

WEYERHAEUSER CO
Form 10-K
March 01, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

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 NUMBER 1-4825

WEYERHAEUSER COMPANY

A WASHINGTON CORPORATION

91-0470860

(IRS EMPLOYER IDENTIFICATION NO.)

FEDERAL WAY, WASHINGTON 98063-9777 TELEPHONE (253) 924-2345

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS
Common Shares (\$1.25 par value)

NAME OF EACH EXCHANGE ON WHICH REGISTERED:

Chicago Stock Exchange

New York Stock Exchange

Exchangeable Shares (no par value)

Toronto Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 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. []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer Accelerated filer [] Non-accelerated filer []

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). [] Yes No

As of June 23, 2006, 246,233,480 shares of the registrant's common stock (\$1.25 par value) were outstanding and the aggregate market value of the registrant's voting shares held by non-affiliates was approximately \$14,531,562,772

As of February 2, 2007, 236,699,228 shares of the registrant's common stock (\$1.25 par value) were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the *Notice of 2007 Annual Meeting of Shareholders and Proxy Statement* for the company's Annual Meeting of Shareholders to be held April 19, 2007, are incorporated by reference into Part II and III.

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PART I

OUR BUSINESS

We are an integrated forest products company. We grow and harvest trees, build homes and make wood and paper products essential to everyday lives. Our goal is to do this safely, profitably and responsibly.

Our business has offices or operations in 18 countries and has customers worldwide. We manage 33 million acres of forests, and in 2006, we generated \$21.9 billion in annual net sales and revenues.

This portion of our Annual Report and Form 10-K provides detailed information about how we do those things. It explains who we are, what we do and where we are headed.

We break out financial information such as revenues, earnings and assets by the business segments that form our company. We also discuss the development of our company and the geographic areas where we do business.

WE CAN TELL YOU MORE

AVAILABLE INFORMATION

We meet the information reporting requirements of the Securities Exchange Act of 1934 by filing periodic reports, proxy statements and other information with the Securities and Exchange Commission (SEC). These reports and statements information about our company s business, financial results and other matters are available at:

the SEC internet site www.sec.gov;

the SEC s Public Conference Room, 100 F Street NE, Washington, D.C. 20549, 1-800-SEC-0330; and

our internet site www.weyerhaeuser.com.

When we file the information electronically with the SEC, it is also added to our internet site.

WHO WE ARE

OUR BUSINESS SEGMENTS

In the Consolidated Results section of Management s Discussion and Analysis of Financial Condition and Results of Operations, you will find our overall performance results for our business segments:

Timberlands;
Wood Products;
Cellulose Fiber and White Papers;
Containerboard, Packaging and Recycling;
Real Estate and Related Assets; and
Corporate and Other.

Detailed financial information about our business segments and our geographic locations is in Notes 24 and 25 of Financial Statements and Supplementary Data as well as further in this section and in the Management s Discussion and Analysis of Financial Condition and Results of Operations.

OUR HISTORY

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We started out as Weyerhaeuser Timber Company, incorporated in the state of Washington in January 1900 when Frederick Weyerhaeuser and 15 partners bought 900,000 acres of timberland. In the 106 years since then, we have worked to be the best forest products company in the world.

Our many innovations and accomplishments through the years include:

establishing the nation's first certified tree farm in 1941;

hand-planting 18.4 million seedlings through a foot or more of ash to transform 68,000 acres of devastated, heat-blasted landscape left from the Mount St. Helens eruption in 1980 into new forests that will be ready for harvesting in 2020; and

making our forests among the most productive in the world by using our High Yield Forestry program—an approach that combines economic benefits with a concern for habitat, wildlife, water quality and other forest values.

COMPETITION IN OUR MARKETS

Our major markets—both domestic and foreign—are highly competitive, with numerous companies selling similar products. Many of our products also compete against substitutes for wood and wood-fiber products. In real estate development and other related activities, we compete against numerous regional and national firms. We compete in our markets primarily through price, product quality and service levels.

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Our business segments compete based on the following strategies:

Timberlands is extracting maximum value for each acre.

Wood Products is delivering integrated solutions to the residential construction and industrial markets.

Cellulose Fiber and White Papers is focusing primarily on value-added pulp products and is combining its fine paper product lines with Domtar Inc.

Containerboard, Packaging and Recycling is growing its packaging products and services in selected market segments where we meet customer requirements at the lowest cost for our supply chain.

Weyerhaeuser Real Estate Company is growing in target markets.

International operations, in the Corporate and Other segment, use joint ventures to expand our position as a low cost softwood and hardwood timber grower.

SALES OUTSIDE THE UNITED STATES

In 2006, 17 percent or \$3.6 billion of our total consolidated sales and revenues were to customers outside the United States. That included:

\$1.6 billion of exports from the United States,

\$1.3 billion of Canadian export and domestic sales and

\$0.7 billion of other foreign sales.

