzerland.

Both segments operate in industries which are cyclical in nature and their markets are affected by fluctuations in supply and demand in each cycle. These fluctuations have significant effect on the cost of materials and the eventual sales prices of products.

NOTE 14. BUSINESS SEGMENT INFORMATION (CONTINUED)

Summarized financial information concerning the segments is shown in the following table:

	PULP	PAPER	TOTAL
2001			
Sales to external customers	$130,903	$52,593	$183,496
Intersegment net sales	5,187	--	5,187
Segment income (loss)	4,069	(2,891)	1,178
Segment assets	333,381	47,384	380,765
Capital expenditures	6,638	2,400	9,038
RECONCILIATIONS			
Loss:			
Total income for reportable segments			$ 1,178
Elimination of intersegment profits			2,274
Unallocated amounts, other corporate expenses			(5,905)
Consolidated loss before income taxes			$ (2,453)
Assets:			
Total assets for reportable segments			$380,765
Intersegment receivable			(6,560)

Other unallocated amounts	8,438
Consolidated total assets	$382,643

	PULP	PAPER	TOTAL
2000			
Sales to external customers	$147,048	$78,578	$225,626
Intersegment net sales	1,269	--	1,269
Segment income (loss)	31,929	(278)	31,651
Segment assets	378,362	43,290	421,652
Capital expenditures	21,881	3,003	24,884

RECONCILIATIONS	
Income:	
Total income for reportable segments	$ 31,651
Elimination of intersegment profits	1,377
Unallocated amounts, other corporate expenses	(3,446)
Consolidated income before income taxes	$ 29,582
Assets:	
Total assets for reportable segments	$421,652
Intersegment receivable	(22,661)
Other unallocated amounts	4,668
Consolidated total assets	$403,659

NOTE 14. BUSINESS SEGMENT INFORMATION (CONTINUED)

	PULP	PAPER	TOTAL
1999			
Sales to external customers	$ 40,080	$85,490	$125,570
Intersegment net sales	86	--	86
Segment loss	(4,200)	(25,885)	(30,085)
Segment assets	411,541	40,592	452,133
Capital expenditures	282,920	6,190	289,110

RECONCILIATIONS	
Loss:	
Total loss for reportable segments	$(30,085)
Elimination of intersegment profits	2,704
Unallocated amounts, other corporate expenses	(9,636)
Consolidated loss before income taxes	$(37,017)

Assets:	
Total assets for reportable segments	$452,133
Intersegment receivable	(357)
Other unallocated amounts	4,069
Consolidated total assets	$455,845

The following table presents net sales to external customers by geographic area based on location of the customer.

	2001	2000	1999
Germany	$ 84,574	$ 95,376	$ 72,129
Other European Union	64,406	76,827	47,498
Eastern European and other	34,516	53,423	5,943
	$183,496	$225,626	$125,570

The following table presents total assets by geographic area based on location of the asset.

	2001	2000	1999
Germany	$352,538	$398,991	$451,776
Other	30,105	4,668	4,069
	$382,643	$403,659	$455,845

The pulp mill has fiber supply contracts with two companies which expire in 2002 and 2003 at prices agreed to periodically. The Company also has labor agreements which expire in 2002. In 2001, pulp sales to two customers amounted to 22% of total pulp sales, and pulp sales to one customer amounted to 27% in 2000.

NOTE 15. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of other financial instruments at December 31 is summarized as follows:

	2001	2000

	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VAL
Cash and cash equivalents..........................	$ 10,458	$ 10,458	$ 18,496	$ 18,49
Cash restricted....................................	29,739	29,739	25,150	25,15
Notes receivable...................................	4,877	4,877	4,296	4,29
Notes payable......................................	6,584	6,584	839	83
Long-term debt.....................................	209,522	209,522	235,488	235,48

The fair value of cash and cash equivalents is based on reported market value. The fair value of cash restricted was equal to its carrying amount because it is in an account which bears a market rate of interest. The value of notes receivable is based on the value of similar long-term receivables. The fair value of notes payable was based on the value of similar debt incurred in the pulp industry. The fair value of long-term debt was determined using discounted cash flows at prevailing market rates. The other long-term liabilities which have a carrying value of $3,065 and $3,721 at December 31, 2001 and 2000, respectively, are primarily an accrued environmental liability at the pulp mill. This liability may be partially reimbursable. Further, the Company cannot estimate at this time when these amounts will be paid. Therefore, the fair value of other long-term liabilities cannot be determined.

NOTE 16. COMMITMENTS AND CONTINGENCIES

At December 31, 2001 and 2000, the Company recorded a liability for environmental conservation expenditures of $1,822 and $1,921, respectively. Management believes the liability amount recorded is sufficient, however, future regulations in Germany may result in additional liability.

The Company is required to pay certain charges based on water pollution levels at its mills. Unpaid charges can be reduced by investing in qualifying equipment that results in less water pollution. The Company believes that equipment investments already made will offset most of these charges, but it has not received final determination from the appropriate authorities. Accordingly, a liability for these water charges has only been recognized to the extent that equipment investments have not been made.

