

MERCER INTERNATIONAL INC.

Form DEF 14A

March 26, 2012

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE**  
**SECURITIES EXCHANGE ACT OF 1934**

(AMENDMENT NO.    )

Filed by the Registrant ☒ x

Filed by a party other than the Registrant ☐ "

Check the appropriate box:

- ☐ " Preliminary Proxy Statement
- ☐ " **Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))
- ☒ x Definitive Proxy Statement
- ☐ " Definitive Additional Materials
- ☐ " Soliciting Material Pursuant to §240.14a-12

**MERCER INTERNATIONAL INC.**

(Name of Registrant as Specified in its Charter)

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:



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## MERCER INTERNATIONAL INC.

### NOTICE OF ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 31, 2012

TO THE SHAREHOLDERS OF MERCER INTERNATIONAL INC.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Shareholders of Mercer International Inc. (the Company) will be held on May 31, 2012 at the Terminal City Club, 837 West Hastings Street, Vancouver, British Columbia, Canada at 10:00 a.m. (Vancouver time) for the following purposes:

1. To elect eight directors nominated by the board of directors to serve until the 2013 Annual Meeting of Shareholders;
  2. To ratify the selection of PricewaterhouseCoopers LLP as the independent auditors;
  3. To conduct a non-binding advisory vote on executive compensation; and
  4. To transact such other business as may properly come before the meeting or any adjournment, postponement or rescheduling thereof.
- The board of directors of the Company has fixed the close of business on March 23, 2012 as the record date for the determination of shareholders entitled to vote at the meeting or any adjournment, postponement or rescheduling thereof.

For information on how to vote, please refer to the instructions on the accompanying proxy card, or review the section titled Commonly Asked Questions and Answers beginning on page 2 of the accompanying proxy statement.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Jimmy S.H. Lee  
Jimmy S.H. Lee  
*Chairman of the Board*

March 26, 2012

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be held on May 31, 2012:** Our proxy statement and our 2011 Annual Report to Shareholders, which includes our Annual Report on Form 10-K, are available at [www.mercerint.com](http://www.mercerint.com) by clicking on 2012 Annual General Meeting Materials. In accordance with Securities and Exchange Commission

rules, our proxy materials posted on our website under **2012 Annual General Meeting Materials** do not contain any cookies or other tracking features.

YOUR VOTE IS VERY IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, WE URGE YOU TO COMPLETE, SIGN, DATE AND RETURN IN THE ENCLOSED ENVELOPE THE PROXY CARD THAT ACCOMPANIES THIS NOTICE OF ANNUAL MEETING OF SHAREHOLDERS, OR VOTE USING THE INTERNET OR TELEPHONE, AS PROMPTLY AS POSSIBLE, IN ORDER TO ENSURE THE PRESENCE OF A QUORUM. A PROXY MAY BE REVOKED IN THE MANNER DESCRIBED IN THE ACCOMPANYING PROXY STATEMENT.

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**PROXY STATEMENT**

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### **PROXY STATEMENT SUMMARY**

This summary highlights information contained elsewhere in this proxy statement. It does not contain all of the information that you should consider, and you should read the entire proxy statement carefully before voting.

#### **Annual Meeting Information**

**Time and Date:** 10:00 a.m. (Vancouver time) on May 31, 2012

**Place:** Terminal City Club  
837 West Hastings Street  
Vancouver, British  
Columbia, Canada

**Record Date:** March 23, 2012

**Voting:** Shareholders as of the Record Date are entitled to vote.

Please vote your shares as soon as possible. Your broker will NOT be able to vote your shares with respect to any of the matters presented at the meeting, other than the ratification of the selection of our independent registered public accounting firm, unless you give your broker specific voting instructions.

Registered holders may vote in person at the annual meeting, via the Internet, by telephone, or, if they received a printed copy of these proxy materials, by mail, and beneficial Shareholders may vote in accordance with the instructions they receive from the bank, broker or other person who is the holder of record of their shares.

See page 2 of this proxy statement for more information.

**Attending the Annual Meeting:** *In Person.* Meeting starts at 10:00 a.m. (Vancouver time); doors open at 9:30 a.m. (Vancouver time).

You do not need to attend the annual meeting to vote if you submitted your proxy in advance of the annual meeting.

#### **Annual Meeting Agenda and Voting Recommendations**

<b>Proposal</b>	<b>Board Voting Recommendation</b>	<b>Page Reference (for more detail)</b>
<b>Management proposals</b>		
Election of 8 directors	FOR EACH DIRECTOR NOMINEE	5
Ratification of PricewaterhouseCoopers LLP as our independent auditor for fiscal 2012	FOR	49
Advisory resolution on executive compensation	FOR	50

**Table of Contents****Board Nominees**

The following table provides summary information about each director nominee. Each director nominee is elected annually by a majority of votes cast.

Name	Age	Director Since	Principal Occupation	Independent	Committee Memberships			
					AC	CHRC	GNC	EHSC
Jimmy S.H. Lee	54	1985	President and Chief Executive Officer of the Company					X
William D. McCartney	56	2003	President and Chief Executive Officer of Pemcorp Management Inc.	X	C		X	
Graeme A. Witts	73	2003	Retired Managing Director of Sanne Trust Company Limited	X		C	X	
Guy W. Adams	60	2003	Managing Member of GWA Advisors, LLC, GWA Investments, LLC and GWA Capital Partners, LLC	X	X			
Eric Lauritzen	73	2004	Retired, past President and Chief Executive Officer of Harmac Pacific, Inc.	X, LD		X	C	X
Bernard Picchi	62	2011	Managing Director of Private Wealth Management for Palisade Capital Management, LLC	X		X		
James Shepherd	59	2011	Businessman, past President and Chief Executive Officer of Canfor Corporation	X	X			C
Keith Purchase	68	Nominee	Retired, past Executive Vice-President and Chief Operating Officer for MacMillan Bloedel Ltd.	X				

C Chair  
 AC Audit Committee  
 CHRC Compensation and Human Resources Committee  
 GNC Governance and Nominating Committee  
 EHSC Environmental, Health and Safety Committee  
 LD Independent Lead Director

**Table of Contents****Corporate Governance Highlights**

<i>Board Independence</i>		
Independent director nominees		7 of 8
Independent lead director		Eric Lauritzen
Independent board committees		AC, CHRC, GNC
<i>Director Elections</i>		
Frequency of board elections		Annual
Voting standard for uncontested elections		Majority of votes cast
<i>Board Meetings in 2011</i>		
Full board meetings		9
Independent director-only meetings		5
<i>Board Committee Meetings in 2011</i>		
Audit Committee		4
Compensation and Human Resources Committee		10
Governance and Nominating Committee		5
Environmental, Health and Safety Committee		4
<i>Evaluating and Improving Board Performance</i>		
Board evaluations		Annually
Committee evaluations		Annually
Board orientation		Yes
<i>Aligning Director and Shareholder Interests</i>		
Director stock ownership guidelines		Yes
Director equity grants		Yes

**Selected Financial Highlights**

The chart below summarizes selected key Company operating and financial results for fiscal 2011 compared to fiscal 2010. (See our Annual Report on Form 10-K for the year ended December 31, 2011, which is incorporated by reference into this proxy statement, for additional details regarding the amounts reported in the table, including an explanation of our use of non-GAAP financial measures and a reconciliation to the comparable GAAP financial measures.)

