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

[X] 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	NAME OF EACH EXCHANGE ON WHICH REGISTERED:
Common Shares ($1.25 par value)	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. [X] 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 [X] 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. [X] Yes [ ] No

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 [X] 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 [X] 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

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:

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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TIMBERLANDS PRODUCTS

MAIN PRODUCTS	HOW THEY RE USED
logs	made into lumber and other wood and building products
minerals, oil and gas	sold into the energy markets
higher and better use property	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			
	INVENTORY	FEE OWNERSHIP	LONG-TERM LEASES	LICENSE ARRANGEMENTS	TOTAL
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

	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 re 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.

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	HOW THEY RE USED
RESIDENTIAL WOOD PRODUCTS	
softwood lumber	residential and commercial structures homes, offices and stores
engineered lumber solid section I-Joists	factory-built structures, floor and roof joists, headers and beams used in residential, commercial and industrial facilities and structures
structural panels oriented strand board (OSB) plywood veneer	structural sheathing, sub-flooring, I-beam floor joists, recreational vehicle flooring, stepping, appearance panels, and construction material
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

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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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:

- 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	HOW THEY RE USED
CELLULOSE FIBER	
fluff fiber (Southern softwood kraft fiber)	used in sanitary disposable products that require bulk, softness and absorbency
papergrade fiber (Northern softwood kraft fiber)	used in papergrade products that include printing papers, writing papers and tissue
specialty chemical cellulose fiber	used in textiles, absorbent products, pet care, ethers, thickening agents, specialty packaging, technical specialty applications and proprietary high-bulking fibers
FINE PAPERS	
cut-size papers	copier and electronic imaging papers for use with ink jet and laser printers, photocopiers and plain-paper fax machines
printing and publishing papers	papers sold in sheets and rolls for commercial printing and publishing applications
converting papers	base paper used to convert into finished products such as business forms, envelopes and engineering rolls
LIQUID PACKAGING	
liquid packaging board	converted into cartons to hold liquid materials such as milk, juice and tea
food container board	converted into cups to hold hot liquids such as coffee

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

NET SALES[(1)]: IN MILLIONS OF DOLLARS

	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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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 tons[(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

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

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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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:

- 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.

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REAL ESTATE AND RELATED ASSETS

MAIN PRODUCTS AND SERVICES	HOW THEY RE USED
single-family housing	residential living
master-planned communities	new communities for residential living, commercial and public services

FIVE-YEAR SUMMARY OF REVENUE FOR REAL ESTATE AND RELATED ASSETS

REVENUE(1)(2): IN MILLIONS OF DOLLARS

	2006	2005	2004	2003	2002
Total revenue	$ 3,335	$ 2,915	$ 2,495	$ 2,029	$ 1,750
Single-family revenue	$ 2,951	$ 2,686	$ 2,193	$ 1,730	$ 1,455

(1) Reflects the acquisition of Maracay Homes in February 2006.
(2) Fiscal year 2006 includes 53 weeks of operations compared to 52 weeks in fiscal years 2002 through 2005.

FIVE-YEAR SUMMARY OF SINGLE-FAMILY UNIT STATISTICS

Single-family Unit Statistics(1)(2):

	2006	2005	2004	2003	2002
Homes sold	4,541	5,685	5,375	5,005	4,374
Homes closed	5,836	5,647	5,264	4,626	4,280
Homes sold but not closed	1,499	2,410	2,372	2,261	1,882
Single-family gross margin (%)	26.5%	32.8%	29.7%	25.7%	24.2%

(1) Reflects the acquisition of Maracay Homes in February 2006.
(2) Fiscal year 2006 includes 53 weeks of operations compared to 52 weeks in fiscal years 2002 through 2005.

CORPORATE AND OTHER

Our Corporate and Other segment includes:

- our international operations, which include distribution and converting facilities located outside North America; and
- general corporate support activities, including Westwood Shipping Lines, which provides marine transportation services between North America and Asia for Weyerhaeuser and other companies.

What We Do

International operations in this segment generally are conducted by joint ventures for which Weyerhaeuser is the managing partner. Joint venture assets consist principally of forest plantations, forest licenses and some converting assets in the following countries:

- New Zealand,
- Australia,
- Uruguay and
- Brazil

See Note 7: Equity Affiliates in Financial Statements and Supplementary Data for additional information related to our joint ventures.

International operations included the following wood products converting operations:

- Irish composite panels   sold in November 2006 and
- French composite panels   sold in December 2005.

Where We Do It

Our international operations include our operations outside North America and are primarily located in the Southern Hemisphere.

How Much We Sell

Sales and revenues for our Corporate and Other segment comes from our marine transportation and international operations. In 2006, our net sales were $484 million compared to $600 million in 2005. The decline in revenues is primarily due to the sale of the French composite panel operations in December 2005.

Factors that affect revenues in our international operations include:

- overall demand for wood products used in residential construction and remodeling of existing homes in Australia, Europe, Japan and China: and
- environmental concerns, particularly in Europe, related to endangered tropical hardwoods, which increases demand for the type of sustainable plantation wood we grow in South America.

Where We re Headed

Our strategies for achieving continued success in our international operations include:

- establishing a position as one of the largest, lowest-cost, global softwood and hardwood timber growers, and
- producing plantation softwood and hardwood raw materials and finished products for structural and appearance uses for the Northern Hemisphere, Australasian and Mercosur markets.

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FIVE-YEAR SUMMARY OF NET SALES FOR CORPORATE AND OTHER

IN MILLIONS OF DOLLARS

	2006	2005	2004	2003	2002
Net Sales[1][2]	$ 484	$ 600	$ 575	$ 492	$ 399

(1) Reflects the divestitures of the French composite panel operations in December 2005 and the Irish composite panel operations in November 2006.
(2) Fiscal year 2006 includes 53 weeks of operations compared to 52 weeks in fiscal years 2002 through 2005.

NATURAL RESOURCE AND ENVIRONMENTAL MATTERS

Growing and harvesting timber is subject to numerous laws and government policies to protect the environment, non-timber resources such as wildlife and water, and other social values. Changes in those laws and policies can significantly affect local or regional timber harvest levels and market values of timber-based raw materials.

ENDANGERED SPECIES PROTECTIONS

In the United States, a number of fish and wildlife species that inhabit geographic areas near or within our timberlands have been listed as threatened or endangered under the federal Endangered Species Act (ESA) or similar state laws. Some of these listed species include the northern spotted owl, marbled murrelet, a number of salmon species, bull trout and steelhead trout in the Pacific Northwest and the red-cockaded woodpecker, gopher tortoise and American burying beetle in the Southeast. Additional species or populations may be listed as a result of pending or future citizen petitions or may be initiated by federal or state agencies.

Federal and state requirements to protect habitat for threatened and endangered species have resulted in restrictions on timber harvest on some timberlands, including some of our timberlands. Additional listings of fish and wildlife species as endangered, threatened or sensitive under the ESA and similar state laws as well as regulatory actions taken by federal or state agencies to protect habitat for these species may, in the future, result in additional restrictions on our timber harvests and other forest management practices. They also could increase our operating costs and affect timber supply and prices in general.

REGULATIONS AFFECTING FORESTRY PRACTICES

In the United States, regulations established by the federal, state and local governments or agencies to protect water quality and wetlands could affect our future harvests and forest management practices on some of our timberlands. Forest practice acts in some states in the United States increasingly affect present or future harvest and forest management activities. For example, in some states, these acts limit the size of clear-cuts, require some timber to be left unharvested to protect water quality and fish and wildlife habitat, regulate construction and maintenance of forest roads, require reforestation following timber harvest and contain procedures for state agencies to review and approve proposed forest practice activities. Some states and some local governments regulate certain forest practices through various permit programs. Each state in which we own timberlands has developed best management practices to reduce the effects of forest practices on water quality and aquatic habitats. Additional and more stringent regulations may be adopted by various state and local governments to achieve water-quality standards under the federal Clean Water Act, protect fish and wildlife habitats or achieve other public policy objectives.

FOREST CER TIFICATION STANDARDS

We operate in the United States under the Sustainable Forestry Initiative®. This is a certification standard designed to supplement government regulatory programs with voluntary landowner initiatives to further protect certain public resources and values. The Sustainable Forestry Initiative® is an independent standard, overseen by a governing board consisting of conservation organizations, academia, the forest industry, and large and small forest landowners. Compliance with the Sustainable Forestry Initiative® may result in some increases in our operating costs and curtailment of our timber harvests in some areas.

WHAT THESE REGULATIONS AND CERTIFICATION PROGRAMS MEAN TO US

The regulatory and non-regulatory forest management programs described above have increased our operating costs, resulted in changes in the value of timber and logs from the our timberlands, and contributed to increases in the prices paid for wood products and wood chips during periods of high demand. These kinds of programs also can make it more difficult for us to respond to rapid changes in markets, extreme weather or other unexpected circumstances. One additional effect may be further reductions in the usage of or substitution of other products for lumber and plywood. We believe that these kinds of programs have not had, and in 2007 will not have, a significant effect on the total harvest of timber in the United States or any major U.S. region. However, these kinds of programs may have such an effect in the future. We expect we will not be disproportionately affected by these programs as compared with typical owners of comparable timberlands. We also expect that these programs will not significantly disrupt our planned operations over large areas or for extended periods.

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REGULATIONS AND FOREST CERTIFICATION IN CANADA

Our forest operations in Canada are carried out on public forestlands under forest licenses. All forest operations are subject to forest practices and environmental regulations, and operations under licenses also are subject to contractual requirements between us and the relevant province designed to protect environmental and other social values. In Canada, the federal Species at Risk Act (SARA) was enacted in 2002. SARA enacted protective measures for species identified as being at risk and for critical habitat. To date, SARA has not had a significant effect on our operations; however, it is anticipated that SARA will, over time, result in some additional restrictions on timber harvests and other forest management practices and increase some operating costs for operators of forestlands in Canada. For these reasons, SARA is expected to affect timber supply and prices in the future.

In Canada, we participate in the Canadian Standards Association Sustainable Forest Management System standard, a voluntary certification system that further protects certain public resources and values. Compliance with this standard will result in some increases in our operating costs and curtailment of our timber harvests in some areas in Canada.

CANADIAN ABORIGINAL RIGHTS

Many of the Canadian forestlands also are subject to the constitutionally protected treaty or common-law rights of the aboriginal peoples of Canada. Most of British Columbia (B.C.) is not covered by treaties and, as a result, the claims of B.C. s aboriginal peoples relating to forest resources are largely unresolved, although many aboriginal groups are actively engaged in treaty discussions with the governments of B.C. and Canada. Final or interim resolution of claims brought by aboriginal groups is expected to result in additional restrictions on the sale or harvest of timber and may increase operating costs and affect timber supply and prices in Canada. We believe that such claims will not have a significant effect on our total harvest of timber or production of forest products in 2007, although they may have such an effect in the future.