In 2005, 16 percent or \$3.5 billion of our total consolidated sales and revenues were to customers outside the United States. That included:

\$1.7 billion of exports from the United States,

\$1.2 billion of Canadian export and domestic sales and

\$0.6 billion of other foreign sales.

SHAPING OUR BUSINESS

Executing our strategies and building scale has meant adding to our business through key acquisitions. It also has meant strategically selling or closing businesses and assets. In recent years, we have grown substantially through acquisitions that have included:

Willamette Industries in 2002, and

Maracay Homes in 2006.

Our recent dispositions have included:

Coastal British Columbia operations and timberlands (B.C. Coastal) in 2005,

French composite panel operations in 2005,

North American and Irish composite panel operations in 2006 and

the closure or sale of a number of individual facilities that were no longer competitive or did not align to our business strategy.

In August 2006, we announced an agreement to combine our Fine Paper business and related assets with Domtar Inc. (the Domtar Transaction).

Our Fine Paper business part of our Cellulose Fiber and White Papers segment in combination with Domtar, Inc. will create a leading producer of fine paper in North America based on the production capacity of the combined assets. See Note 22: Discontinued Operations in Financial Statements and Supplementary Data for further details of the transaction.

We continue to reinvest in our businesses through a variety of capital projects. In 2006 our capital expenditures excluding acquisitions and our Real Estate and Related Assets business segment totaled \$849 million. We expect these investments will:

optimize our existing operations,

allow us to use energy more efficiently and

increase our competitiveness.

OUR EMPLOYEES

We have approximately 46,700 employees. This number includes:

45,000 employed by our corporate operations and business segments, not including our Real Estate and Related Assets segment; and

1,700 employed by our Real Estate and Related Assets segment.

Of these employees, approximately 16,150 are members of unions covered by multi-year collective bargaining agreements.

WHAT WE DO

This section provides information about how we grow and harvest trees, manufacture and sell products made from them, and build and sell homes. For each of our business segments, we provide details about what we do, where we do it, how much we sell and where we are headed.

TIMBERLANDS

Our Timberlands business segment manages 6.4 million acres of private commercial forestland in the United States. We own 5.7 million of those acres and lease the other 700,000 acres. In addition, we have renewable, long-term licenses on 26.8 million acres of forestland located in five Canadian provinces. A portion of the related assets that are part of the Domtar Transaction we announced in August include 12.2 million acres of long-term forestland licenses of which 4.4 million acres are located in Ontario and 7.8 million acres located in Saskatchewan. Financial information in the tables below includes data from all of the segment's business units as of the end of 2006, including the assets expected to be a part of the Domtar Transaction.

What We Do

We grow and harvest trees for use as lumber and other wood and building products. We also export logs to other countries

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where they are made into products. After harvest, we typically plant seedlings to reforest the harvested areas using the most effective regeneration method for the site and species. We monitor and care for the new trees as they grow to maturity. We seek to sustain and maximize the timber supply from our forestlands, while keeping the health of our environment a key priority. We are recognized as a leading forest manager.

The goal of our timberlands businesses is to maximize returns by selling logs and stumpage to internal and external customers. We focus on solid softwood and use intensive silviculture to improve forest productivity and returns, while managing the forests on a sustainable basis to meet both customer and public expectations. We capture additional value from our land and timber through the lease or sale of minerals, oil, gas, recreation and communications sites; sales of higher-and-better-use property; and the sale of other non-timber products. We realize additional value by integrating our timberlands with our manufacturing operations.

Where We Do It

We own or lease:

4.2 million acres in the southern United States and
2.2 million acres in the Pacific Northwest.

In addition, we have renewable, long-term licenses on 26.8 million acres of forestland located in five Canadian provinces. In Canada, forests generally are owned and administered by provincial governments.

We also co-own and manage forestlands in the Southern Hemisphere. The results of these international operations are reported in the Corporate and Other segment.

Our worldwide timber inventory is approximately 366 million cunits. One cunit equals 100 cubic feet of solid wood. The amount of timber inventory does not translate into an amount of lumber or panel products because the quantity of end products:

varies according to the species, size and quality of the timber and
will change through time as the mix of these variables adjusts.

As a result, there is no standard for converting cubic feet of solid wood into board feet of lumber or square feet of panel products.

How Much We Sell

Our net sales to unaffiliated customers declined 3 percent in 2006 with both 2006 and 2005 slightly exceeding \$1 billion.

Our sales volume of logs to unaffiliated customers in 2006 declined 116,000 cunits, or 3 percent, from 2005. This reduction in volume was due primarily to the sale of the B.C. Coastal operations in 2005. Sales volumes for 2005 included 125,000 cunits from these operations. Other factors that may affect our log sales volume include the following:

Domestic grade log sales depend on lumber usage, which is influenced by and depends on housing starts and repair and remodel activity. In addition, sales to unaffiliated customers can fluctuate based on the needs of our own mills, and the availability of logs from outside markets and our own timberlands.