	Years Ended December 31,		Change (%)
	2011	2010	
	(in millions, other than pulp production and price per share)		
Pulp production ( 000 ADMTs)	1,453.7	1,426.3	2
Pulp revenues	831.4	856.3	(3)
Energy revenues	58.0	44.2	31
Total revenues	889.4	900.5	(1)
Operating EBITDA <sup>(1)</sup>	167.1	224.0	(25)
Net income	54.0	94.7	(43)
Price per share as of fiscal year end <sup>(2)</sup>	\$ 6.10	\$ 7.75	(21)

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	December 31,		
	2011	2010	Change (%)
	(in millions, other than ratios)		
<b>Balance Sheet Data:</b>			
Cash and cash equivalents	105.1	99.0	6
Marketable securities	12.4	0.3	N/A
Working capital	247.2	231.7	7
Long-term debt	708.4	782.3	(9)
Restricted Group <sup>(3)</sup> long-term debt	222.4	273.5	(19)
Ratios:			
Long-term debt to equity	2.5 to 1	3.7 to 1	(32)
Restricted Group <sup>(3)</sup> long-term debt to equity	0.6 to 1	0.9 to 1	(33)

- (1) Operating EBITDA is defined as operating income (loss) plus depreciation and amortization and non-recurring capital asset impairment charges. Operating EBITDA has significant limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of our results reported under generally accepted accounting principles in the United States. See the discussion of our results for the year ended December 31, 2011 compared to the year ended December 31, 2010 in our Form 10-K for the year ended December 31, 2011 incorporated by reference into this Proxy Statement.
- (2) Represents the closing market price of our Shares in U.S. dollars on December 31, 2011 and December 31, 2010.
- (3) Under the indenture governing our 9.5% Senior Notes due 2017, our Restricted Group is comprised of Mercer Inc., our Rosenthal and Celgar mills and certain holding companies. It excludes our Stendal mill.

**Executive Compensation Highlights**

Our executive compensation program is designed to achieve the following key objectives:

Attract, retain and motivate our Named Executive Officers ( NEOs ), whose efforts and judgments are vital to our continued success;

Create an environment in which our NEOs are motivated to achieve and maintain superior performance levels and goals consistent with our overall business strategy;

Reward and compensate our NEOs for their contribution to our overall success and for their individual performance during the relevant fiscal year; and

Align the interests of our NEOs with the long-term interests of our Shareholders.

Some of the compensation practices we employ to achieve our objectives include:

**What We do**

Deliver a significant portion of executives' total direct compensation in the form of variable compensation

Utilize performance-based equity awards with vesting requirements determined and judged by our Compensation and Human Resources Committee

**What We Don't Do**

Have single-trigger change-in-control executive contracts

Provide significant perquisites

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Provide defined benefit retirement plans for our Named Executive Officers

Conduct annual say-on-pay advisory votes

Provide supplemental executive retirement plans for our executives

Prohibit executives from engaging in hedging transactions in Mercer stock

Provide excise tax gross-ups of perquisites

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## **MERCER INTERNATIONAL INC.**

### **PROXY STATEMENT**

### **GENERAL INFORMATION**

This proxy statement ( Proxy Statement ) is furnished in connection with the solicitation by management of Mercer International Inc. of proxies for use at the annual general meeting of our shareholders ( Shareholders ) to be held at the Terminal City Club, 837 West Hastings Street, Vancouver, British Columbia, Canada at 10:00 a.m. (Vancouver time) on May 31, 2012 (the Meeting ), or any adjournment, postponement or rescheduling thereof. References to we , our , us , the Company or Mercer in this Proxy Statement mean Mercer International Inc. and its subsidiaries unless the context clearly suggests otherwise.

If a proxy in the accompanying form ( Proxy ) is properly executed and received by us prior to the Meeting or any adjournment, postponement or rescheduling thereof, our shares of common stock, \$1.00 par value ( Shares ) represented by such Proxy will be voted in the manner directed. In the absence of voting instructions, the Shares will be voted for the proposals set out in the accompanying notice of annual general meeting of Shareholders. Please see the Proxy for voting instructions.

A Proxy may be revoked at any time prior to its use by filing a written notice of revocation of proxy or a later dated Proxy with the Company's registrar and transfer agent at Shareowner Services, P.O. Box 3550, South Hackensack, NJ 07606-9250. A Proxy may also be revoked by submitting another Proxy with a later date over the internet, by telephone, to our registrar and transfer agent or by voting in person at the Meeting. Attending the Meeting will not, in and of itself, constitute revocation of a Proxy.

The holders of one-third of the outstanding Shares entitled to vote at the Meeting, present in person or represented by Proxy, constitutes a quorum for the Meeting. Under applicable Washington State law, abstentions and broker non-votes will be counted for the purposes of establishing a quorum for the Meeting.

Proxies for the Meeting will be solicited by the Company primarily by mail. Proxies may also be solicited personally by our directors, officers or regular employees without additional compensation. We may reimburse banks, broker-dealers or other nominees for their reasonable expenses in forwarding the proxy materials for the Meeting to beneficial owners of Shares. The costs of this solicitation will be borne by the Company.

This Proxy Statement, accompanying Proxy and our annual report for 2011, which includes our annual report on Form 10-K for the fiscal year ended December 31, 2011, (the 2011 Annual Report ) will be mailed to Shareholders commencing on or about April 24, 2011. Our board of directors (the Board ) has set the close of business on March 23, 2011 as the record date (the Record Date ) for the determination of Shareholders entitled to notice of and to vote at the Meeting or any adjournment, postponement or rescheduling thereof.

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**COMMONLY ASKED QUESTIONS AND ANSWERS**

**Q: Why am I receiving this Proxy Statement and Proxy?**

A: This Proxy Statement describes the proposals upon which you, as a Shareholder, will vote. It also gives you information on the proposals, as well as other information so that you can make an informed decision.