POLLUTION CONTROL REGULATIONS

Our operations also are subject to federal, state and provincial, and local pollution controls with regard to air, water and land; solid and hazardous waste management; disposal and remediation laws; and regulations in all areas in which we have operations. We also are subject to market demands with respect to chemical content of some of our products and our use of recycled fiber. Compliance with these laws, regulations and demands usually involves capital expenditures as well as additional operating costs. We cannot easily quantify the future amounts of capital expenditures we might have to make to comply with these laws, regulations and demands, or the effects on our operating costs, because in some instances, compliance standards have not been developed or have not become final or definitive. In addition, when we make changes in operations to comply with regulatory standards, we frequently are making changes for other purposes as well. These purposes might include the extension of facility life, increase in capacity, changes in raw material requirements, or increase in economic value of assets or products.

It is difficult to isolate the environmental component of most manufacturing capital projects, but we estimate that our capital expenditures for environmental compliance were approximately $21 million in 2006 (approximately 2 percent of total capital expenditures, excluding acquisitions and Real Estate and Related Assets). Based on our understanding of current regulatory requirements in the United States and Canada, we expect that capital expenditures for environmental compliance will be approximately $10 million in 2007 (approximately 1 percent of expected total capital expenditures, excluding acquisitions and Real Estate and Related Assets).

ENVIRONMENTAL CLEANUP

We are involved in the environmental investigation or remediation of numerous sites. Some of the sites are on property we presently or formerly owned. On these properties, we may have the sole obligation to remediate the site or may share that obligation with one or more parties. Other properties are owned by an unrelated party where several parties have joint and several obligations to remediate the site. Still other sites are superfund sites where we have been named as a potentially responsible party. Our liability with respect to these various sites ranges from insignificant at some sites to substantial at others. The amount of liability depends on the quantity, toxicity and nature of materials we deposited at the site and, for some sites, depends on the number and economic viability of the other responsible parties.

We spent approximately $12 million in 2006, and expect to spend approximately $10 million in 2007, on environmental remediation of these sites. It is our policy to accrue for environmental remediation costs when we determine that it is probable that such an obligation exists and we can reasonably estimate the amount of the obligation. We currently believe that it is reasonably possible that our costs to remediate all the identified sites may exceed our current accruals of $28 million. The excess amounts required may be insignificant or could range, in the aggregate, up to approximately $64 million over several years. This estimate of the upper end of the range of reasonably possible additional costs is much less certain than the estimates we currently are using to determine how much to accrue. The estimate of the upper range also uses assumptions less favorable to us among the range of reasonably possible outcomes.

REGULATION OF AIR EMISSIONS IN THE UNITED STATES

The United States Environmental Protection Agency (U.S. EPA) has promulgated regulations for air emissions from pulp and paper manufacturing facilities. These regulations cover hazardous air pollutants that require use of maximum

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achievable control technology (MACT) and controls for pollutants that contribute to smog and haze. The U.S. EPA has also adopted MACT standards for air emissions from wood products facilities and industrial boilers. We anticipate that we might spend as much as $20 million over the next few years to comply with the MACT standards. We cannot currently quantify the amount of capital we will need in the future to comply with new regulations being developed by the U.S. EPA or Canadian environmental agencies because final rules have not been promulgated. However, at this time we anticipate that compliance with the new regulations will not result in capital expenditures in any year that are material in relation to our annual capital expenditures.

We recently adopted a goal of reducing greenhouse gas emissions by 40 percent by 2020 by comparison to our emissions in 2000, assuming a comparable portfolio and regulations. We intend to achieve this goal by increasing energy efficiency and by using systems that enable substitution of greenhouse gas-neutral, biomass fuels for high-priced fossil fuels. As each of our power and recovery boilers reaches its design life span over the next 14 years, we may replace the boiler with a state-of-the-art system. During 2006, we completed the planned replacement of one recovery boiler and completed a substantial amount of work on two additional recovery boilers as part of our budgeted capital expenditures. These replacements will allow an increase in the amount of energy obtained from the biomass by-products created in the pulping process. These biomass by-products include wood bark, lignin (the natural substance that binds wood fibers) and other organic compounds in spent pulping liquors. We also expect to be able to reduce the purchase of electric power by up to fifty percent through improvements in energy efficiency and by increasing the use of combined heat and power technology. This will help to further reduce our operating costs.

REGULATION OF AIR EMISSIONS IN CANADA

We also are actively participating in negotiations between the Forest Products Association of Canada and Natural Resources Canada to define industry obligations for complying with Canada s national plan for reducing greenhouse gas emissions over the next several years. During 2006, we continued our work with international, national and regional policy makers in their efforts to develop technically sound and economically viable policies, practices and procedures for measuring, reporting and managing greenhouse gas emissions.

POTENTIAL CHANGES IN POLLUTION REGULATION

The U.S. EPA has repealed the regulations promulgated in 2000 that would have required states to develop total maximum daily load (TMDL) allocations for pollutants in water bodies determined to be water-quality-impaired. However, states continue to promulgate TMDL requirements. The state TMDL requirements may set limits on pollutants that may be discharged to a body of water or set additional requirements, such as best management practices for non-point sources, including timberland operations, to reduce the amounts of pollutants. It is not possible to estimate the capital expenditures that may be required for the company to meet pollution allocations across the various proposed state TMDL programs until a specific TMDL is promulgated.

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FORWARD-LOOKING STATEMENTS

This report contains statements concerning our future results and performance that are forward-looking statements according to the Private Securities Litigation Reform Act of 1995. These statements:

- use forward-looking terminology,
- are based on various assumptions we make and
- may not be accurate because of risks and uncertainties surrounding the assumptions that we make.

Factors listed in this section as well as other factors not included may cause our actual results to differ from our forward-looking statements. There is no guarantee that any of the events anticipated by our forward-looking statements will occur. Or if any of the events occur, there is no guarantee what effect they will have on our operations or financial condition.

We will not update our forward-looking statements after the date of this report.

FORWARD-LOOKING TERMINOLOGY

Some forward-looking statements discuss our plans, strategies and intentions. They use words such as expects, may, will, believes, should, approximately, anticipates, estimates, and plans. In addition, these words may use the positive or negative or a variation of those terms.

STATEMENTS

We make forward-looking statements of our expectations regarding:

- our markets in the first quarter of 2007;
- earnings and performance of our business segments during the first quarter of 2007;
- demand and pricing for our products during the first quarter of 2007;
- higher domestic log prices during the first quarter of 2007;
- closing of the combination of our fine paper business and related assets with Domtar Inc. in the first quarter of 2007;
- increases in manufacturing costs in the Cellulose Fiber and White Papers businesses due to scheduled annual maintenance outages;
- decline of packaging shipments due to the effect of weather on California produce markets;
- increases in prices for OCC and wood chips;
- effect of capital expenditures on our operations;
- results of execution of our business strategies;
- cost reduction initiatives;
- capital expenditures;
- facility closings and related charges; and
- new home sales and closings.

In addition, we also base our forward-looking statements on the expected effect of:

- foreign exchange rates, primarily Canadian and New Zealand;
- adverse litigation outcomes and the adequacy of reserves;
- regulations;
- changes in accounting principles;
- contributions to pension plans;
- projected benefit payments;
- projected tax rates;
- loss of tax credits; and
- other related matters.

RISKS, UNCERTAINTIES AND ASSUMPTIONS

The major risks and uncertainties and assumptions that we make that affect our business include, but are not limited to:

- general economic conditions, including the level of interest rates, strength of the U.S. dollar and housing starts;
- market demand for our products, which is related to the strength of the various U.S. business segments;
- energy prices;
- raw material prices;
- chemical prices;
- performance of our manufacturing operations including unexpected maintenance requirements;
- successful execution of our internal performance plans including restructurings and cost reduction initiatives;

- level of competition from domestic and foreign producers;
- forestry, land use, environmental and other governmental regulations;
- weather;
- loss from fires, floods and other natural disasters;
- transportation costs;
- legal proceedings;
- performance of pension fund investments and derivatives;
- changes in accounting principles;
- the effect of timing of retirements and changes in the market price of our common stock on charges for share-based compensation;
- the failure to obtain government approvals of the Domtar Transaction on the proposed terms and schedule; the failure to obtain approval by shareholders and option holders of Domtar Inc.; and a material adverse change in the business, assets, financial condition or results of operations of Domtar Inc., or the portion of our Cellulose Fiber and White Papers segment to be combined with Domtar Inc.; and
- the other factors described under Risk Factors .

EXPORTING ISSUES

We are a large exporter, affected by changes in:

- economic activity in Europe and Asia especially Japan;
- currency exchange rates particularly the relative value of the U.S. dollar to the Euro and the Canadian dollar; and
- restrictions on international trade or tariffs imposed on imports.

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RISK FACTORS

We are subject to certain risks and events that, if one or more of them occur, could adversely affect our business, our financial condition and results of operations and the trading price of our common stock.

You should consider the following risk factors, in addition to the other information presented in this report and the matters described in Forward-Looking Statements , as well as the other reports and registration statements we file from time to time with the SEC, in evaluating us, our business and an investment in our securities.

The risks below are not the only risks that we face. Additional risks not currently known to us or that we currently deem immaterial also may adversely affect our business.

RISKS RELATED TO OUR INDUSTRIES AND BUSINESS

CYCLICAL INDUSTRIES

The industries in which we operate are highly cyclical. Fluctuations in the prices of and the demand for our products could result in smaller profit margins and lower sales volumes.

Our businesses are highly cyclical. Historically, economic and market shifts, fluctuations in capacity and changes in foreign currency exchange rates and mortgage interest rates have created cyclical changes in prices, sales volume and margins for our products. The length and magnitude of industry cycles have varied over time and by product, but generally reflect changes in macroeconomic conditions and levels of industry capacity.

Many of our products are commodities that are widely available from other producers. Because commodity products have few distinguishing properties from producer to producer, competition for these products is based primarily on price, which is determined by supply relative to demand.

The overall levels of demand for the products we manufacture and distribute, and consequently our sales and profitability, reflect fluctuations in levels of end-user demand, which depend in part on general macroeconomic conditions in North America and worldwide and local economic conditions, as well as competition from substitute products.

Changes in the following are some of the factors that may adversely affect our businesses and the results of operations:

- industrial, non-durable goods production;
- consumer spending;
- commercial printing and advertising activity;
- employment levels;
- job growth;
- population growth;
- consumer confidence;
- new home construction and repair and remodeling activity;
- interest rates; and
- currency exchange rates.

Industry supply of pulp, paper, packaging and wood products also is subject to fluctuation, as changing industry conditions may cause producers to idle or permanently close individual machines or entire mills. In addition, to avoid substantial cash costs in connection with idling or closing a mill, some producers choose to continue to operate at a loss, which could prolong weak prices due to oversupply. Oversupply also may result from producers introducing new capacity in response to favorable short-term pricing trends.

Industry supply of pulp, paper and containerboard also are influenced by overseas production capacity, which has grown in recent years and is expected to continue to grow. While the weakness of the U.S. dollar has mitigated the levels of imports in recent years, imports of pulp, paper and containerboard from overseas may increase, resulting in lower prices.