Domestic fiber log sales fluctuate as a result of the demand for chips by pulp and containerboard mills.

Export log sales depend on the level of housing starts in Japan, as that is where most of our North American export logs are sold.

All of our domestic and export logs are sold to unaffiliated customers or transferred at market prices to our internal mills by sales and marketing staffs within our timberlands business units.

Average log price realizations in 2006 were up slightly as compared to 2005, primarily due to higher export log prices. Our log prices are affected by the supply of and demand for grade and fiber logs, which are influenced by all of the factors described above.

Sales of nonstrategic timberlands decreased slightly in 2006 as compared to 2005, in part due to the sale of the B.C. Coastal operations in 2005 as well as the 2005 sale of leased lands in Georgia that was not repeated in 2006. The leased lands in Georgia represented the last parcel remaining from the 2004 sale of timberlands in Georgia.

Where We re Headed

Our strategies for achieving continued success include:

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managing forests on a sustainable basis to meet customer and public expectations;
reducing the time it takes to realize returns by practicing intensive forest management and focusing on the most advantageous markets;
efficiently delivering fiber to internal supply chains;
building long-term relationships with external customers who rely on a consistent supply of high-quality raw material; and
continuously reviewing our portfolio to create the greatest value for the company.

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MAIN PRODUCTS

logs
minerals, oil and gas
higher and better use property

HOW THEY RE USED

made into lumber and other wood and building products
sold into the energy markets
sold into real estate development markets for residential use

SUMMARY OF 2006 TIMBER INVENTORY AND TIMBERLAND LOCATIONS

GEOGRAPHIC AREA

	MILLIONS OF CUNITS	THOUSANDS OF ACRES AT DECEMBER 31, 2006			TOTAL
		INVENTORY	FEE OWNERSHIP	LONG-TERM LEASES	
United States					
West	62	2,233			2,233
South	51	3,410	731		4,141
Total United States	113	5,643	731		6,374
Canada					
Alberta	104			5,225	5,225
British Columbia	9			2,360	2,360
New Brunswick	2			177	177
Ontario ⁽³⁾	52			6,821	6,821
Saskatchewan ⁽³⁾	82			12,214	12,214
Total Canada	249			26,797	26,797
Subtotal North America	362	5,643	731	26,797	33,171
International ⁽¹⁾⁽²⁾	4	291	10	76	377
Total	366	5,934	741	26,873	33,548

(1) International represents timberlands outside of North America, the results of which are reported in the Corporate and Other segment.

(2) Includes Weyerhaeuser percentage ownership of timberlands owned and managed through joint ventures

(3) License arrangements on 4.4 million acres in Ontario and 7.8 million acres in Saskatchewan are expected to be included in the Domtar Transaction.

FIVE-YEAR SUMMARY OF NET SALES FOR TIMBERLANDS

SALES VOLUMES⁽¹⁾⁽²⁾: IN MILLIONS OF DOLLARS

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	2006	2005	2004	2003	2002
To unaffiliated customers:					
Logs	\$ 781	\$ 761	\$ 822	\$ 730	\$ 657
Other products	235	286	280	264	273
	\$ 1,016	\$ 1,047	\$ 1,102	\$ 994	\$ 930
Intersegment sales	\$ 1,675	\$ 1,794	\$ 1,622	\$ 1,605	\$ 1,545

(1) Reflects the divestiture of the company's B.C. Coastal operations in May 2005.

(2) Fiscal year 2006 includes 53 weeks of operations compared to 52 weeks in fiscal years 2002 through 2005.

FIVE-YEAR SUMMARY OF LOG SALES VOLUMES TO UNAFFILIATED CUSTOMERS FOR TIMBERLANDS

SALES VOLUMES⁽¹⁾⁽²⁾: IN THOUSANDS

	2006	2005	2004	2003	2002
Logs cunits	3,436	3,552	3,920	4,125	3,600

(1) Reflects the divestiture of the company's B.C. Coastal operations in May 2005.

(2) Fiscal year 2006 includes 53 weeks of operations compared to 52 weeks in fiscal years 2002 through 2005.

FIVE-YEAR SUMMARY OF SELECTED PUBLISHED EXPORT LOG PRICES

SELECTED PUBLISHED PRODUCT PRICES:

	2006	2005	2004	2003	2002
Export logs (#2 sawlog-bark on) \$/MBF					
Coastal Douglas fir Longview	\$ 833	\$ 780	\$ 780	\$ 707	\$ 697
Coastal Hemlock	\$ 442	\$ 439	\$ 386	\$ 354	\$ 416

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WOOD PRODUCTS

We are one of the largest manufacturers and distributors of wood products in North America.