**Q: What is the Proxy?**

A: The Proxy enables you to appoint Jimmy S.H. Lee and David M. Gandossi as your representatives at the Meeting. By completing and returning the Proxy, you are authorizing Mr. Lee and Mr. Gandossi to vote your Shares at the Meeting as you have instructed them on the Proxy. This way your Shares will be voted whether or not you attend the Meeting. Even if you plan to attend the Meeting, it is a good idea to complete and return your Proxy before the date of the Meeting just in case your plans change.

**Q: Who can vote at the Meeting?**

A: Registered Shareholders who own our Shares on the Record Date may attend and vote at the Meeting. Each Share is entitled to one vote. There were 55,779,204 Shares outstanding on the Record Date. If you own your Shares through a brokerage account or in another nominee form, you must provide instructions to the broker or nominee as to how your Shares should be voted. Your broker or nominee will generally provide you with the appropriate forms at the time you receive this Proxy Statement. If you own your Shares through a brokerage account or nominee, you cannot vote in person at the Meeting unless you receive a Proxy from the broker or the nominee.

**Q: What am I voting on?**

A: We are asking you to: (i) vote for the election of the Company's directors for the ensuing year; (ii) ratify the selection of PricewaterhouseCoopers LLP as our independent auditors; and (iii) vote for the advisory approval of the compensation disclosed in this Proxy Statement of the Company's executive officers who are named herein in the summary compensation table.

**OUR BOARD OF DIRECTORS RECOMMENDS A VOTE IN FAVOR**

**OF EACH OF THESE PROPOSALS.**

**Q: How do I vote?**

A: Registered Shareholders may vote in person at the Meeting, by mail, by phone or on the internet.

**Voting by Mail.** Complete, date, sign and mail the Proxy in the enclosed postage pre-paid envelope. If you mark your voting instructions on the Proxy, your Shares will be voted as you instruct. Please see the Proxy for voting instructions.

**Voting in Person.** If you attend the Meeting, you may vote as instructed at the Meeting. However, if you hold your Shares in street name (that is, through a broker/dealer or other nominee), you will need to bring to the Meeting a Proxy delivered to you by such nominee reflecting your Share ownership as of the Record Date.

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*Voting on the Internet.* Go to [www.proxyvoting.com/merc](http://www.proxyvoting.com/merc) and follow the instructions. You should have your Proxy in hand when you access the website.

*Voting by Telephone.* Call the toll-free number listed on the Proxy from any touch-tone telephone and follow the instructions. You should have your Proxy in hand when you call.

If you own your Shares through a brokerage account or in other nominee form, you should follow the instructions you receive from the record holder to see which voting methods are available.



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### **Q: What does it mean if I receive more than one Proxy?**

A: It means that you hold Shares in multiple accounts. Please complete and return all Proxies to ensure that all your Shares are voted in accordance with your instructions.

### **Q: What if I change my mind after returning my Proxy?**

A: If you are a registered Shareholder, you may revoke your Proxy and change your vote at any time before it is voted at the Meeting. You may do this by:

sending a signed notice of revocation of proxy to our registrar and transfer agent at the address set out above stating that the Proxy is revoked; or

submitting another Proxy with a later date over the internet, by telephone or to our registrar and transfer agent at the address set out above; or

voting at the Meeting.

Your Proxy will not be revoked if you attend the Meeting but do not vote.

If you own your Shares through a broker or other nominee and wish to change your vote, you must send those instructions to your broker or nominee.

### **Q: Will my Shares be voted if I do not sign and return my Proxy?**

A: If your Shares are registered in your name, they will not be voted unless you submit your Proxy or vote in person at the Meeting. If your Shares are held in street name, your broker/dealer or other nominee will not have the authority to vote your Shares unless you provide instructions.

### **Q: Who will count the votes?**

A: Agents of the Company will tabulate the Proxies. Additionally, votes cast by Shareholders voting in person at the Meeting are tabulated by a person who is appointed by our management before the Meeting.

### **Q: How many Shares must be present to hold the Meeting?**

A: To hold the Meeting and conduct business, at least one-third of the outstanding Shares entitled to vote at the Meeting must be present at the Meeting. This is called a quorum.

Votes are counted as present at the Meeting if a Shareholder either:

is present and votes in person at the Meeting; or

has properly submitted a Proxy.

Abstentions and broker non-votes (Shares held by a broker/dealer or other nominee that are not voted because the broker/dealer or other nominee does not have the authority to vote on a particular matter) will be counted for the purposes of a quorum.

**Q: How many votes are required to elect directors?**

A: The affirmative vote of a majority of the Shares voted at the Meeting is required to elect our directors. However, our corporate governance guidelines, referred to as the Governance Guidelines, provide that in uncontested directors elections any nominee for director who receives a greater number of votes Withheld for his or her election than votes For such election (a Majority Withheld Vote) will promptly tender his or her resignation as a director to our Governance and Nominating Committee which will, without participation of any director so tendering his or her resignation, consider the resignation offer

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and recommend to the Board whether to accept it. The Board, without participation by any director so tendering his or her resignation, will act on the Governance and Nominating Committee's recommendation within 90 days following certification of the Shareholder vote. We will promptly issue a press release disclosing the Board's decision and, if the Board rejects the resignation offer, its reasons for such decision. We will also promptly disclose this information in a Securities and Exchange Commission (SEC) filing.

### **Q: How many votes are required to adopt the other proposals?**

A: The ratification of the appointment of PricewaterhouseCoopers LLP and the non-binding approval of the compensation of our executive officers named herein will require the affirmative vote of a majority of the Shares represented at the Meeting and entitled to vote thereon.

### **Q: What is the effect of withholding votes or abstaining ?**

A: You can withhold your vote for any nominee in the election of directors. Withheld votes will be excluded entirely from the vote and will have no effect on the outcome (other than potentially triggering the director resignation requirements set forth in our Governance Guidelines and as described above). On other proposals, you can Abstain. If you abstain, your Shares will be counted as present at the Meeting for purposes of that proposal and your abstention will have the effect of a vote against the proposal.

### **Q: How are votes counted?**

A: You may vote For or Withhold your vote on the proposal to elect directors. You may vote For or Against or Abstain on the proposals to ratify the selection of our independent auditors and approve the compensation of our executive officers named herein. If you withhold or abstain from voting on a proposal, it will have the practical effect of voting against the proposal.

If you sign and return your Proxy without voting instructions, your Shares will be voted in accordance with the Board's recommendations for the proposals described in this Proxy Statement.