Prices for our products are affected by many factors outside of our control, and we will have little influence over the timing and extent of price changes, which are often volatile. Because market conditions beyond our control determine the prices for our commodity products, the price for any one or more of these products may fall below our cash production costs, requiring us either to incur cash losses on product sales or cease production at one or more of our manufacturing facilities. Our profitability with respect to these products depends on managing our cost structure, particularly raw material and energy costs, which represent significant components of our operating costs and can fluctuate based upon factors beyond our control, as described below. If the prices of or demand for our products decline, or if our raw material or energy costs increase, or both, our sales and profitability could be materially and adversely affected.

LONG-TERM DECLINE IN PAPER DEMAND

Some of our products are vulnerable to long-term declines in demand due to competing technologies or materials.

Our paper business competes with electronic transmission and document storage alternatives, as well as with paper grades it does not produce, such as uncoated groundwood. As a result of such competition, we have experienced decreased demand for some of our existing pulp and paper products. As the use of these alternatives grows, demand for pulp and paper products is likely to further decline. Our corrugated packaging business competes with non-fiber based packaging alternatives, primarily plastics, in several market segments. Changes in prices for oil, petrochemicals and wood-based fiber can change the competitive position of corrugated packaging relative to alternative packaging materials and could increase the substitution of other packaging materials for corrugated packaging.

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CHANGES IN PRODUCT MIX OR PRICING

Our results of operation and financial condition could be materially adversely affected by changes in product mix or pricing.

Our results may be affected by a change in our sales mix. Our outlook assumes a certain volume and product mix of sales. If actual results vary from this projected volume and product mix of sales, our operations and our results could be negatively affected. Our outlook also assumes that we will be successful in implementing previously announced price increases as well as future price increases. Also, delays in acceptance of price increases could negatively affect our results. Moreover, price discounting, if required to maintain our competitive position, could result in lower than anticipated price realizations.

INTENSE COMPETITION

We face intense competition in our markets, and the failure to compete effectively could have a material adverse effect on our business, financial condition and results of operations.

We compete with North American and, for many of our product lines, global producers, some of which may have greater financial resources and lower production costs than we do. The principal basis for competition is selling price. Our ability to maintain satisfactory margins depends in large part on our ability to control our costs. Our industries are also particularly sensitive to other factors including innovation, design, quality and service, with varying emphasis on these factors depending on the product line. To the extent that one or more of our competitors become more successful with respect to any key competitive factor, our ability to attract and retain customers could be materially adversely affected. We cannot assure you that we will be able to compete effectively and maintain current levels of sales and profitability. If we are unable to compete effectively, such failure could have a material adverse effect on our business, financial condition and results of operations.

AVAILABILITY OF RAW MATERIALS AND ENERGY

Our business and operations could be materially adversely affected by changes in the cost or availability of raw materials and energy.

We rely heavily on certain raw materials (principally wood fiber and chemicals) and energy sources (principally natural gas, electricity, coal and fuel oil) in our manufacturing processes. Our ability to increase earnings has been, and will continue to be, affected by changes in the costs and availability of such raw materials and energy sources. We may not be able to fully offset the effects of higher raw material or energy costs through hedging arrangements, price increases, productivity improvements or cost reduction programs.

TRANSPORTATION

We depend on third parties for transportation services and increases in cost and the availability of transportation could materially adversely affect our business and operations.

Our business depends on the transportation of a large number of products, both domestically and internationally. We rely primarily on third parties for transportation of the products we manufacture and/or distribute, as well as delivery of our raw materials. In particular, a significant portion of the goods we manufacture and raw materials we use are transported by railroad or trucks, which are highly regulated.

If any of our third-party transportation providers were to fail to deliver the goods we manufacture or distribute in a timely manner, we may be unable to sell those products at full value, or at all. Similarly, if any of these providers were to fail to deliver raw materials to us in a timely manner, we may be unable to manufacture our products in response to customer demand. In addition, if any of these third parties were to cease operations or cease doing business with us, we may be unable to replace them at reasonable cost.

Any failure of a third-party transportation provider to deliver raw materials or finished products in a timely manner could harm our reputation, negatively impact our customer relationships and have a material adverse effect on our financial condition and results of operation.

In addition, an increase in transportation rates or fuel surcharges could materially adversely affect our sales and profitability.

MATERIAL DISRUPTION OF MANUFACTURING

A material disruption at one of our manufacturing facilities could prevent us from meeting customer demand, reduce our sales and/or negatively impact our results of operation and financial condition.

Any of our manufacturing facilities, or any of our machines within an otherwise operational facility, could cease operations unexpectedly due to a number of events, including:

- unscheduled maintenance outages;
- prolonged power failures;
- an equipment failure;
- a chemical spill or release;
- explosion of a boiler;
- the effect of a drought or reduced rainfall on its water supply;
- labor difficulties;
- disruptions in the transportation infrastructure, including roads, bridges, railroad tracks and tunnels;
- fires, floods, earthquakes, hurricanes or other catastrophes;
- terrorism or threats of terrorism;
- governmental regulations; and
- other operational problems.

Any such downtime or facility damage could prevent us from meeting customer demand for our products and/or require us to make unplanned capital expenditures. If one of these machines or facilities were to incur significant downtime, our ability to meet our production targets and satisfy customer requirements could be impaired, resulting in lower sales and income.

CAPITAL REQUIREMENTS

Our operations require substantial capital.

Capital expenditures for expansion or replacement of existing facilities or equipment may be substantial. Although we maintain our production equipment with regular periodic and scheduled maintenance, we cannot assure you that key pieces of equipment in our various production processes will not need to be repaired or replaced and major equipment may need to be replaced periodically. The costs of repairing or replacing such equipment and the associated downtime of the affected production line could have a material adverse effect on our financial condition, results of operations and cash flows.

Based on our current operations, we believe our cash flow from operations and other capital resources will be adequate to meet our operating needs, capital expenditures and other cash requirements for the foreseeable future. If for any reason we are unable to provide for our operating needs, capital expenditures and other cash requirements on economic terms, we could experience a material adverse effect on our business, financial condition, results of operations and cash flows.

ENVIRONMENTAL LAWS AND REGULATIONS

We could incur substantial costs as a result of compliance with, violations of or liabilities under applicable environmental laws and regulations.

We are subject to a wide range of general and industry-specific laws and regulations relating to the protection of the environment, including those governing:

- air emissions;
- wastewater discharges;
- harvesting;
- silvicultural activities;
- the storage, management and disposal of hazardous substances and wastes;
- the cleanup of contaminated sites;
- landfill operation and closure obligations;
- forestry operations and endangered species habitat; and
- health and safety matters.

In particular, the pulp and paper industry in the United States is subject to Cluster Rules and Boiler Maximum Achievable Control Technology Rules that further regulate effluent and air emissions. These laws and regulations will require us to obtain authorizations from and comply with the authorization requirements of the appropriate governmental authorities, which have considerable discretion over the terms and timing of permits.

We have incurred, and we expect to continue to incur, significant capital, operating and other expenditures complying with applicable environmental laws and regulations and as a result of remedial obligations. We also could incur substantial costs, such as civil or criminal fines, sanctions and enforcement actions (including orders limiting our operations or requiring corrective measures, installation of pollution control equipment or other remedial actions), cleanup and closure costs, and third-party claims for property damage and personal injury as a result of violations of, or liabilities under, environmental laws and regulations.

As the owner and operator of real estate, we may be liable under environmental laws for cleanup, closure and other damages resulting from the presence and release of hazardous substances on or from our properties or operations. The amount and timing of environmental expenditures is difficult to predict, and, in some cases, our liability may exceed forecasted amounts or the value of the property itself. The discovery of additional contamination or the imposition of additional cleanup obligations at our sites or third-party sites may result in significant additional costs. Any material liability we incur could adversely affect our financial condition or preclude us from making capital expenditures that otherwise would benefit our business.

Enactment of new environmental laws or regulations or changes in existing laws or regulations, or the interpretation of these laws or regulations, might require significant expenditures.

LEGAL PROCEEDINGS

We are a party to a number of legal proceedings and adverse judgments in certain legal proceedings could have a material adverse effect on our financial condition.

The costs and other effects of pending litigation against us and related insurance recoveries cannot be determined with certainty. Although the disclosure in Legal Proceedings and Note 16 of Notes to Consolidated Financial Statements contains management s current views of the effect such litigation will have on our financial results, there can be no assurance that the outcome of such proceedings will be as expected.

For example, in 1999, the Equity Committee in the Paragon Trade Brands, Inc. bankruptcy proceeding sued us. The lawsuit, filed in the U.S. Bankruptcy Court for the Northern District of Georgia, asserted that we breached certain warranties in agreements between us and Paragon relating to its public offering of common stock in February 1993. The Committee was seeking to recover damages sustained by Paragon in the patent infringement case brought by Procter & Gamble and Kimberly-Clark.

In June 2002, the Bankruptcy Court held us liable for breaches of warranty and in the second quarter of 2005 imposed damages of approximately $470 million. We appealed the liability and damages determinations to the U.S. District Court for the Northern District of Georgia, and we posted a bond of $500 million. We believe that we will prevail on the appeal. Based on the information currently available to us, the requirements for establishing a reserve under Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies* (Statement 5) have not been met. As a result, we have not established a reserve for this litigation. However, it is possible in the future that there could be a charge for all or a portion of any damage award. Any such charge could materially and adversely affect our results of operations for the quarter or the year in which we record it.

CURRENCY EXCHANGE RATES

We will be affected by changes in currency exchange rates.

We have manufacturing operations in Canada, Mexico, New Zealand, Australia, Uruguay, and Brazil, and we are also a large exporter and, as a result, are affected by changes in currency exchange rates, particularly the value of the U.S. dollar relative to the Euro, the Yen, the Peso, the Canadian dollar and the New Zealand dollar.

LUMBER EXPORT TAXES

We may be required to pay significant lumber export taxes and/or countervailing and antidumping duties.

We may experience reduced revenues and margins on our softwood lumber business as a result of lumber export taxes and/or countervailing and antidumping duty applications.

In April 2001, the Coalition for Fair Lumber Imports (the Coalition) filed two petitions with the U.S. Department of Commerce (the Department) and the International Trade Commission (the ITC) claiming that production of softwood lumber in Canada was being subsidized by Canada and that imports from Canada were being dumped into the U.S. market (sold at less than fair value). The Coalition asked that countervailing duty (CVD) and anti-dumping (AD) tariffs be imposed on softwood lumber imported from Canada.

During the period from 2002 through October 2006, we paid a total of $370 million in deposits for CVD and AD duties.

In July 2006, the Canadian and U.S. governments announced a final settlement to this long-standing dispute. The provisions of the settlement include repayment of approximately 81 percent of the deposits plus interest, imposition of export measures in Canada, and measures to address long-term policy reform. The Canadian Parliament voted to collect the export taxes provided for in the settlement and legislation to implement the settlement became effective in December 2006. We received $344 million in refunds in the fourth quarter of 2006.

Under the settlement agreement, Canadian softwood lumber exporters will pay an export tax when the price of lumber is at or below a threshold price. Under present market conditions, Canadian softwood lumber exports are subject to a 15 percent export charge, which may rise to 22.5 percent in the event a province exceeds its total allotted export share.