The related assets that are part of the Domtar Transaction we announced in August include three sawmills in Canada, including one mill in which we have an equity interest.

What We Do

We provide the residential structural frame market with access to a family of high-quality softwood lumber, engineered lumber, structural panels and other specialty products.

We deliver innovative homebuilding solutions to help our customers quickly and efficiently meet their customers' needs.

We sell our products and services through our own sales organizations and distribution facilities, and we supplement our product offerings with building materials that we purchase from other manufacturers.

We sell certain of our products into the repair and remodel market through the wood preserving and home improvement warehouse channels.

We export our engineered building materials and industrial hardwood products to Europe and Asia.

We make and sell hardwood and softwood lumber and panels to manufacturers of furniture and cabinetry in over 40 countries.

We acquire our raw materials at market price from our Timberlands business segment and from third parties.

Where We Do It

We have 32 softwood lumber facilities, 18 engineered lumber facilities, 8 veneer facilities, 12 structural panel facilities, and 8 hardwood lumber facilities, as well as 85 distribution locations in the U.S. and Canada. On February 16, 2007, we announced our intent to sell our Canadian and select U.S. building materials distribution centers. See Note 22 in Financial Statements and Supplementary Data.

How Much We Sell

Revenues of our Wood Products business segment come from sales to wood products dealers, do-it-yourself retailers, builders, and industrial users. During 2006, we completed the transition from five legacy businesses into one business that is better positioned to provide products and services to the residential construction market, and we launched the new iLevel brand. In 2006 our net sales were \$7.9 billion compared to \$9.3 billion in 2005.

Our sales volume of wood products in 2006 declined from 2005 primarily because of the reduction in production capacity through sale or closure of a number of facilities in 2005 and 2006. These include:

- sale of our B.C. Coastal operations, which included 5 sawmills and 2 remanufacturing plants;
- sale of our North American composite products business; and
- closure of our Big River, Saskatchewan lumber mill and our Aberdeen, Washington large log sawmill.

Prices for wood products in 2006 also declined from 2005. The following factors influence prices for wood products:

Overall demand for structural wood products used in new residential construction and the repair and remodel of existing homes affects prices. Residential construction is affected by the rate of household formation and other demographic factors, mortgage interest rates, the need for replacement of existing housing stock, and the demand for secondary or vacation homes. Repair and remodel activity is affected by the size and age of existing housing inventory.

Seasonality can affect prices, as residential construction slows during winter months and increases during spring and summer.

The availability of supply of commodity building products such as lumber and plywood affect prices. A number of factors can affect supply, including weather, raw material quality and availability, and availability of rail and truck transportation.

Proprietary grade products and services can command higher prices. Our ability to differentiate our products and services from other manufacturers and create demand for them in the marketplace tends to generate higher prices.

Where We are Headed

Our strategies for achieving continued success vary by business.

During 2006, we completed the transition from five legacy Residential Wood Products businesses into one business that is better positioned to provide products and services to the residential construction market and we launched the new iLevel brand. Our strategies for continued success include:

- delivering innovative home-building solutions to dealers so they can quickly and efficiently meet their customers' needs;
- leveraging technology to improve our processes and systems to provide our customers with performance-based proprietary products;
- achieving operating excellence throughout the delivery chain; and
- taking advantage of our size, scale, expertise, and breadth of products that make us unique in serving the structural-frame marketplace.

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In our Hardwood and Industrial Products business our strategy is to meet the growing international demands of customers by aligning our global supply chain and strengthening our industrial wood products sales capability.
In all businesses within our Wood Products segment we continue to improve or remove underperforming and non-strategic assets from our system and focus investments on strategic goals.

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WOOD PRODUCTS

MAIN PRODUCTS

RESIDENTIAL WOOD PRODUCTS

softwood lumber
engineered lumber

HOW THEY'RE USED

residential and commercial structures – homes, offices and stores
factory-built structures, floor and roof joists, headers and beams used
in residential, commercial and industrial facilities and structures

solid section

I-Joists
structural panels

structural sheathing, sub-flooring, I-beam floor joists, recreational
vehicle flooring, stepping, appearance panels, and construction
material

oriented strand board (OSB)

plywood

veneer
other products

complementary building products such as cedar and composite
decking, siding and insulation

HARDWOOD AND INDUSTRIAL PRODUCTS

hardwood lumber and plywood

furniture, pallet cants, ties, mouldings, panels, cabinets, architectural
millwork, components, and retail boards.

