WEYERHAEUSER CO
Form 10-K
February 22, 2012
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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, 2011
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

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. [ ] Yes [X] No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [X] Yes [ ] No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]
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 30, 2011, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $11,586,262,405 based on the closing sale price as reported on the New York Stock Exchange Composite Price Transactions.

As of February 3, 2012, 536,500,796 shares of the registrant's common stock ($1.25 par value) were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Notice of 2012 Annual Meeting of Shareholders and Proxy Statement for the company's Annual Meeting of Shareholders to be held April 12, 2012, are incorporated by reference into Part II and III.

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OUR BUSINESS

We are a forest products company that grows and harvests trees, builds homes and makes a range of forest products essential to everyday lives. Our goal is to do this safely, profitably and responsibly. We are committed to operate as a sustainable company. We focus on increasing energy and resource efficiency, reducing greenhouse gas emissions, reducing water consumption, conserving natural resources, and offering products that meet human needs with superior sustainability attributes. We operate with world class safety results, understand and address the needs of the communities in which we operate, and present ourselves transparently.

We have offices or operations in 11 countries and have customers worldwide. We manage 20.3 million acres of forests, of which we own 5.7 million acres, lease 0.7 million acres and have renewable, long-term licenses on 13.9 million acres. In 2011, we generated $6.2 billion in net sales from our continuing operations.

This portion of our Annual Report and Form 10-K provides detailed information about who we are, what we do and where we are headed. Unless otherwise specified, current information reported in this Form 10-K is as of the fiscal year ended December 31, 2011.

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 report our financial condition in two groups:

- Forest Products — our forest products-based operations, principally the growing and harvesting of timber, the manufacture, distribution and sale of forest products and corporate governance activities; and
- Real Estate — our real estate development and construction operations.

Throughout this Form 10-K, unless specified otherwise, references to “we,” “our,” “us” and “the company” refer to the consolidated company, including both Forest Products and Real Estate.

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 St. N.E., Washington, D.C., 20549, (800) SEC-0330; and
- our Internet site — www.weyerhaeuser.com.

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

WHO WE ARE

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.

REAL ESTATE INVESTMENT TRUST (REIT) ELECTION

Starting with our 2010 fiscal year, we elected to be taxed as a REIT. We expect to derive most of our REIT income from investments in timberlands, including the sale of standing timber through pay-as-cut sales contracts. REIT income can be distributed to shareholders without first paying corporate level tax, substantially eliminating the double taxation on income. A significant portion of our timberland segment earnings receives this favorable tax treatment. We are, however, subject to corporate taxes on built-in-gains (the excess of fair market value over tax basis at January 1, 2010) on sales of real property (other than standing timber) held by the REIT during the first 10 years following the REIT conversion. We continue to be required to pay federal corporate income taxes on earnings of our Taxable REIT Subsidiary (TRS), which principally includes our manufacturing businesses, our real estate development business and our non-qualified timberland segment income.

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 Fibers,
- Real Estate and
- Corporate and Other.

Detailed financial information about our business segments and our geographic locations is in Note 2: Business Segments and Note 21: Geographic Areas in the Notes to Consolidated Financial Statements, as well as in this section and in the Management’s Discussion and Analysis of Financial Condition and Results of Operations.

CURRENT MARKET CONDITIONS

In 2011, the U.S. economy slowed its pace of recovery. The underlying causes included the Japan earthquake and tsunami, the U.S. deficit and related political instability and European debt crisis. These factors weighed heavily on the economy, delaying many anticipated improvements in key economic indicators. The U.S. housing market continues to be affected by these events and consequently lags other sectors in the recovery. Improvement in the latter part of 2011 in key areas such as job creation, industrial production and GDP may help spur growth in U.S. housing; however, the sector remains burdened by excess inventory and a diminished pool of qualified home buyers. The health of the U.S. housing

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market strongly affects our Real Estate, Wood Products and Timberlands segments. Real Estate focuses on building single family homes. Wood Products primarily sells into the new residential building and repair and remodel markets. Demand for logs from our Timberlands segment is affected by the production of wood-based building products as well as export demand. Cellulose Fibers is primarily affected by global demand and the relative strength of the U.S. dollar.

COMPETITION IN OUR MARKETS

We operate in highly competitive domestic and foreign markets, with numerous companies selling similar products. Many of our products also face competition from substitutes for wood and wood-fiber products. In real estate development, our competitors include numerous regional and national firms. We compete in our markets primarily through price, product quality and service levels.

Our business segments' competitive strategies are as follows:

- Timberlands — Extract maximum value from each acre we own or manage.
- Wood Products — Deliver high-quality lumber, structural panels, engineered wood products and complementary products for residential and commercial applications.
- Cellulose Fibers — Concentrate on value-added pulp products.
- Real Estate — Deliver unique value propositions in target markets.

SALES OUTSIDE THE U.S.

In 2011, $2.2 billion — 36 percent — of our total consolidated sales and revenues from continuing operations were to customers outside the U.S. The table below shows sales outside the U.S. for the last three years.