We may experience reduced revenues and margins in the softwood lumber business as a result of the application of the settlement agreement. The settlement agreement could have a material adverse effect on our business, financial results and financial condition, including, but not limited to, facility closures or impairment of assets.

It is possible that the CVD and AD tariffs, or tariffs similar to the CVD and AD tariffs, may again be imposed on us in the future.

CHANGES IN CREDIT RATINGS

Changes in credit ratings issued by nationally recognized statistical rating organizations could adversely affect our cost of financing and have an adverse effect on the market price of our securities.

Credit rating agencies rate our debt securities on factors that include our operating results, actions that we take, their view of the general outlook for our industry, and their view of the general outlook for the economy. Actions taken by the rating agencies can include maintaining, upgrading, or downgrading the current rating, or placing the company on a watch list for possible future downgrading. Downgrading the credit rating of our debt securities or placing us on a watch list for possible future downgrading would likely increase our cost of financing and have an adverse effect on the market price of our securities.

NATURAL DISASTERS

Our business and operations could be adversely affected by weather, fire, infestation or natural disasters.

Our timberlands assets may be damaged by adverse weather, fires, pest infestation or other natural disasters. Because our manufacturing processes primarily use wood fiber, in many cases from our own timberlands, in the event of material damage to our timberlands, our operations could be disrupted or our production costs could be increased.

RISKS RELATED TO OWNERSHIP OF OUR COMMON STOCK

STOCK PRICE VOLATILITY

The price of our common stock may be volatile.

The market price of our common stock may be influenced by many factors, some of which are beyond our control, including those described above under Risks Related to our Industries and Business and the following:

- actual or anticipated fluctuations in our operating results or our competitors operating results;
- announcements by us or our competitors of new products, capacity changes, significant contracts, acquisitions or strategic investments;
- our growth rate and our competitors growth rates;
- the financial market and general economic conditions;
- changes in stock market analyst recommendations regarding us, our competitors or the forest products industry generally, or lack of analyst coverage of our common stock;
- sales of our common stock by our executive officers, directors and significant stockholders or sales of substantial amounts of common stock; and
- changes in accounting principles.

In addition, there has been significant volatility in the market price and trading volume of securities of companies operating in the forest products industry, which often has been unrelated to the operating performance of particular companies.

Some companies that have had volatile market prices for their securities have had securities litigation brought against them. If litigation of this type is brought against us, it could result in substantial costs and would divert management s attention and resources.

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UNRESOLVED STAFF COMMENTS

There are no unresolved comments that were received from the SEC staff relating to our periodic or current reports under the Securities Exchange Act of 1934.

PROPERTIES

This section provides details about our facilities, production capacities and locations.

Production capacities represent annual production volume under normal operating conditions and producing a normal product mix for each individual facility. Production capacities are based on a 52-week fiscal year. Production capacities do not include any capacity for facilities that were sold or closed as of year-end 2006.

TIMBERLANDS

Our Timberlands annual fee depletion represents the harvest of the timber assets that we own. Depletion is a method of expensing the fee timber asset based on the harvest or timber sales volume. The decline in fee depletion from 2004 through 2006 reflects the disposition of our B.C. Coastal operations in May 2005.

We manage a balanced portfolio of timberlands assets located primarily in North America. In the United States we own and manage sustainable forests in eight states for use in wood products manufacturing. The 2006 harvest volume by region was 55 percent in the South and 45 percent in the West.

FIVE-YEAR SUMMARY OF TIMBERLANDS PRODUCTION

PRODUCTION(1)(2): IN THOUSANDS

	2006	2005	2004	2003	2002
Fee depletion cunits	8,450	8,730	9,013	9,428	9,358

(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.

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WOOD PRODUCTS

The production capacity, number of facilities and actual production we report in this section reflect:

- the disposition of our B.C. Coastal operations in May 2005, and
- the disposition of our North American composite panel operations in July 2006.

PRINCIPAL MANUFACTURING LOCATIONS

Our Wood Products business segment has manufacturing facilities throughout the United States and Canada. Broken out by major products, locations of our principal manufacturing facilities are:

Softwood Lumber
- U.S. Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Oklahoma, Oregon and Washington
- Canada Alberta, British Columbia and Ontario

Engineered Lumber
- U.S. Alabama, Georgia, Kentucky, Louisiana, Minnesota, Oregon and West Virginia
- Canada Alberta, British Columbia and Ontario

Structural Panels:
- Oriented Strand Board
- U.S. Louisiana, Michigan, North Carolina and West Virginia
- Canada Alberta, New Brunswick, Ontario and Saskatchewan

Plywood and Veneer
- U.S. Alabama, Arkansas, Louisiana, Oregon and Washington
- Canada Saskatchewan

Hardwood Lumber
- U.S. Michigan, Oregon, Washington and Wisconsin
- Canada British Columbia

SUMMARY OF 2006 WOOD PRODUCTS CAPACITIES

IN MILLIONS

	PRODUCTION CAPACITY	NUMBER OF FACILITIES
Softwood lumber board feet	6,600	32
Plywood square feet (3/8)[2]	645	3
Veneer square feet (3/8)[2][3]	1,630	8
Oriented strand board square feet (3/8)	4,260	9
Hardwood lumber board feet	350	8
Engineered I-Joists lineal feet[4]	575	7
Engineered solid section cubic feet[4]	50	11

FIVE-YEAR SUMMARY OF WOOD PRODUCTS PRODUCTION

PRODUCTION(1): IN MILLIONS

	2006	2005	2004	2003	2002
Softwood lumber board feet	6,355	6,986	7,187	7,113	6,831
Plywood square feet (3/8)[2]	900	1,155	1,628	1,708	1,776
Veneer square feet (3/8)[2][3]	1,739	1,979	2,386	2,199	2,187
Composite panels square feet (3/4)	666	1,080	1,066	988	864
Oriented strand board square feet (3/8)	4,166	4,078	4,081	4,170	4,020
Hardwood lumber board feet	324	364	349	373	372
Engineered I-Joists lineal feet[4]	473	483	504	437	409

Engineered solid section	cubic feet[4]	41	41	42	34	32

(1) Fiscal year 2006 includes 53 weeks of operations compared to 52 weeks in fiscal years 2002 through 2005.
(2) All Weyerhaeuser plywood facilities also produce veneer.
(3) Veneer production represents lathe production and includes volumes that are used to produce plywood and engineered lumber products by company mills.
(4) Weyerhaeuser engineered I-Joist facilities may also produce engineered solid section.

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CELLULOSE FIBER AND WHITE PAPERS

PRINCIPAL MANUFACTURING LOCATIONS

Our Cellulose Fiber and White Papers business segment has manufacturing facilities throughout the United States and

Canada. Broken out by major products, locations of our principal manufacturing facilities are:

- Pulp
  - U.S. Georgia, Kentucky, Mississippi, North Carolina and South Carolina
  - Canada Alberta, British Columbia, Ontario and Saskatchewan
- Paper
  - U.S. Kentucky, North Carolina, Pennsylvania, South Carolina, Tennessee and Wisconsin.
  - Canada Ontario
- Coated Groundwood
  - U.S. Mississippi
- Liquid Packaging Board
  - U.S. Washington
- Paper Converting
  - U.S. California, Georgia, Indiana, Kentucky, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Texas and Wisconsin
  - Canada Ontario

The pulp facilities that are expected to remain with Weyerhaeuser following the Domtar Transaction are located in:

- Columbus, Mississippi
- Flint River, Georgia
- Port Wentworth, Georgia
- New Bern, North Carolina
- Grande Prairie, Alberta

In addition, Weyerhaeuser will retain the liquid packaging manufacturing facility in Longview, Washington as well as our joint venture newsprint operation, NORPAC, also in Longview, Washington.

SUMMARY OF 2006 CELLULOSE FIBER AND WHITE PAPERS CAPACITIES

IN THOUSANDS

	PRODUCTION CAPACITY	NUMBER OF FACILITIES
Pulp air-dry metric tons	2,520	10
Paper tons[2]	2,700	7
Coated groundwood tons	235	1
Liquid packaging board tons	270	1
Paper converting tons	2,020	16

FIVE-YEAR SUMMARY OF CELLULOSE FIBER AND WHITE PAPERS PRODUCTION

PRODUCTION(1): IN THOUSANDS

	2006	2005	2004	2003	2002
Pulp air-dry metric tons	2,588	2,502	2,546	2,522	2,281
Paper tons[2]	2,796	3,060	3,006	2,833	2,611
Coated groundwood tons	230	234	240	239	210
Liquid packaging board tons	282	264	266	261	227
Paper converting tons	1,931	1,950	1,838	1,785	1,766

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

(2) Paper production includes unprocessed rolls and converted paper volumes.

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CONTAINERBOARD, PACKAGING AND RECYCLING

PRINCIPAL MANUFACTURING LOCATIONS

Our Containerboard, Packaging and Recycling business segment has manufacturing facilities throughout the United States and in parts of Mexico. Broken out by major products, locations of our principal manufacturing facilities are:

Containerboard
U.S. Alabama, California, Iowa, Kentucky, Louisiana, Oklahoma and Oregon
Mexico Xalapa
Packaging
U.S. Alabama, Arizona, Arkansas, California, Colorado, Florida, Georgia, Hawaii, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Minnesota, Mississippi,
Missouri, Nebraska, New Jersey, New York, North Carolina, Ohio, Oklahoma, Oregon, Tennessee, Texas, Virginia, Washington and Wisconsin
Mexico Ixtac, Mexico City, Monterrey and Silao,
Specialty Packaging
U.S. California, Georgia, Illinois, Indiana, Kentucky, North Carolina, Ohio and Oregon
Recycling
U.S. Arizona, California, Colorado, Illinois, Iowa, Kansas, Maryland, Minnesota, Nebraska, North Carolina, Oregon, Tennessee, Texas, Utah, Virginia and Washington
Kraft Bags and Sacks
U.S. California, North Carolina, Oregon and Texas

SUMMARY OF 2006 CONTAINERBOARD, PACKAGING AND RECYCLING CAPACITIES

IN THOUSANDS	PRODUCTION CAPACITY	NUMBER OF FACILITIES
Containerboard tons(2)	6,200	9
Packaging MSF(4)	98,000	74
Recycling tons(3)	N/A	19
Kraft bags and sacks tons	160	4

FIVE-YEAR SUMMARY OF CONTAINERBOARD, PACKAGING AND RECYCLING PRODUCTION

PRODUCTION(1): IN THOUSANDS	2006	2005	2004	2003	2002
Containerboard tons(2)	6,260	6,268	6,291	6,003	6,004
Packaging MSF	79,851	78,089	77,822	77,830	75,100
Recycling tons(3)	6,829	6,743	6,718	6,216	6,092
Kraft bags and sacks tons	82	88	94	98	93

(1) Fiscal year 2006 includes 53 weeks of operations compared to 52 weeks in fiscal years 2002 through 2005.
(2) Containerboard production represents machine production and includes volumes that are further processed into packaging and kraft bags and sacks by company facilities.
(3) Recycling production includes volumes processed in Weyerhaeuser recycling facilities that are consumed by company facilities and brokered volumes.
(4) Packaging production capacity is based on corrugator production.