FIVE-YEAR SUMMARY OF NET SALES FOR WOOD PRODUCTS

NET SALES^{(1) (2)}: IN MILLIONS OF DOLLARS

	2006	2005	2004	2003	2002
Softwood lumber	\$ 2,997	\$ 3,624	\$ 3,915	\$ 3,281	\$ 3,186
Plywood	529	735	929	784	700
Veneer	42	44	44	39	34
Composite panels	357	497	501	393	379
Oriented strand board	939	1,164	1,390	1,109	649
Hardwood lumber	398	390	365	350	333
Engineered I-Joists	670	704	645	517	469
Engineered solid section	794	833	701	542	485
Logs	23	62	125	105	253
Other products	1,153	1,225	1,160	1,020	1,027
	\$ 7,902	\$ 9,278	\$ 9,775	\$ 8,140	\$ 7,515

(1) Reflects the divestitures of the company's B.C. coastal operations in May 2005 and North American composite panel operations in July 2006.

(2) Fiscal year 2006 includes 53 weeks of operations compared to 52 weeks in fiscal years 2002 through 2005.

FIVE-YEAR SUMMARY OF SALES VOLUME FOR WOOD PRODUCTS

SALES VOLUMES⁽¹⁾⁽²⁾: IN MILLIONS

2006 2005 2004 2003 2002

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Softwood lumber board feet	7,871	8,650	8,890	8,981	8,623
Plywood square feet (3/8)	1,663	2,180	2,629	2,665	2,685
Veneer square feet (3/8)	215	231	225	239	218
Composite panels square feet (3/4)	802	1,229	1,234	1,162	1,092
Oriented strand board square feet (3/8)	4,096	3,948	4,213	4,361	4,205
Hardwood lumber board feet	412	427	417	435	435
Engineered I-Joists lineal feet	456	484	496	447	400
Engineered solid section cubic feet	36	38	37	32	28
Logs cunits (in thousands)	169	451	934	799	1,657

(1) Reflects the divestiture of the company's B.C. coastal operations in May 2005 and North American composite panel operations in July 2006.

(2) Fiscal year 2006 includes 53 weeks of operations compared to 52 weeks in fiscal years 2002 through 2005.

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Table of Contents**FIVE-YEAR SUMMARY OF SELECTED PUBLISHED WOOD PRODUCT PRICES**

SELECTED PUBLISHED PRODUCT PRICES:

	2006	2005	2004	2003	2002
Lumber (common) \$/MBF					
2x4 Douglas fir (kiln dried)	\$ 351	\$ 406	\$ 459	\$ 347	\$ 328
2x4 Douglas fir (green)	\$ 284	\$ 355	\$ 406	\$ 307	\$ 289
2x4 Southern yellow pine (kiln dried)	\$ 329	\$ 421	\$ 387	\$ 330	\$ 302
2x4 Spruce-pine-fir (kiln dried)	\$ 265	\$ 322	\$ 361	\$ 242	\$ 236
Plywood (1/2 CDX) \$/MSF					
West	\$ 341	\$ 386	\$ 448	\$ 367	\$ 287
South	\$ 279	\$ 353	\$ 403	\$ 335	\$ 248
Oriented strand board (7/16 -24/16)					
North Central price \$/MSF	\$ 218	\$ 323	\$ 374	\$ 295	\$ 160

CELLULOSE FIBER AND WHITE PAPERS

The Cellulose Fiber and White Papers businesses produce a wide range of fine paper products, which are sold to customers through a network of distribution centers in the United States. Our cellulose fiber products are distributed through a global direct sales network, and liquid packaging products are sold directly to carton and food product packaging converters in North America and internationally. Our newsprint business, North Pacific Paper Corporation (NORPAC), is a joint venture with Nippon Paper Industries. The newsprint produced at this facility primarily is sold directly to newspapers and publishers in the western United States and Japan.

In August 2006, we announced the Domtar Transaction. White Paper assets that will be included in the Domtar Transaction are six uncoated freesheet mills in the United States and two in Canada (one of which is not currently in operation), and one coated groundwood mill in the United States. Cellulose Fiber assets that will be included are the pulp production facilities at the uncoated freesheet mills, and one pulp mill in Canada. Financial information in the tables below includes data from all of the segment's businesses as of the end of 2006, including the assets and operations expected to be included in the Domtar Transaction.

What We Do

We are one of the world's largest softwood market pulp producers.

We provide cellulose fibers (pulp) for targeted specialty markets, working closely with our customers to develop unique or specialized applications for cellulose fiber.

We produce uncoated freesheet and coated groundwood papers used in various printing and publishing applications.

We manufacture liquid packaging board used primarily for the production of containers for liquid products.

Our joint venture, NORPAC, makes high-quality newsprint and uncoated groundwood products.

Where We Do It

We have 10 pulp mills and 8 paper mills in strategic locations throughout the United States and Canada. Our liquid packaging mill and our NORPAC joint venture newsprint manufacturing facility are located in Washington State.