### **Q: Could other matters be discussed at the Meeting?**

A: We do not know of any other matters to be brought before the Meeting other than those referred to in this Proxy Statement. If other matters are properly presented at the Meeting for consideration, the persons named in the Proxy will have the discretion to vote on those matters on your behalf.

### **Q: Where and when will I be able to find the voting results?**

A: You can find the official results of voting at the Meeting in a current report on Form 8-K filed with the SEC within four business days of the Meeting.

### **Q: Do you have plans to allow Shareholders to access an on-line copy of the proxy materials, rather than sending them paper copies?**

A: SEC rules allow companies to mail their shareholders a notice that their proxy materials can be accessed over the internet, instead of sending a paper copy of the proxy statement and annual report. We have decided not to adopt this delivery method for the

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Meeting. We are considering how to realize the cost savings opportunity and environmental benefits of this option while still maintaining a meaningful and convenient proxy process for our Shareholders.

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### **PROPOSAL 1 ELECTION OF DIRECTORS**

In accordance with our articles of incorporation and bylaws, as amended, our Board is authorized to fix the number of the Company's directors at not less than three (3) and not more than thirteen (13) and has fixed the number of directors at eight (8); there are currently seven (7) members of the Board. Directors are elected at each annual meeting of Shareholders to hold office until the next annual meeting. The persons identified below are nominated to be elected at the Meeting for the ensuing year. Except for Keith Purchase, all of the following eight nominees are currently directors of the Company previously elected by Shareholders. Despite the expiration of a director's term, the director shall continue to serve until the director's successor is elected and qualified or until there is a decrease in the number of directors. If for any unforeseen reason any of the nominees for director declines or is unable to serve, Proxies will be voted for the election of such other person or persons as shall be designated by the directors. Proxies received which do not specify a choice for the election of the nominees will be voted FOR each of the nominees.

Our Governance and Nominating Committee believes that the following nominees represent a desirable mix of backgrounds, skills and experiences. Additionally, the Governance and Nominating Committee believes that the specific leadership skills and other experiences of the nominees described below, particularly in the areas of forest products, senior executive leadership, financial accounting/reporting, public company board experience, investment management, capital markets and finance, provide the Company with the perspectives and judgment necessary to guide our strategies and monitor their execution.

Set forth below is certain information furnished to us by the director nominees. There are no family relationships among any of our current directors or executive officers. None of the corporations or other organizations referenced in the biographical information below is a parent, subsidiary or other affiliate of the Company.

We believe that our directors should satisfy a number of qualifications, including demonstrated integrity, a record of personal accomplishments, a commitment to participation in board activities and other traits discussed below in "Our Director Nominations Process". We also endeavor to have a Board representing a range of skills and depth of experience in areas that are relevant to and contribute to the Board's oversight of our operations. Following the biographical information for each director nominee, we describe the key experience, qualifications and skills our directors bring to the Board that, for reasons discussed below, are important in our business. The Board considered these experiences, qualifications and skills and the directors' other qualifications in determining to recommend that the directors be nominated for election.

*Forest products experience.* We seek directors who have knowledge of and experience in the forest products industry, which is useful in understanding the fiber procurement, mill pulp and energy production, logistics and sales aspects of our business.

*Senior leadership experience.* We believe that it is important for our directors to have served in senior leadership roles at other organizations, which demonstrates strong abilities to motivate and manage others, to identify and develop leadership qualities in others and to manage organizations.

*Public company board experience.* Directors who have served on other public company boards can offer advice and guidance with respect to board functions, oversight and leadership, the relationship between the board and management and other matters, including corporate governance, executive compensation and oversight of strategic, operational and compliance-related matters.

*Capital markets experience.* Directors who have capital markets experience can offer advice and perspective on investor expectations and perspectives, capital raising, financing strategic transactions, including mergers and acquisitions and financial statements and financial reporting matters.

*International business experience.* We operate internationally and all of our employees are outside the United States and a majority are outside of North America. Accordingly, international business experience is desirable for our directors to have.

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### **Nominees for Election as Directors**

**Jimmy S.H. Lee**, age 54, has been a director since May 1985 and President and Chief Executive Officer since 1992. Previously, during the period that MFC Bancorp Ltd. was our affiliate, he served as a director from 1986 and President from 1988 to December 1996 when it was spun out. Mr. Lee was also a director of Quinsam Capital Corp. from March 2004 to November 2007 and Fortress Paper Ltd. from August 2006 to April 2008. During Mr. Lee's tenure with Mercer, we acquired our Rosenthal mill and converted it to the production of kraft pulp, constructed and commenced operations at our Stendal mill and acquired our Celgar mill.

Due to a variety of professional and other experiences, Mr. Lee possesses particular knowledge and experience in a variety of areas, including finance and banking, credit markets, derivative risk management, and international pulp markets. Additionally, as our Chief Executive Officer since 1992, Mr. Lee has guided the Company's operations and development for the last 20 years.

**William D. McCartney**, age 56, has been a director since January 2003. Mr. McCartney has been President and Chief Executive Officer of Pemcorp Management Inc., a business consulting services firm primarily engaged in corporate finance and management consulting services, since 1990. Mr. McCartney is also currently a director of Terrace Resources, Petra Petroleum and New World Resources, all currently listed on the TSX Venture Exchange. Mr. McCartney was also a former director of Woodbridge Energy, Exeter Resource Corp., Southwestern Resources, Bowram Energy, Newstrike Capital, Aurora Platinum and Sunward Resources Ltd. Mr. McCartney is a member of the Canadian Institute of Chartered Accountants and was the founding partner of Davidson & Company Chartered Accountants.

As a Chartered Accountant, Mr. McCartney brings substantial knowledge relating to the financial accounting and auditing processes. He also has executive experience as the current Chief Executive Officer of Pemcorp Management Inc., as well as significant outside board experience, particularly in the natural resource sector. Mr. McCartney has also been involved with numerous capital restructuring events involving several public companies.

**Graeme A. Witts**, age 73, has been a director since January 2003. Mr. Witts organized Sanne Trust Company Limited, a trust company located in the Channel Islands, in 1988 and was managing director from 1988 to 2000, when he retired. He is a director and was formerly the Chairman of Azure Property Group, SA, a European hotel group. Mr. Witts is also a fellow of the Institute of Chartered Accountants of England and Wales and has previous executive experience with the Procter & Gamble Company, as well as with Clarks shoes. Mr. Witts also has experience in government auditing.

Mr. Witts brings to the Board extensive experience in government auditing, as well as international executive and business experience from his tenures with Procter and Gamble and Clark shoes. Additionally, as a fellow of the Institute of Chartered Accountants of England and Wales, Mr. Witts brings a significant financial accounting knowledge from a global perspective.