REAL ESTATE AND RELATED ASSETS

The areas where our Real Estate and Related Assets businesses operate are:

Single-Family Housing and Land Development
    Arizona, California, Maryland, Nevada, Oregon, Texas, Virginia and Washington
Master-Planned Communities
    California, Nevada, Texas and Washington
Real Estate Investment Management Offices
    Arizona, California, Colorado, Illinois, Nevada, Virginia and Washington

LEGAL PROCEEDINGS

See Environmental Matters, Legal Proceedings and Other Contingencies and Note 16 of Notes to Consolidated Financial Statements for a summary of legal proceedings.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2006.

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PART II

MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the following exchanges under the symbol WY:

New York Stock Exchange
Chicago Stock Exchange
Our exchangeable shares trade on the Toronto Stock Exchange under the symbol WYL.

As of December 31, 2006, there were approximately 11,471 holders of record of our common shares and 1,169 holders of record of our exchangeable shares. Dividend per share data and the range of closing market prices for our common stock for each of the four quarters in 2006 and 2005 are included in Note 26 of Notes to Consolidated Financial Statements.

INFORMATION ABOUT SECURITIES AUTHORIZED FOR ISSUANCE UNDER OUR EQUITY COMPENSATION PLAN

	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (A)	WEIGHTED AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (B)	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN COLUMN (A)) (C)
Equity compensation plans approved by security holders	14,471,437(1)(2)	$ 60.84	10,984,555
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	14,471,437(1)(2)	$ 60.84	10,984,555

(1) Includes 286,520 performance share units at the maximum award level. Because there is no exercise price associated with performance share units, such share units are not included in the weighted average price calculation.
(2) Includes 323,162 restricted stock units. Because there is no exercise price associated with restricted stock units, such stock units are not included in the weighted average price calculation.

INFORMATION ABOUT COMMON STOCK REPURCHASES DURING 2006(1)

	TOTAL NUMBER OF SHARES (OR UNITS) PURCHASED (A)	AVERAGE PRICE PAID PER SHARE (OR UNIT) (B)	TOTAL NUMBER OF SHARES (OR UNITS) PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS (C)	MAXIMUM NUMBER (OR APPROXIMATE DOLLAR VALUE) OF SHARES (OR UNITS) THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS (D)
Common Stock Repurchases During the Third Quarter:				
June 27 July 30		$ N/A		17,826,200
July 31 August 27	452,600	$ 61.02	452,600	17,373,600
August 28 September 24	4,894,500	$ 62.13	4,894,500	12,479,100
Total repurchases during third quarter	5,347,100	$ 62.04	5,347,100	12,479,100
Common Stock Repurchases During the Fourth Quarter:				
September 25 October 29	4,424,900	$ 61.62	4,424,900	8,054,200
October 30 November 26	788,300	$ 63.82	788,300	7,265,900
November 27 December 31	266,500	$ 63.85	266,500	6,999,400
Total repurchases during fourth quarter	5,479,700	$ 62.05	5,479,700	6,999,400
Total common stock repurchases during 2006	10,826,800	$ 62.04	10,826,800	

(1) On October 21, 2005, we announced a stock repurchase program under which we are authorized by the Board of Directors to repurchase up to 18 million shares of our common stock. As of December 31, 2006, we had repurchased 11 million shares under the program. All common stock purchases under the program were made in open market transactions. We expect to complete the common stock repurchase program within two years of the authorization.

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COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL SHAREHOLDER RETURN

Weyerhauser Company, S&P 500, Former S&P Paper & Forest Products Index, & Performance Peer Group

PERFORMANCE GRAPH ASSUMPTIONS

Assumes $100 invested on December 31, 2001 in Weyerhaeuser common stock, the S&P 500, the companies that comprised S&P s Paper and Forest Products Index on December 31, 2001 (excluding Willamette Industries), and Weyerhaeuser s current performance peer group described below.

Total return assumes dividends are reinvested quarterly.

Measurement dates are the last trading day of the calendar year shown.

In 2006, we adopted a new peer group for performance comparisons. Recent consolidation in the forest products industry has decreased the number of our direct peers in the sector, and shareholders measure our performance against a broader set of peers. The Compensation Committee of the Board of Directors selected a broader size range of basic materials companies that typically have been used by shareholders as benchmarks for our performance. The performance peer group currently includes: Alcoa, Alcan, Air Products & Chemicals, Ball Corp., Bowater, Celanese AG, Domtar Inc., Dow Chemical, Du Pont, Eastman Chemical, International Paper, Smurfit-Stone, Louisiana-Pacific, MeadWestvaco, Monsanto, Nucor, Owens-Illinois, Phelps Dodge, Praxair, PPG Industries, Rohm & Haas, Temple-Inland, and U.S. Steel.

The S&P Paper and Forest Products Index, which we had used for a number of years prior to 2006 as the published industry index for comparison of cumulative total returns, was discontinued as of December 31, 2001. The companies that previously constituted the group of companies in that index include: Boise Cascade, Georgia-Pacific, International Paper, Louisiana Pacific, Mead Westvaco and Potlatch. Boise Cascade and Georgia-Pacific are excluded from the analysis, as they are no longer publicly traded, independent entities.

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SELECTED FINANCIAL DATA*

DOLLAR AMOUNTS IN MILLIONS, EXCEPT PER-SHARE FIGURES

PER SHARE

	2006	2005	2004	2003	2002
Basic earnings from continuing operations before effect of accounting changes	$ 1.45	2.33	5.16	1.44	1.02
Basic earnings from discontinued operations	0.40	0.67	0.29	(0.14)	0.07
Effect of accounting changes				(0.05)[4]	
Basic net earnings	$ 1.85	3.00	5.45	1.25	1.09
Diluted earnings from continuing operations before effect of accounting changes	$ 1.44	2.32	5.14	1.44	1.02
Diluted earnings from discontinued operations	0.40	0.66	0.29	(0.14)	0.07
Effect of accounting changes				(0.05)[4]	
Diluted net earnings	$ 1.84	2.98	5.43	1.25	1.09
Dividends paid	$ 2.20	1.90	1.60	1.60	1.60
Shareholders interest (end of year)	$ 38.17	39.97	38.17	31.95	29.93

FINANCIAL POSITION

	2006	2005	2004	2003	2002
Total assets:					
Weyerhaeuser	$ 23,238	25,322	27,482	26,595	26,347
Real Estate and Related Assets	3,624	2,907	2,472	2,004	1,970
	$ 26,862	28,229	29,954	28,599	28,317
Long-term debt (net of current portion):					
Weyerhaeuser:					
Long-term debt	$ 7,069	7,404	9,277	11,503	11,907
Capital lease obligations	44	64	86	3	1
	$ 7,113	7,468	9,363	11,506	11,908
Real Estate and Related Assets:					
Long-term debt	$ 606	851	853	870	745
Shareholders interest	$ 9,085	9,800	9,255	7,109	6,623

Percent earned on average shareholders interest	4.8%	7.7%	15.7%	4.0%	3.6%

OPERATING RESULTS

	2006	2005	2004	2003	2002
Net sales and revenues:					
Weyerhaeuser	$ 18,561	19,131	18,916	16,836	15,783
Real Estate and Related Assets	3,335	2,915	2,495	2,029	1,750
	$ 21,896	22,046	21,411	18,865	17,533
Earnings (loss) from continuing operations before effect of accounting changes:					
Weyerhaeuser	$ (96)	111	839	74	15
Real Estate and Related Assets	451	458	376	245	211
	355	569	1,215	319	226
Earnings (loss) from discontinued operations	98	164	68	(31)	15
Effect of accounting changes				(11)(4)	
Net earnings	$ 453(1)	733(2)	1,283(3)	277(4)	241(5)

STATISTICS (UNAUDITED)

	2006	2005	2004	2003	2002
Number of employees	46,737	49,887	53,646	55,162	56,787
Number of shareholder accounts at year-end:					
Common	11,471	12,151	12,819	13,726	14,551
Exchangeable	1,169	1,227	1,320	1,388	1,450
Number of shares outstanding at year-end (thousands):					
Common	236,020	243,138	240,360	220,201	218,950
Exchangeable	1,988	2,045	2,111	2,293	2,303
Weighted average shares outstanding (thousands)	244,931	244,447	235,453	221,595	220,927

* Footnotes associated with this table are listed on page 30.

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2001	2000	1999	1998	1997	1996
1.64	3.50	2.99	1.48	1.72	2.34
(0.03)	0.22				
		(0.43)[8]			
1.61	3.72	2.56	1.48	1.72	2.34
1.64	3.50	2.98	1.47	1.72	2.33
(0.03)	0.22				
		(0.43)[8]			
1.61	3.72	2.55	1.47	1.72	2.33
1.60	1.60	1.60	1.60	1.60	1.60
30.45	31.17	30.54	22.74	23.30	23.21

2001	2000	1999	1998	1997	1996
16,276	16,139	16,400	10,934	11,071	10,968
2,017	2,035	1,939	1,900	2,004	2,628
18,293	18,174	18,339	12,834	13,075	13,596
5,095	3,953	3,945	3,397	3,483	3,546
	2	1	2	2	2
5,095	3,955	3,946	3,399	3,485	3,548
522	200	357	580	682	814
6,695	6,832	7,173	4,526	4,649	4,604
5.2%	12.0%	9.0%	6.4%	7.4%	10.2%

2001	2000	1999	1998	1997	1996
12,462	13,784	11,544	10,050	10,611	10,568
1,461	1,377	1,236	1,192	1,093	1,009
13,923	15,161	12,780	11,242	11,704	11,577

186	627	495	214	271	434
174	164	121	80	71	29
360	791	616	294	342	463
(6)	49				
		(89)(8)			
354(6)	840(7)	527(8)	294(9)	342(10)	463

2001	2000	1999	1998	1997	1996
44,843	47,244	44,770	36,309	35,778	39,020
16,127	17,437	18,732	19,559	20,981	22,528
1,573	1,736	1,590			
216,574	213,897	226,039	199,009	199,486	198,336
3,289	5,315	8,810			
219,644	225,419	205,599	198,914	198,967	198,318

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FOOTNOTES TO SELECTED FINANCIAL DATA

(1) 2006 results reflect charges of $905 million less related tax effects of $50 million, or $855 million, for the impairment of goodwill, closure of facilities and impairment of operating assets. 2006 results also reflect benefits of $557 million less related tax effects of $183 million, or $374 million, from the refund of countervailing and anti-dumping deposits, the sale of operations, a reduction in the reserve for hardboard siding claims, and a reversal of the reserve for alder antitrust litigation. 2006 results also includes income tax benefits of $48 million related to changes in income tax laws and other one-time deferred tax adjustments.