SALES OUTSIDE THE U.S. IN MILLIONS OF DOLLARS

	2011	2010	2009
Exports from the U.S.	$1,775	$1,610	$1,237
Canadian export and domestic sales	363	327	219
Other foreign sales	70	52	32
Total	$2,208	$1,989	$1,488
Percent of total sales	36 %	33 %	29 %

OUR EMPLOYEES

We have approximately 12,800 employees. This number includes:

- 11,910 employed in North America and
- 890 employed by our operations outside of North America.

Of these employees, approximately 3,400 are members of unions covered by multi-year collective-bargaining agreements. More information about these agreements is in Note 8: Pension and Other Postretirement Benefit Plans in the Notes to Consolidated Financial Statements.

COMPARABILITY OF DATA

Over the last five years, we have exited businesses that did not fit our long-term strategic direction. As you review our results for the past five years, it may be helpful to keep in mind the following divestitures and the segments affected.

Summary of Recent Divestitures

YEAR	TRANSACTION	SEGMENTS AFFECTED
2011	Westwood Shipping Lines – sold	Corporate and Other segment
2011	Hardwoods operations – sold	Wood Products segment
2010	Five short line railroads – sold	Corporate and Other segment
2009	Trus Joist® Commercial division – sold	Wood Products segment
2008	Containerboard, Packaging and Recycling segment – sold	Containerboard, Packaging and Recycling segment
2008	Australian operations – sold	Corporate and Other segment

2008	Uruguay operations – partition completed	Timberlands and Corporate and Other segments
2007	Fine Paper and related assets – divested	Fine Paper, Timberlands and Wood Products segments
2007	New Zealand operations – sold	Corporate and Other segment
2007	Canadian wood products distribution centers – sold	Wood Products segment

Additional information related to our discontinued operations can be found in Note 3: Discontinued Operations in the Notes to Consolidated Financial Statements. Information pertaining to segment comparability can be found in Note 2: Business Segments in the Notes to Consolidated Financial Statements.

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WHAT WE DO

This section provides information about how we:

- grow and harvest trees,
- manufacture and sell products made from them,
- build and sell homes and
- develop land.

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 worldwide. We own 5.7 million of those acres and lease the other 0.7 million acres. In addition, we have renewable, long-term licenses on 13.9 million acres of forestland located in four Canadian provinces. The tables presented in this section include data from this segment's business units as of the end of 2011.

WHAT WE DO

Forestry Management

Our Timberlands business segment:

- grows and harvests trees for use as lumber, other wood and building products and pulp and paper;
- exports logs to other countries where they are made into products;
- plants seedlings — and in parts of Canada we use natural regeneration — to reforest the harvested areas using the most effective regeneration method for the site and species;
- monitors and cares for the new trees as they grow to maturity; and
- seeks to sustain and maximize the timber supply from our forestlands while keeping the health of our environment a key priority.

Our goal is to maximize returns by selling logs and stumpage to internal and external customers. We focus on solid wood and use intensive silviculture to improve forest productivity and returns while managing our forests on a sustainable basis to meet customer and public expectations.

International operations in this segment consist principally of forest plantations, forest licenses and converting assets in South America. We serve as owners or managing partner in these operations, which are either wholly-owned subsidiaries or joint ventures. In Brazil, we are the managing partner in a joint venture established in 2004. We own 67 percent of this joint venture and Fibria Celulose SA owns the remaining 33 percent. A hardwood sawmill with 65,000 cubic meters of capacity produces high-value eucalyptus (Lyptus®) lumber and related appearance wood products. In China, we are the managing partner in a joint venture established in 2007. We own 51 percent of this joint venture and Fujian Yong'An Forestry Company owns the remaining 49 percent. As of December 31, 2011, the joint venture managed 44,000 acres of timberlands.

Sustainable Forestry Practices

We are committed to responsible environmental stewardship wherever we operate, managing forests to produce financially mature timber while protecting the ecosystem services they provide. Our working forests include places with unique environmental, cultural, historical or recreational value. To protect their unique qualities, we follow regulatory requirements, voluntary standards and implement the Sustainable Forestry Initiative® (SFI) standard. Independent auditing of all of the forests we own or manage in the United States and Canada certifies that we meet the SFI standard. Our forestlands in Uruguay are Forest Stewardship Council (FSC) certified or managed to the developing Uruguayan national forestry management standard designed to meet the Program for the Endorsement of Forest Certification (PEFC).

Canadian Forestry Operations

In Canada, we have licenses to operate forestlands that provide raw material for our manufacturing units in various provinces. When we harvest trees, we pay the provinces at stumpage rates set by the government, which generally are based on prevailing market prices. We do not generate any profit in the Timberlands segment from the harvest of timber from the licensed acres in Canada.