How Much We Sell

Revenues of our Cellulose Fiber and White Papers business segment come from sales to customers who use the products for further manufacturing or distribution, and for direct use. In 2006, our net sales were approximately \$4.6 billion compared to \$4.3 billion in 2005.

Our sales volume of cellulose fiber products in 2006 was 2.6 million tons an increase of 5 percent compared to 2005 despite the closures of two production facilities during the year.

Factors that affect sales volumes for cellulose fiber products include:

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world gross domestic product growth and paper production and diaper demand.

Our pulp prices in 2006 increased compared to 2005 due to improving balance between supply and demand, higher fiber costs in Europe and a weaker U.S. dollar.

Factors that affect the prices of our cellulose fiber products include:

world economic environment;
industry operating rate, which is based on the balance of supply and demand; and
relative strength of the U.S. dollar.

Our sales volumes of fine paper products, including both freesheet and coated groundwood was 3.0 million tons in 2006, which was a decline of 8 percent compared to 2005. This decline was due to the closure of the Prince Albert, Saskatchewan paper operations in January 2006 and the closure of a paper machine at our Dryden, Ontario facility in April 2006.

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Factors that affect sales volume for fine paper products include:

North American economic environment,
displacement of paper needs due to electronic applications and
competition from other paper grades.

Our fine paper prices improved in 2006 compared to 2005 due to an improving balance between product supply and market demand.

Factors that affect the prices of our fine paper products include:

industry operating rate, which is based on the balance of supply and demand; and
North American and world economic environments.

Our liquid packaging business unit experienced volume growth and price improvement in 2006 compared to 2005. Demand for this product is influenced by the seasonal demand patterns in the Pacific Rim countries.

Where We re Headed

Our strategies for achieving continued success include:

successfully completing the combination of our fine paper business and related assets with Domtar Inc.;

focusing our remaining cellulose fiber businesses on value-added pulp products;

focusing research and development resources on new ways to expand and improve the range of applications for cellulose fiber, including chemically modified fibers to enhance performance; and on new product opportunities for liquid packaging and newsprint;

providing our customers with access to our technical expertise;

improving our cost competitiveness; and

focusing capital investments on new and improved product capabilities and cost reduction opportunities.

CELLULOSE FIBER AND WHITE PAPERS PRODUCTS

MAIN PRODUCTS

CELLULOSE FIBER
fluff fiber

(Southern softwood kraft fiber)
papergrade fiber

(Northern softwood kraft fiber)
specialty chemical cellulose fiber

FINE PAPERS
cut-size papers

printing and publishing papers

converting papers

LIQUID PACKAGING
liquid packaging board

food container board

FIVE-YEAR SUMMARY OF NET SALES FOR CELLULOSE FIBER AND WHITE PAPERS

HOW THEY RE USED

used in sanitary disposable products that require bulk, softness and absorbency

used in papergrade products that include printing papers, writing papers and tissue

used in textiles, absorbent products, pet care, ethers, thickening agents, specialty packaging, technical specialty applications and proprietary high-bulking fibers

copier and electronic imaging papers for use with ink jet and laser printers, photocopiers and plain-paper fax machines
papers sold in sheets and rolls for commercial printing and publishing applications
base paper used to convert into finished products such as business forms, envelopes and engineering rolls

converted into cartons to hold liquid materials such as milk, juice and tea
converted into cups to hold hot liquids such as coffee

NET SALES⁽¹⁾: IN MILLIONS OF DOLLARS

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	2006	2005	2004	2003	2002
Pulp	\$ 1,657	\$ 1,482	\$ 1,471	\$ 1,305	\$ 1,196
Paper	2,470	2,417	2,226	2,182	2,163
Coated groundwood	171	180	156	140	126
Liquid packaging board	229	203	208	198	179
Other products	74	54	54	26	19
	\$ 4,601	\$ 4,336	\$ 4,115	\$ 3,851	\$ 3,683

(1) Fiscal year 2006 includes 53 weeks of operations compared to 52 weeks in fiscal years 2002 through 2005.

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Table of Contents**FIVE-YEAR SUMMARY OF SALES VOLUME FOR CELLULOSE FIBER AND WHITE PAPERS**SALES VOLUMES⁽¹⁾: IN THOUSANDS

	2006	2005	2004	2003	2002
Pulp air-dry metric tons	2,621	2,502	2,558	2,479	2,378
Paper ton ⁽²⁾	2,749	2,996	2,876	2,822	2,742
Coated groundwood tons	234	232	243	234	210
Liquid packaging board tons	275	258	276	256	229
Paper converting tons	1,932	1,964	1,839	1,847	1,823

(1) Fiscal year 2006 includes 53 weeks of operations compared to 52 weeks in fiscal years 2002 through 2005.

(2) Paper sales include unprocessed rolls and converted paper volumes.