(2) 2005 results reflect charges of $840 million less related tax effects of $280 million, or $560 million, for the closure of facilities, impairment of assets, early extinguishment of debt, and litigation charges. 2005 results also reflect benefits of $335 million less related tax effects of $48 million, or $287 million, from the sale of operations and investments, recognition of a deferred gain on the significant sale of nonstrategic timberlands, and a change to begin capitalizing Weyerhaeuser interest on excess qualifying real estate assets. 2005 results also include net income tax expense of $23 million related to repatriation of foreign dividends and changes in income tax laws.

(3) 2004 results reflect charges of $243 million less related tax effects of $83 million, or $160 million, for the early extinguishment of debt, impairment of assets, change in the method of estimating workers compensation liabilities, the net book value of technology donated to a university, closure of facilities, litigation charges, and restructuring activities. 2004 results also reflect benefits of $387 million less related tax effects of $132 million, or $255 million, for the significant sale of nonstrategic timberlands in Georgia, sales of facilities, a tenure reallocation agreement with the British Columbia government, and a reduction in the reserve for hardboard siding claims.

(4) 2003 results reflect charges of $379 million less related tax effects of $130 million, or $249 million, for the sale or closure of facilities, restructuring activities, terminating the MacMillan Bloedel pension plan for salaried employees in the United States, litigation charges, and the cumulative effect of a change in an accounting principle. 2003 results also reflect benefits of $230 million less related tax effects of $88 million, or $142 million, for the significant sales of nonstrategic timberlands in western Washington, Tennessee and the Carolinas and a gain on the settlement of an insurance claim.

(5) 2002 results reflect charges of $249 million less related tax effects of $86 million, or $163 million, for the closure of facilities, integration of acquisitions, terminating the MacMillan Bloedel pension plan for salaried employees in the United States, business interruption costs, and the write-off of debt issuance costs. 2002 results also reflect benefits of $164 million less related tax effects of $57 million, or $107 million, for the reversal of countervailing and anti-dumping accruals and the significant sale of nonstrategic timberlands in western Washington.

(6) 2001 results reflect charges of $157 million less related tax effects of $59 million, or $98 million, for the closure of facilities and integration of acquisitions, costs associated with streamlining internal support services, and costs of transitioning to a new shipping fleet. 2001 results also reflect tax benefits of $29 million.

(7) 2000 results reflect charges of $205 million less related tax effects of $76 million, or $129 million, for settlement of hardboard siding claims, closure of facilities, integration of acquisitions, and costs associated with streamlining internal support services.

(8) 1999 results reflect charges of $276 million less related tax effects of $102 million, or $174 million, for the cumulative effect of a change in an accounting principle, impairment of long-lived assets to be disposed of, closure costs related to acquisitions and Year 2000 remediation.

(9) 1998 results reflect charges of $67 million less related tax effects of $25 million, or $42 million, for closure of facilities.

(10) 1997 results reflect net charges of $13 million less related tax effects of $4 million, or $9 million, for closure and restructuring charges, net of gains on the sale of businesses.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)

WHAT YOU WILL FIND IN THIS MD&A

Our MD&A includes the following major sections:

- financial performance summary;
- economic and market conditions affecting our operations;
- results of our operations by segment and for the company as a whole;
- liquidity and capital resources, where we discuss our cash flows; and
- accounting matters, where we discuss critical accounting policies and areas requiring judgments and estimates.

FINANCIAL PERFORMANCE SUMMARY

The following graphs show our net sales and revenues by segment and contribution to earnings by segment for each of the last three years. Factors affecting those trends are discussed in the sections that follow.

* Includes results of discontinued operations

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ECONOMIC AND MARKET CONDITIONS AFFECTING OUR OPERATIONS

A variety of market conditions in the U.S. and global economy influenced demand and pricing for our products and affected our operating results in 2006. Those market conditions included the following:

- The U.S. economy grew 3.4 percent in 2006.
- The U.S. Federal Reserve increased short-term interest rates 1 percent over the course of the year.
- Single-family housing starts fell from 1.75 million units (seasonally adjusted annual rate) in the first quarter of 2006 to only 1.23 million units (seasonally adjusted annual rate) in the fourth quarter of 2006.
- The U.S. dollar remained relatively stable against most currencies in 2006, but did fall relative to the euro and the Canadian dollar.
- The global economy continued to grow at a healthy rate, primarily due to strong growth in the U.S. economy and Asia.
- Increased containerboard capacity in Asia continued to increase demands for exports of OCC from the U.S. market.
- Transportation costs increased.

HOW ECONOMIC AND MARKET CONDITIONS AFFECTED OUR OPERATIONS

The major effects that economic and market conditions had on our operations in 2006 included:

- Market pulp demand growth increased to 4.8 percent.
- Uncoated free sheet demand in North America fell 1.5 percent.
- Industry box shipments increased modestly as non-durable goods production rose 2.2 percent.
- U.S. housing sales and starts fell sharply.
- Demand for lumber and structural panel products dropped sharply.
- OSB and lumber prices also fell sharply due to decline in demand and growth in capacity.
- Timber prices fell late in the year, following the dramatic drop in lumber prices.
- Increased transportation costs and decreases in prices resulted in reduced profit margins in several of our businesses.

FAVORABLE CONDITIONS FOR U.S. MARKET PULP PRODUCERS IN 2006

Market pulp prices rose 12 percent in 2006 due to:

- higher fiber costs in Europe,
- weaker U.S. dollar versus the euro and Canadian dollar,
- closures of market pulp capacity in Canada and
- strong demand for fluff pulp, especially in developing Asia and Latin America.

DEMAND FOR UNCOATED FREE SHEET FELL AGAIN IN 2006

Demand for uncoated free sheet fell 1.5 percent in 2006 primarily due to:

- competition from other paper grades and
- continuing displacement of paper by electronic applications.

INDUSTRY BOX SHIPMENTS INCREASED MODESTLY IN 2006

Industry box shipments increased modestly during 2006, primarily due to moderate growth in industrial production of non-durable goods the key driver for box demand. The containerboard industry s operating rate was approximately 98 percent the highest in over 20 years. The operating rate increased in 2006 due to increased production and some capacity closures.

HOME SALES AND SINGLE-FAMILY STARTS DOWN

Higher interest rates contributed to a drop in both new and existing home sales in 2006. As a result, the inventory of homes available for sale increased sharply, causing home prices to decline especially in areas that had been high-demand markets, such as Southern California, Phoenix, Las Vegas and Washington D.C.

DEMAND FOR LUMBER AND STRUCTURAL PANELS SLOWED IN 2006

- As single-family home starts fell from the cyclical peak in the first quarter, demand declined for lumber and structural panels.
- Markets became over-supplied in part because of capacity expansions.

Prices fell sharply in the second half of 2006.

TRADE ISSUES CONTINUED TO AFFECT LUMBER OPERATIONS IN 2006

The 5-year softwood lumber dispute between Canada and the United States ended in October 2006 with the signing of a settlement agreement. The agreement imposes an export tax on Canadian imports to the United States. The tax varies with the lumber price and amount of Canadian softwood lumber being exported to the U.S. market.

DOMESTIC TIMBER PRICES BEGAN TO FEEL THE EFFECT OF DECLINING WOOD PRODUCT PRICES IN 2006

Timber prices typically follow product prices, but with a lag that varies by region. The lag for Southern timber prices is longer than in the Western U.S. markets.

Domestic timber prices peaked in the first half of 2006 and declined late in the year.

Export log markets benefited from strong offshore demand and export prices remain strong relative to domestic prices.

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RESULTS OF OPERATIONS

Our 2006 results include 53 weeks of operations, while 2005 and 2004 results each include 52 weeks of operations.

In reviewing our results of operations, it s important to understand these terms:

- price realizations refers to net selling prices this includes selling price plus freight minus normal sales deductions; and
- contribution to earnings refers to our business segment earnings before interest and taxes.

CONSOLIDATED RESULTS

Net sales and revenue and operating income numbers reported in our consolidated results do not include the activity of our discontinued operations, which currently include the:

- Irish composite panel operations (sold in November 2006);
- North American composite panel operations (sold in July 2006);
- French composite panel operations (sold in December 2005); and
- B.C. Coastal operations (sold in May 2005).

We report these activities and results as discontinued operations in our Consolidated Statement of Earnings. The results of these operations are included in the segment discussions that follow.

How We Did in 2006

NET SALES AND REVENUE / OPERATING INCOME / NET EARNINGS WEYERHAEUSER COMPANY

DOLLAR AMOUNTS IN MILLIONS, EXCEPT PER-SHARE FIGURES

				AMOUNT OF CHANGE	
	2006	2005	2004	2006 vs. 2005	2005 vs. 2004
Net sales and revenues	$ 21,896	$ 22,046	$ 21,411	$ (150)	$ 635
Operating income	$ 1,192	$ 1,290	$ 2,532	$ (98)	$ (1,242)
Net earnings	$ 453	$ 733	$ 1,283	$ (280)	$ (550)
Net earnings per share, basic	$ 1.85	$ 3.00	$ 5.45	$ (1.15)	$ (2.45)
Net earnings per share, diluted	$ 1.84	$ 2.98	$ 5.43	$ (1.14)	$ (2.45)

Comparing 2006 with 2005

In 2006:

- Net sales and revenue decreased $150 million, or 1 percent.
- Net earnings decreased $280 million, or 38 percent.

Net sales and revenue

Net sales and revenue decreased primarily due to lower demand for residential building products. Excluding discontinued operations, sales of softwood lumber, plywood and OSB within our Wood Products segment declined approximately $850 million due to the weakening U.S. housing market.

Offsetting the decreases within our Wood Products segment were the following:

- Increases in both the number of single-family homes closed and average sales prices of single-family homes within our Real Estate and Related Assets segment resulted in a $265 million, or 10 percent, improvement in single-family revenues compared to 2005.
- Improved market conditions for pulp and paper products within our Cellulose Fiber and White Papers segment and for packaging products within our Containerboard, Packaging and Recycling segment resulted in increased revenues of $228 million and $221 million, respectively, as compared to 2005.

Net earnings

Net earnings decreased primarily due to several significant, but largely offsetting, factors.

Reductions to net earnings included:

- goodwill impairment charges of $749 million in our fine paper business in 2006;
- a decrease of $600 million related to lower average price realizations for softwood lumber and structural panels;
- decreased gross margins of $101 million on sales of single-family homes in our Real Estate and Related Assets segment; and
- a $196 million reduction in pretax gains on dispositions.

Pretax gains of $292 million recognized during 2005 included:

- $115 million on the sale of our investment in MAS Capital Management,
- $63 million on the sale of the B.C. Coastal operations,
- $57 million on the sale of our French composite panel operations and
- $57 million related to a deferred gain from previous timberland sales.

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Pretax gains of $96 million recognized in 2006 included:

- $51 million on the sale of our North American composite panel operations and
- $45 million on the sale of our Irish composite panel operations.