**Guy W. Adams**, age 60, has been a director since August 2003. Mr. Adams is the managing member of GWA Advisors, LLC, GWA Investments, LLC and GWA Capital Partners, LLC, where he has served since 2002. GWA Investments is an investment fund investing in publicly traded securities managed by GWA Capital Partners, LLC, a registered investment advisor. Prior to 2002, Mr. Adams was the President of GWA Capital, which he founded in 1996 to invest his own capital in public and private equity transactions, and a business consultant to entities seeking refinancing or recapitalization. Mr. Adams was a director of Vitesse Semiconductor Corp. from October 2007 to October 2009 and a director of Exar Corporation from October 2005 to September 2007.

Mr. Adams brings to the Board extensive finance and investment experience, including both private and public equity transactions. He has also been involved in numerous refinancing and recapitalization transactions and has accumulated significant corporate governance experience after having previously served on the boards of

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three publicly traded companies. Mr. Adams has often been a speaker at conferences on matters of corporate governance. Additionally, prior to his current position as an investment manager, Mr. Adams spent eight years as an international operations manager in the oil industry.

**Eric Lauritzen**, age 73, has been a director since June 2004. Mr. Lauritzen was President and Chief Executive Officer of Harmac Pacific, Inc., a North American producer of softwood kraft pulp previously listed on the Toronto Stock Exchange and acquired by Pope & Talbot Inc. in 1998, from May 1994 to July 1998, when he retired. Mr. Lauritzen was Vice President, Pulp and Paper Marketing of MacMillan Bloedel Limited, a North American pulp and paper company previously listed on the Toronto Stock Exchange and acquired by Weyerhaeuser Company Limited in 1999, from July 1981 to April 1994.

As the former President and Chief Executive Officer of Harmac Pacific, Inc., and as the former Vice President of Pulp and Paper Marketing for MacMillan Bloedel Limited, Mr. Lauritzen has accumulated extensive executive, production and marketing experience in the pulp and paper industry, particularly in the softwood kraft pulp sector.

**Bernard Picchi**, age 62, has been a director since June 2011. Mr. Picchi has been the Managing Director of Private Wealth Management for Palisade Capital Management, LLC since July 2009. Prior to 2009, Mr. Picchi has been an analyst and consultant for several mid-sized broker/dealers and investment advisory firms. In particular, from 1980 to 1999, Mr. Picchi was an All Star rated energy analyst at Salomon Brothers, Kidder Peabody and Lehman Brothers, where he also served as Director of U.S. Stock Research. Mr. Picchi has also been the sole manager of the 5 Star rated \$1.5 billion Capital Appreciation Fund of Federated Investors, where he served as U.S. Director of Research from October 1999 to June 2002. Mr. Picchi is also a Chartered Financial Analyst.

Mr. Picchi brings to the Board 30 years' experience as a research investment professional with a particular focus on energy markets. The Board feels that Mr. Picchi's knowledge of energy markets is especially relevant as the Company continues to increase its production and sale of green energy.

**James Shepherd**, age 59, has been a director since June 2011. Mr. Shepherd was President and Chief Executive Officer of Canfor Corporation from 2004 to 2007 and Slocan Forest Products Ltd. from 1999 to 2004. Mr. Shepherd is also the former President of Crestbrook Forest Industries Ltd. and Finlay Forest Industries Limited and is the former Chairman of the Forest Products Association of Canada. Mr. Shepherd has been a director with Canfor Corporation, which is listed on the Toronto Stock Exchange, from 2004 to 2007 and has been a director of Canfor Pulp Income Fund from 2006 to 2007. Mr. Shepherd is also currently a director of Conifex Timber Inc., which is listed on the TSX Venture Exchange, and Buckman Laboratories International Inc.

Mr. Shepherd brings to the Board over 25 years' experience in the forest products sector, including Chief Executive Officer experience at Canfor Corporation and a director of Canfor Pulp Income Fund (now Canfor Pulp Products Inc.) which is one of the largest northern bleached softwood kraft, or NBSK, pulp producers in Canada.

**Keith Purchase**, age 68. Mr. Purchase was Executive Vice-President and Chief Operating Officer for MacMillan Bloedel Ltd. from 1998 to 1999, President and Chief Executive Officer of TimberWest Forest Ltd. from 1994 to 1998 and Managing Director of Tasman Pulp and Paper from 1990 to 1994. Mr. Purchase is currently a director of Hardwoods Distribution Inc., which is currently listed on the Toronto Stock Exchange. Mr. Purchase was also a trustee of Tree Island Wire Income Fund from 2003 to 2007 (and Chair of the board of directors from 2006 to 2007) which is listed on the Toronto Stock Exchange and was a director of Catalyst Paper Corporation from 2001 to 2007 (and Chair of the board of directors from 2005 to 2007).

As he has held several senior positions in the forestry industry, Mr. Purchase will bring to the Board extensive senior executive experience relevant to the Company's operations. Mr. Purchase will also bring to the Board significant board of director leadership experience from a wide variety of companies.

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### **Majority Withheld Policy in Uncontested Director Elections**

In order to provide Shareholders with a meaningful role in the outcome of director elections, our Board has adopted a provision on voting for directors in uncontested elections as part of our Governance Guidelines. In general, this provision provides that any nominee in an uncontested election who receives more votes **Withheld** for his or her election than votes **For** his or her election must promptly tender an offer of resignation following certification of the Shareholder vote to our Governance and Nominating Committee which will, without the participation of any director so tendering his or her resignation, consider the resignation and recommend to the Board whether to accept the resignation offer. The Board, without the participation of any director so tendering his or her resignation, will act on the Governance and Nominating Committee's recommendation within 90 days following certification of the Shareholder vote. Any such tendered resignation will be evaluated in the best overall interests of the Company and its Shareholders. Our Board's decision will be disclosed in a Form 8-K furnished by the Company to the SEC within four business days of the decision. If our Board decides to turn down the tendered resignation, or to pursue any additional action (as described above or otherwise), then the Form 8-K will disclose the Board's reasons for doing so. If each member of the Governance and Nominating Committee receives a Majority Withheld Vote at the same election, then the independent directors who did not receive a Majority Withheld Vote will act as a committee to consider the resignation offers and recommend to the Board whether to accept them. Any director who offers to resign pursuant to this provision will not participate in any actions by either the Governance and Nominating Committee or the Board with respect to accepting or turning down his or her own resignation offer. The complete terms of this provision are included in our Governance Guidelines which can be found at the **Governance** link on our website at [www.mercerint.com](http://www.mercerint.com).