The Company is involved in various matters of litigation arising in the ordinary course of business. In the opinion of management, the estimated outcome of such issues will not have a material effect on the Company's financial statements.

MERCER INTERNATIONAL INC.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

QUARTERLY FINANCIAL DATA
(THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	QUARTER ENDED			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMB
2001				
Net Sales..	$55,996	$52,310	$47,276	$41

Gross profit	14,019	9,046	7,402	1
Income (loss) before extraordinary items and cumulative effect of a change in accounting	4,575	(71)	169	(7
Income (loss) before extraordinary items and cumulative effect of a change in accounting, per share*	0.27	(0.00)	0.01	(
Net income (loss)	4,575	(71)	169	(7
2000				
Net Sales	$55,760	$63,715	$61,694	$55
Gross profit	6,868	15,531	15,899	19
Income before extraordinary items and cumulative effect of a change in accounting	1,071	8,976	9,094	10
Income before extraordinary items and cumulative effect of a change in accounting, per share*	0.06	0.52	0.52	
Net income	1,071	8,976	9,094	10

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* on a diluted basis

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the SECURITIES EXCHANGE ACT OF 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MERCER INTERNATIONAL INC.

By: /s/ JIMMY S.H. LEE

Jimmy S.H. Lee
CHAIRMAN

Dated: March 29, 2002

Pursuant to the requirements of the SECURITIES EXCHANGE ACT OF 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ JIMMY S.H. LEE

Jimmy S.H. Lee
Chairman, Chief Executive Officer and Trustee
Date: March 29, 2002

/s/ MICHEL ARNULPHY

Michel Arnulphy
Trustee
Date: March 29, 2002

/s/ C.S. MOON

C.S. Moon
Trustee
Date: March 29, 2002

/s/ MAARTEN REIDEL

Maarten Reidel Trustee	Date: March 29, 2002
/s/ R. IAN RIGG R. Ian Rigg Chief Financial Officer and Trustee	Date: March 29, 2002
/s/ ANDREW F.B. MILLIGAN Andrew F.B. Milligan Trustee	Date: March 29, 2002

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EXHIBIT INDEX

EXHIBIT NO.		DESCRIPTION OF EXHIBIT
3.1	(a)*	Restated Declaration of Trust of the Company as filed with the Secretary of State of Washington on June 11, 1990 together with an Amendment to Declaration of Trust dated December 12, 1991.
	(b)*	Amendments to Declaration of Trust dated July 8, 1993; August 17, 1993; and September 9, 1993.
3.2*		Trustees' Regulations dated September 24, 1973.
4.1		Shareholder Rights Plan. Incorporated by reference from Form 8-A dated August 17, 1993.
10.1		Acquisition Agreement among Treuhandanstalt, Dresden Papier AG, Dresden Papier Holding GmbH, Mercer International Inc., and Shin Ho Paper Mfg. Co., Ltd. Incorporated by reference from Form 8-K dated September 20, 1993.
10.2		Acquisition Agreement among Treuhandanstalt, Zellstoff-und Papierfabrik Rosenthal GmbH, Raboisen Einhundertsechsundfunfzigste Vermogensverwaltungs-gesellschaft GmbH, to be renamed ZPR Zellstoff-und Papierfabrik Rosenthal Holding GmbH, Mercer International Inc. and 448380 B.C. Ltd. dated July 3, 1994. Incorporated by reference from Form 8-K dated July 3, 1994.
10.3		Amended and Restated 1992 Stock Option Plan. Incorporated by reference from Form S-8 dated March 2, 2000.
10.4*		1994 Employee Incentive Bonus Plan.
10.5*		Form of Separation Agreement between Mercer International Inc. and Arbatax International Inc.
10.6		English Translation of a Loan Agreement in the amount of DM 508,000,000 between Zellstoff-und Papierfabrik

	Rosenthal GmbH & Co. KG, Blankenstein on the one hand and Bayerische Hypotheken-und Wechsel-Bank Aktiengesellschaft, Munich and Bayerische Vereinsbank Aktiengesellschaft, Munich on the other hand dated July 6, 1998. Incorporated by reference from Form 8-K dated July 16, 1998.
10.7*	Amended and Restated Employment Agreement between Mercer International Inc. and Jimmy S.H. Lee dated November 20, 2000.
10.8*	Trustee's Indemnity Agreement between Mercer International Inc. and Jimmy S.H. Lee dated November 20, 2000.
10.9	English Translation of Amendment Agreement No. 4 dated December 13, 2000 between Zellstoff-und PapierfabriK Rosenthal GmbH & Co. KG and Bayeriche Hypo-und Vereinsbank Aktiengesellschaft to the Loan Agreement dated July 6, 1998. Incorporated by reference from Form 8-K dated January 23, 2001.
10.10	Purchase Agreement between Sihl and Mercer International Inc. dated December 14, 2001 relating to the acquisition of Landqart AG.
21	List of Subsidiaries of Registrant.
23	Independent Auditors Consent.

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* Filed in Form 10-K for prior years.