Increases to 2006 net earnings included:

- a $581 million reduction in pretax charges for asset impairments and other charges associated with facility closure decisions made under our ongoing strategic review pretax charges of $112 million were recognized in 2006 compared with pretax charges of $693 million recognized during 2005;
- increased contributions of $412 million from improved price realizations for pulp, paper, liquid packaging, corrugated packaging and containerboard, net of higher manufacturing costs for these same products;
- a pretax refund of $344 million in previously paid countervailing and anti-dumping deposits resulting from the settlement of the Canadian softwood lumber dispute;
- pretax income of $95 million from the reversal of reserves for alder antitrust litigation; and
- one-time tax benefits of $48 million related to a change in the Texas state income tax law, a reduction in the Canadian federal income tax rate and a deferred tax adjustment related to the Medicare Part D subsidy compared to net one-time tax charges of $23 million in 2005. The 2005 items include a $44 million expense related to the accrual of taxes associated with the repatriation of foreign earnings and benefits of $21 million resulting from a change in the Ohio state and British Columbia income tax law.

Comparing 2005 with 2004

In 2005:

- Net sales and revenue increased by $635 million, or 3 percent.
- Net earnings decreased by $550 million, or 43 percent.

Net sales and revenue

Net sales and revenue increased primarily due to the following:

- Increases in both the number of single-family homes closed and average sales prices of single-family homes within our Real Estate and Related Assets segment resulted in a $493 million, or 22 percent, improvement in revenues over 2004.
- Improved market conditions for fine paper within our Cellulose Fiber and White Papers segment and for packaging products within our Containerboard, Packaging and Recycling segment resulted in increased revenue of $191 million and $126 million, respectively, as compared to 2004.

Net earnings

Net earnings decreased due primarily to the following:

- net pretax charges of $693 million in 2005 compared with $17 million in 2004 for asset impairments and other charges associated with facility closure decisions made as part of our ongoing strategic review; and
- significant increases in operating costs, primarily in energy, raw materials and transportation, across our manufacturing operations.

These factors were partially offset by:

- an increase of $231 million in gross margins on sales of single-family homes in our Real Estate and Related Assets segment; and
- an increase of $179 million related to improved price realizations in our forest products businesses, due primarily to higher average sales prices for fine paper and corrugated packaging, which reflect the improved market conditions discussed above.

TIMBERLANDS

How We Did in 2006

We report sales volume and annual production data for our Timberlands business segment in Our Business. Here is a comparison of net sales and revenues to unaffiliated customers, intersegment sales, and contribution to earnings for the last three years:

NET SALES AND REVENUE / CONTRIBUTION TO EARNINGS TIMBERLANDS

DOLLAR AMOUNTS IN MILLIONS

	2006	2005	2004	AMOUNT OF CHANGE 2006 vs. 2005	AMOUNT OF CHANGE 2005 vs. 2004
Net sales and revenues to unaffiliated customers:					
Logs	$ 781	$ 761	$ 822	$ 20	$ (61)
Other products	235	286	280	(51)	6
	$ 1,016	$ 1,047	$ 1,102	$ (31)	$ (55)
Intersegment sales	$ 1,675	$ 1,794	$ 1,622	$ (119)	$ 172
Contribution to earnings	$ 767	$ 784	$ 1,027	$ (17)	$ (243)

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Comparing 2006 with 2005

In 2006:

- Net log sales and revenues to unaffiliated customers increased $20 million, or 3 percent.
- Sales of other products to unaffiliated customers decreased $51 million, or 18 percent.
- Intersegment sales decreased $119 million, or 7 percent.
- Contribution to earnings declined $17 million, or 2 percent.

Net sales and revenue unafiliated customers

Net sales and revenues to unaffiliated customers decreased due primarily to the following:

- Sales of nonstrategic timberlands decreased by $49 million in 2006. Over half of that decrease was due to 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.
- Log sales from the B.C. Coastal operations, which were sold in May 2005, were $21 million in 2005.

These decreases were partially offset by increases in log sales in the United States and Canada of $32 million and $10 million, respectively. During 2006, average log price realizations increased 3 percent in the Western United States and 16 percent in Canada.

Intersegment sales

The $119 million decrease in intersegment sales was primarily due to the following:

- mill closures in Prince Albert, Saskatchewan during early 2006,
- the sale of the B.C. Coastal operations in May 2005 and
- declines in log sales from non-fee timber due to lower non-fee timber purchases during 2006 as compared to 2005.

Contribution to earnings

Contribution to earnings decreased primarily due to the following:

- the sale of the B.C. Coastal operations in May 2005, which contributed earnings of $16 million in 2005;
- earnings on sales of nonstrategic timberlands, which decreased $7 million;
- a decrease of $9 million in earnings related to changes in Canadian reforestation costs; and
- cost increases of approximately $30 million due to higher fuel costs and hurricane salvage costs incurred during the first quarter of 2006.

These decreases were partially offset by a net increase of $43 million in earnings from the Southern and Western United States operations in 2006, which reflected the following:

- improved price realizations and mix these factors contributed $24 million, more than half of which was in Western export log prices;
- a slightly higher level of fee harvest in 2006, which contributing an additional $8 million in earnings; and
- recognition of an $11 million timber loss in 2005 due to Hurricane Katrina.

Comparing 2005 with 2004

In 2005:

- Net sales and revenues from unaffiliated customers decreased by $55 million, or 5 percent.
- Intersegment sales increased by $172 million, or
11 percent.
- Contribution to earnings decreased by $243 million, or 24 percent.

Net sales and revenue unaffiliated customers

Net sales and revenues from unaffiliated customers decreased primarily due to the following:

- a $22 million decrease in B.C. Coastal log sales, based on five months of results in 2005, when we sold the operations, compared with a full year in 2004;
- decreases in the volume of logs sold 12 percent in export markets and 7 percent in domestic markets; and
- a 2 percent decrease in price realizations in the West resulting from a less favorable mix of logs that offset increased log prices.

The decrease was partially offset by an 8 percent increase in price realizations in the South as a result of increased log price realizations.

Intersegment sales

Intersegment sales increased primarily due to the following:

- an increase of $91 million from our Canadian operations where overall internal price realizations increased as a result of higher market values;
- an increase of $58 million resulting from an increased harvest of grade and pruned logs which have higher internal price realizations in the southern United States; and
- an increase of $23 million resulting from an increase in the volume and average price realizations of logs harvested in the western United States and sold to our mills.

Contribution to earnings

Contribution to earnings decreased primarily due to the following:

- a $301 million decrease in gains on sales of nonstrategic timberlands, we recognized a $271 million pretax gain from the sale of timberlands in Georgia in 2004;
- a $44 million decrease in earnings from our B.C. Coastal operations, which included only five months of operations in 2005 compared with a full year in 2004; and
- a $25 million increase in net operating costs including $14 million in higher fuel costs and an $11 million charge for timber damage caused by Hurricane Katrina.

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Partially offsetting those factors were:

- a $99 million increase from improved price realizations in domestic markets including a $62 million increase from our Southern operations and a $37 million increase from our Western operations, strong demand in the housing sector and an improved sales mix; and
- a $6 million increase resulting from a slight increase in harvest levels on fee lands in the West.

Our Outlook

We expect first quarter 2007 earnings to be slightly higher for the segment compared to the fourth quarter 2006 due to higher domestic log prices as a result of tightening stumpage and log supplies.

Approximately 12.2 million of our 26.8 million acres of licensed timberlands in Canada are included in the Domtar Transaction which is expected to close in the first quarter of 2007.

WOOD PRODUCTS

How We Did in 2006

We report sales volume and annual production data for our Wood Products business segment in Our Business. Here is a comparison of net sales and revenues and contribution to earnings for the last three years:

NET SALES AND REVENUE / CONTRIBUTION TO EARNINGS WOOD PRODUCTS

DOLLAR AMOUNTS IN MILLIONS

				AMOUNT OF CHANGE	
	2006	2005	2004	2006 vs. 2005	2005 vs. 2004
Net sales and revenues:					
Softwood lumber	$ 2,997	$ 3,624	$ 3,915	$ (627)	$ (291)
Plywood	529	735	929	(206)	(194)
Veneer	42	44	44	(2)	
Composite panels	357	497	501	(140)	(4)
Oriented strand board	939	1,164	1,390	(225)	(226)
Hardwood lumber	398	390	365	8	25
Engineered I-Joists	670	704	645	(34)	59
Engineered solid section	794	833	701	(39)	132
Logs	23	62	125	(39)	(63)
Other products	1,153	1,225	1,160	(72)	65
	$ 7,902	$ 9,278	$ 9,775	$ (1,376)	$ (497)
Contribution to earnings	$ 464	$ 485	$ 1,055	$ (21)	$ (570)

Comparing 2006 with 2005

In 2006:

- Net sales and revenues decreased $1.4 billion, or 15 percent.

Contribution to earnings decreased $21 million, or 4 percent.

Net sales and revenue

Net sales and revenues decreased primarily due to the following:

- lower average sales prices for softwood lumber, plywood, and OSB average price realizations declined 9 percent, 6 percent, and 22 percent, respectively;
- decreased shipment volumes for softwood lumber products, primarily due to the sale of our B.C. Coastal operations in May 2005, and the closure of three sawmills in 2006;
- decreased shipment volumes for softwood plywood due to the closure of a plywood mill in October 2005, the diversion of veneer production into engineered products manufacturing, and the termination of distribution arrangements for certain outside suppliers;
- decreased shipment volumes for composite panel products as a result of the sale of our North American composite panel operations in July 2006; and
- decreased shipment volumes for engineered lumber products due primarily to the decline in market demand.

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Contribution to earnings

Contribution to earnings decreased due to some significant but offsetting factors. The primary reason for the decline was the rapid deterioration in the primary market we serve residential home building.

- United States census statistics show that total housing starts declined 13 percent from 2005 to 2006.
- On a seasonally adjusted annual rate, single-family housing starts fell from 1.75 million units in the first quarter of 2006 to only 1.23 million units in the fourth quarter.

The contribution from softwood lumber and structural panels declined $650 million $600 million from lower average price realizations and $50 million from reduced shipment volumes.

The significant decline was offset by the following items:

- recognition of $344 million of income refunded from amounts collected for countervailing and anti-dumping deposits relating to the softwood lumber dispute between the United States and Canada;
- recognition of $95 million of income for a reversal of the reserve for alder antitrust litigation;
- a decrease of $74 million in the average prices paid for lumber and plywood purchased for resale;
- a $51 million reduction in closure and restructuring costs as compared to 2005;
- a gain of $51 million realized in 2006 for the sale of the North American composite panel operations; and
- income of $23 million for a reduction in the reserve for hardboard siding claims.

Comparing 2005 with 2004

In 2005:

- Net sales and revenues decreased by $497 million, or 5 percent.
- Contribution to earnings decreased by $570 million, or 54 percent.

Net sales and revenue

Net sales and revenues decreased primarily due to the following:

- lower average price realizations and reduced shipment volumes in softwood lumber, plywood and OSB as a result of an increased supply of lumber and panel products within the industry and lower prices;
- decreased shipment volumes of softwood lumber products from our B.C. Coastal operations, which were sold in May 2005; and
- decreased shipment volumes of structural panels as a result of the sale of certain plywood facilities in 2004 and increased internal consumption of OSB in the manufacture of engineered lumber products.

Partially offsetting these decreases were higher price realizations for our engineered lumber products.