The election of directors at the Meeting is an uncontested election

**THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE ELECTION OF EACH OF THE NOMINEES TO THE BOARD OF DIRECTORS.**



**Table of Contents****CORPORATE GOVERNANCE AND BOARD MATTERS****Governance Guidelines**

Our Governance Guidelines are intended to provide a set of guidelines to assist the Board in ensuring that the Company adheres to proper standards of good governance, and are reviewed regularly and revised as necessary or appropriate in response to changing regulatory requirements and evolving best practices. Our Governance Guidelines are available on our website at [www.mercerint.com](http://www.mercerint.com) under Governance .

**Board Meetings and Attendance**

Our Governance Guidelines provide for: (i) the duties and responsibilities of the Board, its committees and the officers of the Company; and (ii) practices with respect to the holding of regular quarterly and strategic meetings of the Board including separate meetings of non-employee directors.

Each current member of the Board attended at least 75% of all meetings of our Board and of the committees of the Board on which they served in 2011. Although we do not have a formal policy with respect to attendance of directors at our annual meetings, all directors are encouraged and expected to attend such meetings if possible. All of our directors attended the annual meeting held in June 2011.

Current committee membership and the number of meetings of our full Board and committees held in 2011 are shown in the table below:

		<b>Audit Committee</b>	<b>Compensation and Human Resources Committee</b>	<b>Governance and Nominating Committee</b>	<b>Environmental, Health and Safety Committee</b>
Jimmy S.H. Lee	Board Member				Member
Kenneth A. Shields <sup>(1)</sup>	Lead Director			Chair	
William D. McCartney	Member	Chair		Member	
Guy W. Adams	Member	Member			
Eric Lauritzen	Lead Director <sup>(2)</sup>		Member	Chair <sup>(2)</sup>	Member
Graeme A. Witts	Member		Chair	Member	
Bernard Picchi	Member		Member		
James Shepherd	Member	Member			Chair
Number of 2011 Meetings	9	4	10	5	4

(1) Kenneth A. Shields resigned from our Board effective January 27, 2012.

(2) Upon Mr. Shields' resignation from our Board, the Board appointed Eric Lauritzen our Lead Director and Chair of the Governance and Nominating Committee.

Our committee meetings are open to all directors, who often voluntarily attend all Board committee meetings.

**Affirmative Determination Regarding Director Independence**

The NASDAQ listing standards require that a majority of the members of a listed company's board of directors be independent. Based upon the NASDAQ rules, our Board has determined that each current member and nominee, other than our Chief Executive Officer, Mr. Lee, is independent.

**Executive Sessions of Independent Directors and Lead Director**

Executive sessions of non-employee directors without the presence of management are held regularly, generally before Board meetings, to review, among other things, the criteria upon which the performance of



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senior officers is based, the Company's governance practices, the reports of our independent registered chartered accountants and any other relevant matters. The lead director of our Board (the "Lead Director"), with input from our other non-employee directors, develops the agenda for and presides over these meetings. Meetings are also held formally and informally from time to time with our Chief Executive Officer for general discussions of relevant subjects. All of our non-employee directors are independent under applicable laws and regulations and the listing standards of NASDAQ. In 2011, the independent Board members met five times.

Kenneth Shields served as our Lead Director during 2011. Upon Mr. Shields' resignation from the Board in January 2012, Mr. Lauritzen was appointed by the Board to serve as the Chair of our Governance and Nominating Committee and as our Lead Director.

### **Board Leadership Structure**

The Governance and Nominating Committee, which is made up entirely of independent directors, is responsible for the continuing review of the governance structure of the Board, and for recommending to the Board governance structures and practices best suited to the Company's particular situation. The Governance and Nominating Committee determines what leadership structure it deems appropriate, based on factors such as experience of the applicable individuals and the current business environment.

Currently, the Governance and Nominating Committee has determined that having our Chief Executive Officer also serve as Chairman of the Board is in the best interests of Shareholders. Given Mr. Lee's in-depth knowledge of our business, his leadership in formulating and implementing strategic initiatives and the current regulatory and market environment, both the Governance and Nominating Committee and the Board as a whole believe that having one leader serving as both Chairman and Chief Executive Officer provides the most decisive and effective leadership. Further, having a combined Chairman and Chief Executive Officer enables the Company to speak with a unified voice to Shareholders, employees, governmental and regulatory agencies and other stakeholders. Additionally, since Mr. Lee has served as our Chief Executive Officer for the past 20 years and was instrumental in the Company's development, the Board believes that this current leadership structure is optimal for the Company because it provides the Company with strong, consistent leadership.

In considering its leadership structure, the Board has taken a number of factors into account. In particular, the Governance and Nominating Committee has sought to ensure that independent backgrounds and opinions dominate both the Board and the Board's committees. Consequently, the Board, which consists of all independent directors, other than Mr. Lee, who are highly qualified and experienced, exercises a strong, independent oversight function. This oversight function is enhanced by the fact that all of the chairs of our Board committees are independent directors, and the Audit Committee, Compensation and Human Resources Committee and Governance and Nominating Committee are composed entirely of independent directors. Further, as described herein, under the leadership of our Lead Director, our independent directors also meet separately to discuss a variety of matters affecting the Company.

As specified in our Governance Guidelines, the Board has also designated one of its independent members as Lead Director. The role of the Lead Director is to provide leadership to non-employee directors on the Board and to ensure that the Board can operate independently of management and that directors have an independent leadership contact. Specifically, the Lead Director has significant responsibilities, including:

ensuring that the Board has adequate resources to support its decision-making process and is appropriately approving strategy and supervising management;

establishing procedures to govern the Board's work;

developing agendas and timetables for Board and committee meetings;

annually reviewing the effectiveness of the Board and committees;

leading and assisting the Board in the discharge of its duties and responsibilities;



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ensuring that independent directors have adequate opportunities to meet and discuss without management present;

chairing meetings of the Board when the Chairman is not in attendance;

ensuring delegated committee functions are carried out and reported to the Board;

serving as a liaison between the Chief Executive Officer and the independent directors;

being the senior spokesman for the Board on governance matters and executive management compensation matters; and

ensuring that the Board receives adequate and regular updates from the Chief Executive Officer on all issues important to the welfare and future of the Company.

Most significantly, the position of Lead Director comes with a clear mandate and significant authority. While the Lead Director is elected annually, in order to provide consistency and continuity, it is generally expected that he or she will serve for more than one year. Kenneth Shields served as Lead Director from 2003 until his resignation from the Board in January 2012. Upon Mr. Shields' resignation, the Board appointed Eric Lauritzen as its Lead Director in January 2012.