FIVE-YEAR SUMMARY OF SELECTED PUBLISHED PULP AND PAPER PRICES

SELECTED PUBLISHED PRODUCT PRICES: PER TON

	2006	2005	2004	2003	2002
Pulp Northern bleached kraft pulp-air-dry metric-U.S.	\$ 721	\$ 646	\$ 640	\$ 553	\$ 488
Paper uncoated free sheet-U.S.	\$ 815	\$ 709	\$ 658	\$ 622	\$ 658

CONTAINERBOARD, PACKAGING AND RECYCLING

Our Containerboard, Packaging and Recycling business segment manufactures the following products:

linerboard, corrugating medium and kraft paper;
 corrugated industrial and agricultural packaging;
 inks and printing plates for corrugated packaging;
 graphics packaging;
 pre-print linerboard;
 recyclable wax replacement products;
 retail packaging displays; and
 paper bags and sacks.

We also operate an extensive wastepaper collection system through which we collect and broker recovered paper (recycled fiber) to company mills and worldwide customers.

What We Do

We use a vertically integrated, full fiber-cycle strategy in delivering packaging products and services. This means we:

produce the material linerboard and medium used to manufacture boxes and other packaging,
 manufacture boxes and other packaging and
 recycle used packaging and paper in combination with other resource material to create new linerboard and medium.

Our business is seasonal as a result of participation in the fresh produce markets. Our research and development activity in this segment is focused in two primary areas: recyclable products that would replace waxed corrugated package products and radio-frequency identification (RFID) for corrugated packages. We are in the process of commercializing our line of recyclable wax-replacement products called Clima Series and have demonstrated success in applying RFID tags to corrugated boxes.

Where We Do It

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Our plants and facilities are located throughout the United States and Mexico near major customer locations. We sell products globally. Our operations include:

Containerboard 9 mills in the United States and Mexico;

Corrugated packaging and other operations 75 packaging and 10 specialty packaging plants in the United States and Mexico; and

Recycling 19 major facilities across the United States.

How Much We Sell

Our capability, expertise and performance have made us one of the world's largest developers, producers and suppliers of packaging products and services. In 2006, our net sales were \$4.9 billion compared to \$4.7 billion in 2005.

We are the second largest producer of corrugated packaging products in North America.

We produce approximately 6.2 million short tons of containerboard per year, and convert the majority to packaging in our manufacturing facilities.

Our manufacturing facilities can produce 98 billion square feet of corrugated packaging annually.

Our recycling operation annually collects nearly 7 million tons of used corrugated boxes and paper, and we consume a majority in our manufacturing operations.

Factors that affect sales volumes of containerboard, packaging and recycling products and services include:

the level of industrial activity in North America;

growth in retail segments and markets, which is affected by changes in consumer spending;

the level of production of durable and non-durable goods, including fresh produce, fresh protein and processed foods;

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growth in demand for high-strength containerboard and packaging in industrial countries; and growth in demand for high-quality recovered fiber particularly in China for use in the manufacture of paper and containerboard. Our volume of containerboard sales declined in 2006 as the result of our closure of a linerboard machine in Plymouth, North Carolina and an increase in the amount of containerboard we consumed internally to meet the needs of our packaging customers. Our packaging volume increased in 2006, primarily due to the extra week of sales activity in our 53-week fiscal year. We achieved higher packaging sales volumes in 2006 despite the sale or closure of production at 11 packaging plants during the year. We maintained our sales volume in the kraft bag market despite closing one bag facility in 2006.

The factors that affect selling prices for our containerboard, packaging and recycling products and services vary.

Containerboard and recycled fiber prices reflect the relative level of supply and demand for these materials in local and international markets. Supply is affected by capacity in the industry and demand is a direct result of economic activity. Packaging prices are negotiated between buyers and sellers, as each box is generally designed to meet a particular customer's need. Packaging prices are also affected by changes in prices for paper and other production raw materials.

Where We're Headed

During 2006, this segment made significant changes to its business model, including changing from a plant-focused management model to a customer-focused, integrated supply chain model. Our strategies for achieving continued success include:

- providing value and reliability for customers through our state-of-the-art technology and our extensive plant system in the United States and Mexico;
- developing and producing innovative, cost-effective solutions to meet our customers' needs for packaging that both protects their products through the distribution channel and communicates to the people who buy these products;
- providing both centralized and local services through our marketing and sales departments;
- delivering products and services to selected market segments where we can achieve target returns;
- reducing supply chain costs by focusing on improving productivity and asset utilization as well as reducing our consumption of chemicals and energy; and encouraging an increased level of recycling through industry promotion and education supported by our collection and distribution system as well as through our own significant consumption of recycled fiber.