Contribution to earnings

Contribution to earnings decreased primarily due to the following:

- a decrease of $370 million from lower average price realizations for softwood lumber and structural panels and $30 million from reduced shipment volumes of softwood lumber and structural panels;
- an increase of $300 million in costs for delivered raw materials, additives, energy and other manufacturing elements, of which approximately two-thirds were attributable to wood and resin cost and one-third was attributable to the Canadian exchange rate, energy, maintenance and freight;
- net pretax charges of $99 million in 2005 related to the sale or closure of facilities compared with a $66 million net pretax gain in 2004 for restructuring and closure or sale of facilities.
  - 2005 charges include:
    - the closure of the Wright City, Oklahoma plywood mill;
    - the closure of the Aberdeen, Washington sawmill; and
    - the probable closure of the Big River, Saskatchewan sawmill.
  - 2004 net gains include $68 million from the sale of facilities, including:
    - an OSB mill in Slave Lake, Alberta; and
    - a mill site on Vancouver Island, British Columbia.

Partially offsetting those factors were:

- higher price realizations for engineered lumber products, hardwood lumber and residuals, which generated an increase of $275 million; and
- an $18 million improvement in pretax charges for legal matters.
  - 2005 included a $13 million pretax charge recognized in connection with settlements in alder litigation matters and a pretax gain of $6 million for compensation related to the tenure reallocation agreement in British Columbia.
  - 2004 included $65 million in pretax charges for alder litigation matters and $40 million in pretax gains for compensation related to the tenure reallocation agreement in British Columbia and a reduction in the reserve for hardboard siding claims.

Our Outlook

We expect some improvement in market conditions in first quarter 2007, but still expect to experience significant losses in the Wood Products segment. We will continue to balance production to demand, which may result in further production curtailments.

Three sawmills in Canada, including one mill in which we have an equity interest, are included in the Domtar Transaction which is expected to close in the first quarter of 2007.

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CELLULOSE FIBER AND WHITE PAPERS

How We Did in 2006

We report sales volume and annual production data for our Cellulose Fiber and White Papers business segment in Our Business. Here is a comparison of net sales and revenues and contribution to earnings for the last three years:

NET SALES AND REVENUE / CONTRIBUTION TO EARNINGS CELLULOSE FIBER AND WHITE PAPERS

DOLLAR AMOUNTS IN MILLIONS

				AMOUNT OF CHANGE	
	2006	2005	2004	2006 vs. 2005	2005 vs. 2004
Net sales and revenues:					
Pulp	$ 1,657	$ 1,482	$ 1,471	$ 175	$ 11
Paper	2,470	2,417	2,226	53	191
Coated groundwood	171	180	156	(9)	24
Liquid packaging board	229	203	208	26	(5)
Other products	74	54	54	20	
	$ 4,601	$ 4,336	$ 4,115	$ 265	$ 221
Contribution (charge) to earnings	$ (505)	$ (444)	$ 104	$ (61)	$ (548)

Comparing 2006 with 2005

In 2006:

- Net sales and revenues increased $265 million, or 6 percent.
- Contribution to earnings declined $61 million, or 14 percent.

Net sales and revenue

Net sales and revenues increased primarily due to improved industry balance between supply and demand as well as the following:

- Average price realizations improved across all primary products in the segment.
  - Fine paper price realizations including paper and coated groundwood products improved $81 per ton, or 10 percent.
  - Pulp price realizations improved $40 per ton, or 7 percent.
  - Liquid packaging price realizations improved $45 per ton, or 6 percent.
- Sales volumes of both pulp and liquid packaging board increased.
  - Pulp sales volumes increased approximately 119,000 tons, or 5 percent, despite the closures of the Prince Albert, Saskatchewan pulp operations in March 2006 and the Cosmopolis, WA pulp mill operations in September 2006. The volume increases were due to improved productivity at several mills, including improved productivity at the Dryden, Ontario mill when the paper- grade pulp produced for use on the recently closed paper machine was redirected to market pulp.
  - Liquid packaging volume increased approximately 17,000 tons, or 7 percent.
- Partially offsetting these improvements was a decline in fine paper sales volumes of approximately 245,000 tons, or 8 percent. This decrease was primarily due to the closures of the Prince Albert and Dryden paper machines in January and April 2006, respectively.

Contribution to earnings

Contribution to earnings decreased primarily due to the net effect of the following:

- Charges for facility closures and goodwill impairment increased $313 million charges were $762 million in 2006 compared to $449 million in 2005.
- Cost of goods sold increased approximately $89 million, primarily due to:

the strengthening of the Canadian dollar, which resulted in higher operating costs of approximately $48 million for Canadian operations;
an increase in raw material costs of approximately $28 million, primarily related to chip price increases;
increased chemical costs of approximately $33 million, reflecting a combination of increased chemical prices and a higher brightness for fine paper products;
higher freight costs, which increased approximately $12 million, as fuel costs remained high throughout 2006; and
an increase of approximately $30 million for ongoing operating costs at closed operations and system-wide operating supply expenses.

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These cost increases were partially offset by:

- declines in energy costs and maintenance costs of approximately $18 million and $16 million, respectively;
- productivity improvements at several facilities resulting in cost reductions of approximately $18 million; and
- reduced pension costs for production employees of approximately $10 million.

Improved price realizations provided approximately $357 million in additional contribution $240 million from fine paper, $104 million from pulp, and $13 million from liquid packaging. This improvement was primarily due to improved market conditions relating to favorable changes in the industry supply and demand balance.

Comparing 2005 with 2004

In 2005:

- Net sales and revenues increased by $221 million, or 5 percent.
- Contribution to earnings decreased by $548 million, resulting in a $444 million loss.

Net sales and revenue

Net sales and revenues increased primarily due to the following:

- an increase of 4 percent or $33 per ton in fine paper price realizations resulting from general improvement in United States economic conditions;
- an increase of 4 percent or 120,000 tons in fine paper shipments; and
- an increase of 3 percent or $17 per ton in average pulp price realizations. Increased fluff pulp prices more than offset a decline in papergrade prices that was caused by somewhat weaker offshore demand and increased European supply.

These increases in net sales and revenues were partially offset by a decrease of 2 percent, or 56,000 tons, of unit shipments in pulp.

Contribution to earnings

Contribution to earnings decreased primarily due to the following:

- Pretax charges related to the closure of facilities were $449 million in 2005 compared with $18 million in pretax charges in 2004. The 2005 charges included costs related to the announced closures of:
  - a specialty pulp facility in Cosmopolis, Washington;
  - a pulp and paper facility at Prince Albert, Saskatchewan; and
  - a paper machine at Dryden, Ontario.
- Energy, chemical and raw material costs increased by $138 million. Approximately $100 million resulted from higher energy prices, primarily natural gas and energy driven chemical price increases, and $38 million resulted from higher prices for wood chips.
- Transportation costs increased by $75 million, mostly from fuel surcharges.
- The strengthening of the Canadian dollar increased operating costs at our Canadian facilities by $62 million.
- Partially offsetting the increased costs in 2005 was an increase in segment earnings of $175 million due to higher average price realizations $132 million on fine paper sales and $43 million on pulp sales.

Our Outlook

We expect first quarter 2007 market conditions for this segment will remain favorable. We anticipate that fine paper prices will remain relatively unchanged and demand will strengthen. Market conditions for pulp are expected to improve and lead to higher prices. We expect the scheduled completion of the announced Domtar Transaction the first week of March to affect first quarter earnings. Upon closing, this transaction will eliminate the earnings of the fine paper business and certain cellulose fiber assets from this segment. These assets contributed earnings of approximately $76 million in the fourth quarter of 2006. Additionally, we expect manufacturing costs to increase due to scheduled annual maintenance outages at four of our facilities. One of these facilities is included in the Domtar Transaction, but will have its annual outage prior to the closing of the transaction. The costs for these annual outages will be expensed as incurred.

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CONTAINERBOARD, PACKAGING AND RECYCLING

How We Did in 2006

We report sales volume and annual production data for our Containerboard Packaging and Recycling business segment in Our Business. Here is a comparison of net sales and revenues and contribution to earnings for the last three years:

NET SALES AND REVENUE / CONTRIBUTION TO EARNINGS CONTAINERBOARD, PACKAGING AND RECYCLING

DOLLAR AMOUNTS IN MILLIONS

				AMOUNT OF CHANGE	
	2006	2005	2004	2006 vs. 2005	2005 vs. 2004
Net sales and revenues:					
Containerboard	$ 377	$ 395	$ 368	$ (18)	$ 27
Packaging	3,931	3,710	3,584	221	126
Recycling	345	352	347	(7)	5
Kraft bags and sacks	88	83	80	5	3
Other products	171	167	156	4	11
	$ 4,912	$ 4,707	$ 4,535	$ 205	$ 172
Contribution (charge) to earnings	$ 263	$ (5)	$ 249	$ 268	$ (254)

Comparing 2006 with 2005

In 2006:

- Net sales and revenues increased by $205 million, or 4 percent.
- Contribution to earnings increased by $268 million to $263 million in 2006 compared to a loss of $5 million in 2005.

Net sales and revenues

Net sales and revenues increased primarily due to the following:

- an increase of 17 percent, or $62 per ton, in price realizations for containerboard;
- a decline in shipments of 18 percent, or 190,000 tons, of containerboard, due primarily to the permanent closure of a containerboard machine in Plymouth, North Carolina in the first quarter of 2006;
- an increase of 4 percent, or $2.12 per thousand square foot, in price realizations for corrugated packaging; and
- an increase in shipments of 2 percent, or 1.2 billion square feet, of corrugated packaging.

Prices for domestic containerboard and corrugated packaging increased during the first three quarters of 2006 and flattened in the fourth quarter of 2006. Containerboard prices in export markets continued to increase through the fourth quarter. Corrugated packaging shipments increased during the first half of the year and began to decrease during the second half of 2006. The decrease was primarily due to the effect of closing corrugated packaging plants and discontinuing sales to low margin customers. Overall, packaging shipments in the United States increased 0.9 percent in 2006 compared to 2005 according to the Fibre Box Association.

Contribution to earnings

Contribution to earnings increased primarily due to the following:

- an increase of $212 million due to higher price realizations $159 million for corrugated packaging and $53 million for containerboard;
- net pretax charges of $35 million related to restructuring and facility closures compared with $137 million in 2005; and
- settlement of the linerboard litigation, which resulted in pretax charges of $50 million in 2005.

Partially offsetting the earnings improvements above were:

- an increase of $53 million in non-fiber manufacturing costs mostly from higher costs for non-fiber raw materials and supplies, chemicals, energy and labor;
- a net increase of $15 million in raw material costs which included a $4 per ton cost decrease for OCC and a $6 per ton increase in the price paid for wood chips; and
- an increase of $29 million in transportation costs resulting mostly from higher fuel costs and increases in rail rates.

Prices for west coast wood chip increased rapidly during the fourth quarter of 2006 and continue to increase in 2007 due to the production curtailments at wood products manufacturing facilities caused by the slow down in the housing market. OCC costs also increased rapidly at the end