The Board believes that our leadership structure of combining the Chairman and Chief Executive Officer roles as part of a governance structure that includes a Lead Director, plus the exercise of key board oversight responsibilities by independent directors, is appropriate for the Company at this time.

## **Committees of the Board**

Our Board currently has four standing committees: the Audit Committee, the Compensation and Human Resources Committee, the Environmental, Health and Safety Committee and the Governance and Nominating Committee. Each committee operates under a written charter which is part of our Governance Guidelines and available on our website at [www.mercerint.com](http://www.mercerint.com) under "Governance".

### *Audit Committee*

The NASDAQ rules require our Audit Committee to be comprised only of independent directors. The Audit Committee currently consists of three directors and our Board has determined that all three current members meet the independence requirements of the NASDAQ rules. The current members of the Audit Committee are Messrs. McCartney, Adams and Shepherd. Our Board has also determined that Mr. McCartney qualifies as an "audit committee financial expert" as defined in applicable SEC rules and applicable NASDAQ listing standards.

Our Audit Committee oversees, on behalf of the Board, our corporate accounting, financial reporting process and systems of internal accounting and financial controls. For this purpose, the primary responsibilities of our Audit Committee are to:

Review the financial statements to be included in our annual reports on Form 10-K and quarterly reports on Form 10-Q;

Meet with and review the results of the annual audit performed by the independent public accountants and the results of their review of our quarterly financial statements;

Recommend the selection of independent public accountants; and

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Review and approve the terms of all related party transactions.

Our Audit Committee is also responsible for establishing and maintaining procedures for receiving, reviewing and responding to complaints regarding accounting, internal accounting controls or auditing matters.

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### *Compensation and Human Resources Committee*

The Compensation and Human Resources Committee currently consists of three directors, all of whom our Board has determined to be independent directors under NASDAQ rules. The current members of the Compensation and Human Resources Committee are Messrs. Witts, Lauritzen and Picchi.

The primary responsibilities of our Compensation and Human Resources Committee are to:

Review and approve the strategy and design of the Company's compensation, equity-based and benefits programs;

Analyze executive compensation data, including base salaries, annual bonuses, long-term incentives and pay, as well as executive compensation principles, strategies, trends, regulatory requirements and current programs;

Review and approve all compensation awarded to the Company's executive officers;

Periodically review and make recommendations to our Board with respect to director compensation, including compensation for members of committees of the Board;

Administer the Company's equity incentive plan, including reviewing and approving equity grants to executive officers;

Review annual goals and objectives of our key executive officers;

Review annual performance objectives and actual performance against previous year's goals to evaluate individual performance and, in turn, compensation levels;

Review and approve succession plans for our key executive officers; and

Review individual specific training and development requirements for our key executive officers.

**Succession Planning.** In light of the importance of executive leadership to our business, our Compensation and Human Resources Committee, pursuant to its charter, reviews at least annually the performance of members of our senior management team, including executive officers and succession plans for each officer's position. Further, our Compensation and Human Resources Committee also conducts, at least twice annually, a review of and provides approval for, management development and succession planning practices and strategies. In addition, the Compensation and Human Resources Committee, in consultation with our Chief Executive Officer, will review succession plans with the Board and provides the Board with recommendations as to potential succession in the event of each senior officer's termination of employment with the Company for any reason (including death or disability). All such information is provided to the Board. The full Board has the primary responsibility to develop succession plans for the position of Chief Executive Officer.

### *Governance and Nominating Committee*

The Governance and Nominating Committee currently consists of three directors, all of whom our Board has determined to be independent directors under NASDAQ rules. The current members of the Governance and Nominating Committee are Messrs. Lauritzen, Witts and McCartney. Mr. Shields served as the Chair of the Governance and Nominating Committee throughout 2011. Upon Mr. Shields' resignation from the Board in January 2012, Mr. Lauritzen was appointed Chair of the Governance and Nominating Committee.

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The primary responsibilities of our Governance and Nominating Committee are to:

Manage the corporate governance system of the Board;

Assist the Board in fulfilling its duties to meet applicable legal and regulatory and self-regulatory business principles and codes of best practice;

Assist in the creation of a corporate culture and environment of integrity and accountability;



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In conjunction with the Lead Director, monitor the quality of the relationship between the Board and management;

Review management succession plans;

Recommend to the Board nominees for appointment to the Board;

Lead the Board's annual review of the chief executive officer's performance; and

Set the Board's forward meeting agenda.

### *Environmental, Health and Safety Committee*

The Environmental, Health and Safety Committee currently consists of three directors and our Board has determined that all current members, other than Mr. Lee, are independent directors under NASDAQ rules. The current members of the Environmental, Health and Safety Committee are Messrs. Shepherd, Lee and Lauritzen.

The primary responsibilities of our Environmental, Health and Safety Committee are to:

Review, approve and, if necessary, revise the environmental, health and safety policies and environmental compliance programs of the Company;

Monitor the Company's environmental, health and safety management systems including internal and external audit results and reporting; and

Provide direction to management on the frequency and focus of external independent environmental, health and safety audits.

### **Our Director Nominations Process**

Our Board is responsible for approving candidates for Board membership. The Board has delegated the screening and recruitment process to our Governance and Nominating Committee in consultation with our Chairman and Chief Executive Officer.

### *Criteria for Directors*

Our Governance and Nominating Committee believes that certain criteria should be met by director nominees to ensure effective corporate governance, support the Company's strategies and businesses, account for individual director attributes and the effect of the overall mix of those attributes on the Board's effectiveness, and support the successful recruitment of qualified candidates for the Board. Qualified candidates are those who, in the judgment of the Governance and Nominating Committee, possess certain personal attributes and a sufficient mix of experience and related attributes to assure effective service on the Board. The personal attributes of director nominees that the Governance and Nominating Committee considers include:

**Integrity.** Each candidate shall be an individual who has demonstrated integrity and ethics in his or her personal and professional life and has established a record of professional accomplishment in his or her chosen field;

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***Experience.*** Each candidate should possess professional and personal experiences and expertise relevant to our goal of being one of the world's leading NBSK pulp producers, as well as the goal of being a significant producer of green energy. At this stage of our development, relevant experiences might include, among other things, forest products CEO experience, international experience, other public company board experience, and relevant senior-level expertise in one or more of the following areas: forest products or pulp mills, capital markets, finance and accounting.