CONTAINERBOARD, PACKAGING AND RECYCLING PRODUCTS

MAIN PRODUCTS	HOW THEY'RE USED
containerboard	used to produce corrugated packaging
linerboard	
medium corrugated packaging	corrugated packaging for the transport of products and a wide variety of other uses
boxes,	
Tri-Wall	
laminated bins	
sheets	
recycling	used in the manufacture of paper and other products
used packaging	
used paper	
other recyclable materials	
kraft bags and sacks	sacks used for groceries in retail, bags used for fast food

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SpaceKraft and bulk packaging

used primarily to transport high density products such as liquids, chemicals and bulk foods

retail centers

design and project services for display, point-of-purchase and retail needs

FIVE-YEAR SUMMARY OF NET SALES FOR CONTAINERBOARD, PACKAGING AND RECYCLING

NET SALES⁽¹⁾: IN MILLIONS OF DOLLARS

	2006	2005	2004	2003	2002
Containerboard	\$ 377	\$ 395	\$ 368	\$ 304	\$ 350
Packaging	3,931	3,710	3,584	3,544	3,466
Recycling	345	352	347	247	229
Kraft bags and sacks	88	83	80	80	75
Other products	171	167	156	147	92
	\$ 4,912	\$ 4,707	\$ 4,535	\$ 4,322	\$ 4,212

(1) Fiscal year 2006 includes 53 weeks of operations compared to 52 weeks in fiscal years 2002 through 2005.

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Table of Contents**FIVE-YEAR SUMMARY OF SALES VOLUME FOR CONTAINERBOARD, PACKAGING AND RECYCLING**SALES VOLUMES⁽¹⁾: IN THOUSANDS

	2006	2005	2004	2003	2002
Containerboard tons	856	1,046	1,001	890	983
Packaging MSF	74,867	73,631	72,885	72,741	70,330
Recycling tons	2,875	2,728	2,694	2,290	2,292
Kraft bags and sacks tons	89	89	95	100	93

(1) Fiscal year 2006 includes 53 weeks of operations compared to 52 weeks in fiscal years 2002 through 2005.

FIVE-YEAR SUMMARY OF SELECTED PUBLISHED PRICES FOR CONTAINERBOARD, PACKAGING AND RECYCLING

SELECTED PUBLISHED PRODUCT PRICES: PER TON

	2006	2005	2004	2003	2002
Linerboard 42 lb.-Eastern U.S.	\$ 488	\$ 414	\$ 411	\$ 366	\$ 383
Recycling old corrugated containers (OCC)	\$ 63	\$ 70	\$ 80	\$ 61	\$ 60
Recycling old newsprint	\$ 48	\$ 55	\$ 57	\$ 40	\$ 36

REAL ESTATE AND RELATED ASSETS

Our Real Estate and Related Assets business segment includes our wholly-owned subsidiary, Weyerhaeuser Real Estate Company (WRECO), and other real estate related activities. WRECO's operations are concentrated in select, high-growth metropolitan areas in the United States.

What We Do

The Real Estate and Related Assets segment is focused on:

- constructing single-family housing and residential lots for sale and
- developing master-planned communities.

A subsidiary in the Real Estate and Related Assets segment also manages residential real estate investments for institutional investors.

Where We Do It

Our operations are concentrated mainly in high-growth areas in the United States, including select, metropolitan areas in Arizona, California, Maryland, Nevada, Oregon, Texas, Virginia and Washington.

How Much We Sell

We are one of the top 20 homebuilding companies in the United States as measured by annual single-family home closings.

Our revenues increased from \$2.9 billion in 2005 to \$3.3 billion in 2006, primarily as a result of a 6 percent improvement in the average price of single-family homes closed, an increase in land and lot sales and the sale of an apartment building.

The following factors affect revenues from our Real Estate and Related Assets business segment:

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Market prices of the homes that we construct for sale may vary.

We build in a variety of geographic locations. Market conditions vary by geography so geographic mix affects total revenues.

We provide homes at a range of price points to meet our target customers' needs, from entry-level products in Washington to ocean view homes in southern California and waterfront homes in Maryland. The mix of these sales affects total revenues.

We build both traditional single-family, detached homes, as well as attached products, such as town-homes. The mix of price points at which these products sell create variability in our revenue from period to period.

Land and lot sales are a component of our master planned development activities. These sales do not occur evenly from year to year.

From time to time, we sell apartment buildings that we have constructed as part of a master-planned community.

Where We re Headed

Our strategies for achieving continued success include:

delivering quality homes to satisfied customers a principle we measure through willingness to refer rates from homebuyer surveys;

focusing on new market areas where demand for new single-family housing and master-planned communities is high;

creating different and distinct value propositions that target a specific market niche in each of our chosen geographies;

expanding into adjacent markets where the local value proposition fits;

replicating best practices developed in each geographic area; and

leveraging our size to improve supply agreements, and attract and retain a highly-talented work force.