***Independence.*** No candidate, or family member (as defined in NASDAQ rules) or affiliate or associate (as defined in federal securities laws) of a candidate, shall have any material personal, financial or professional interest in any present or potential competitor of the Company;

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**Active Participation.** Each candidate must be prepared to participate fully in Board activities, including active membership on at least one Board committee and attendance at, and active participation in, meetings of the Board and the committee(s) of which he or she is a member, and not have other personal or professional commitments that would, in the Governance and Nominating Committee's sole judgment, interfere with or limit his or her ability to do so;

**Best Interests of All Shareholders.** Each candidate must be prepared to represent the best interests of all Shareholders and not just one particular constituency;

**Collegiality.** Each candidate should contribute positively to the existing chemistry and collegial culture among Board members; and

**Diversity.** Each candidate should contribute to the Board's overall diversity diversity being broadly construed to mean a variety of viewpoints, perspectives, personal and professional experiences and backgrounds, such as nationality, gender and ethnicity differences.

### *Processes for Identifying Director Candidates*

Our Governance and Nominating Committee has two principal methods for identifying potential Board candidates (other than those proposed by Shareholders, as discussed below). First, such Committee solicits ideas for possible candidates from a number of sources, including other members of the Board, senior executives, individuals personally known to Board members and research. Additionally, the Governance and Nominating Committee may, from time to time, use its authority under its charter to retain, at our expense, one or more search firms to identify candidates (and to approve such firms' fees and other retention terms). The Governance and Nominating Committee did not retain a search firm during fiscal 2011.

Our Governance and Nominating Committee will consider nominees recommended by Shareholders as candidates for Board membership. A Shareholder wishing to nominate a candidate for Board membership should provide written notice to the Governance and Nominating Committee in the care of the Secretary, Mercer International Inc., c/o Suite 1120, 700 West Pender Street, Vancouver, B.C. V6C 1G8, Canada. To nominate a candidate for election to the Board at an annual meeting, the notice must be received not less than 120 days before the first anniversary of the date of the Company's Proxy Statement released to Shareholders in connection with the annual meeting held in the prior year. The notice should contain information about both the nominee and the Shareholder making the nomination, including such information regarding each nominee required to be included in a Proxy Statement filed pursuant to SEC rules and regulations and such other information sufficient to allow the Governance and Nominating Committee to determine if the candidate meets the criteria for Board membership described above. The Governance and Nominating Committee may require that the proposed nominee furnish additional information to determine that person's eligibility to serve as a director. All recommendations will be brought to the attention of the Governance and Nominating Committee.

### *Evaluation of Director Candidates*

The Governance and Nominating Committee will consider and evaluate all candidates identified through the processes described above, including incumbents and candidates proposed by Shareholders.

If, based upon the Governance and Nominating Committee's initial evaluation, the candidate continues to be of interest, members of the Governance and Nominating Committee will interview the candidate and communicate their evaluation to the rest of the Committee members and the Chairman and Chief Executive Officer. Additional meetings between the candidate and other members of the Governance and Nominating Committee and the Chairman and Chief Executive Officer may also be arranged. Ultimately, background and reference checks will be conducted by the Governance and Nominating Committee.

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### *Recommendation and Nomination*

After consideration, the Governance and Nominating Committee will finalize its list of recommended candidates to the Board for its consideration. Candidates who are then recommended by the Governance and Nominating Committee and approved by our Board are included in our recommended slate of director nominees in our proxy statement.

### *Potential Future Changes to Nomination Process*

Our nomination policies are intended to provide a flexible set of guidelines for the effective functioning of our director nomination process. Our Governance and Nominating Committee reviews the nomination policy at least annually to consider and make such modifications as may be required to reflect our then needs and circumstances and to address any changes in applicable legal or listing standards.

### **Shareholder Communications with Board**

Shareholders who wish to communicate with the Board (other than with respect to a complaint or concern regarding accounting, internal accounting controls or auditing matters which must be directed to the Audit Committee as described below) should send written correspondence to the Board in the care of the Secretary, Mercer International Inc., c/o Suite 1120, 700 West Pender Street, Vancouver, B.C., V6C 1G8, Canada. The correspondence should indicate that the person sending the correspondence is a Shareholder and set out the purpose of such communication. The secretary will: (i) forward the correspondence to the director to whom it is addressed or, in the case of correspondence addressed to the Board generally, to the Lead Director; (ii) attempt to handle the inquiry directly where it is a request for information about the Company; or (iii) not forward the correspondence if it is primarily commercial in nature or if it relates to an improper topic. All such correspondence will be summarized for the Board periodically and each such correspondence will be made available to any director upon request.

### **Complaint Procedure**

The Audit Committee has established procedures for: (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and (ii) the confidential and anonymous submission by the Company's employees and others of concerns regarding questionable accounting or auditing matters. A person wishing to notify the Company of such a complaint or concern should send a written notice thereof, marked "Private & Confidential", to the chairman of the Audit Committee, Mercer International Inc., c/o Suite 1120, 700 West Pender Street, Vancouver, B.C., V6C 1G8, Canada.

### **Code of Business Conduct and Ethics**

Our Board has adopted a Code of Business Conduct and Ethics that applies to our directors and all of our executive officers, including our Chief Executive Officer, Chief Financial Officer and Controller, or persons performing similar functions. The Code of Business Conduct and Ethics is available on our website at [www.mercerint.com](http://www.mercerint.com) under "Governance".

### **Shareholding Guideline for Non-Employee Directors**

Since 2006 we have had a target shareholding guideline in place for our non-employee directors. Pursuant to such guideline, each non-employee director should, within three years of becoming a director, own a minimum number of Shares which is equal in value to three times the amount of their annual cash retainer. As of the Record Date, all of our non-employee directors, including our Lead Director, met the guideline amount.

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### **Prohibition Against Hedging**

The Board has approved a policy that prohibits our directors and executive officers from hedging their ownership of Mercer stock including trading in options, puts, calls or other derivative instruments relating to our securities. A copy of the Company's hedging policy is available on our website at [www.mercerint.com](http://www.mercerint.com) under Governance .

### **Review and Approval of Related Party Transactions**

Pursuant to the terms of its Charter, the Audit Committee is responsible for reviewing and approving the terms and conditions of all proposed transactions between us, any of our officers, directors or Shareholders who beneficially own more than 5% of our outstanding Shares, or relatives or affiliates of any such officers, directors or Shareholders, to ensure that such related party transactions are fair and are in our overall best interest and that of our Shareholders. In the case of transactions with employees, a portion of the review authority is delegated to supervising employees pursuant to the terms of our Code of Business Conduct and Ethics.

The Audit Committee has not adopted any specific procedures for c