Other Values From Our Timberlands

In the United States, we actively manage mineral, oil and gas leases on our land and use geologic databases to identify and market opportunities for commercial mineral and geothermal development. We recognize leasing revenue over the terms of agreements with customers. Revenue primarily comes from:

- royalty payments on oil and gas production;
- upfront bonus payments from oil and gas leasing and exploration activity;
- royalty payments on hard minerals (rock, sand and gravel);
- geothermal lease and option revenues; and
- the sale of mineral assets.

In managing mineral resources, we generate revenue related to our ownership of the minerals and, separately, related to our ownership of the surface. The ownership of mineral rights and surface acres may be held by two separate parties. Materials that can be mined from the surface, and whose value comes from factors other than their chemical composition, typically belong to the surface owner. Examples of surface materials include rock, sand, gravel, dirt and topsoil. The mineral owner holds the title to commodities that derive value from their unique chemical composition. Examples of mineral rights include oil, gas, coal (even if mined at the surface) and precious metals. If the two types of rights conflict, then mineral rights generally are superior to surface rights. A third type of land right is geothermal, which can belong to either the surface or mineral owner. We routinely reserve mineral and geothermal rights when selling surface timberlands acreage.

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Timberlands Products

PRODUCTS	HOW THEY'RE USED
Logs	Logs are made into lumber, other wood and building products and pulp and paper products
Timberlands	Timberland tracts are exchanged to improve our timberland portfolio or are sold to third parties by our land development subsidiary within this segment
Timber	Standing timber is sold to third parties
Minerals, oil and gas	Sold into construction and energy markets
Other products	Includes seed and seedlings, poles, as well as plywood and hardwood lumber produced by our international operations, primarily in South America

HOW WE MEASURE OUR PRODUCT

We report Timberlands data in cubic meters. Cubic meters measure the total volume of wood fiber in a tree or log that we can sell. Cubic meter volume is determined from the large and small-end diameters and length and provides a more consistent and comparative measure of timber and log volume among operating regions, species, size and seasons of the year than other units of measure.

We also use two other units of measure when transacting business including:

- thousand board feet (MBF) — used in the West to measure the expected lumber recovery from a tree or log, but it does not include taper or recovery of nonlumber residual products; and
- green tons — used in the South to measure weight, but factors used for conversion to product volume can vary by species, size, location and season.

Both measures are accurate in the regions where they are used, but they do not provide a meaningful basis for comparisons between the regions.

The conversion rate for MBF to cubic meters varies based on several factors including diameter, length and taper of the timber. The average conversion rate for MBF to cubic meters is approximately 6.7 cubic meters per MBF.

The conversion rate from green tons to cubic meters also varies based on the season harvested and the specific gravity of the wood for the region where the timber is grown. An average conversion rate for green tons to cubic meters is approximately 0.825 cubic meters per green ton.

WHERE WE DO IT

Our timberlands assets are located primarily in North America. In the U.S. we own and manage sustainable forests in nine states for use in wood products and pulp and paper manufacturing. We own or lease:

- 4.0 million acres in the southern U.S. (Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Oklahoma and Texas); and
- 2.0 million acres in the Pacific Northwest (Oregon and Washington).

Our international operations are located primarily in Uruguay and China. In Uruguay we own 300,000 acres and have long-term leases on 26,000 acres. In China we have long-term leases on 44,000 acres.

In addition, we have renewable, long-term licenses on 13.9 million acres of forestland owned by the provincial government of four Canadian provinces.

Our total timber inventory — including timber on owned and leased land in our U.S. and international operations — is approximately 297 million cubic meters. The timber inventory on licensed lands in Canada is approximately 384 million cubic meters. 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 adjust.

The species, size and grade of the trees affects the relative value of our timberlands.

DISCUSSION OF OPERATIONS BY GEOGRAPHY

Summary of 2011 Timber Inventory and Timberland Locations

United States

GEOGRAPHIC AREA	MILLIONS OF CUBIC METERS	THOUSANDS OF ACRES AT DECEMBER 31, 2011

	TOTAL INVENTORY	FEE OWNERSHIP	LONG-TERM LEASES	TOTAL ACRES
U.S.:				
West	154	1,961	—	1,961
South	135	3,399	665	4,064
Total U.S.	289	5,360	665	6,025

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Western United States

Our Western acres are well situated to serve the wood product markets in Oregon and Washington. Their location near Weyerhaeuser mills and many third-party facilities allows for multiple sales opportunities. In addition, our location on the West Coast provides access to higher-value export markets for Douglas fir and hemlock logs in Japan, Korea and China. The size and quality of our Western timberlands, coupled with their proximity to several deep-water port facilities, positions us to meet the needs of Pacific Rim log markets.

Our lands are composed primarily of Douglas fir, a species highly valued for its structural strength. Our coastal lands also contain western hemlock and have a higher proportion of hemlock than our interior holdings. Our management systems, which provide us a competitive operating advantage, range from research and forestry, to technical planning models, mechanized harvesting and marketing and logistics.

The average age of timber harvested in 2011 was 51 years. Most of our U.S. timberland is intensively managed for timber production, but some areas are conserved for environmental, historical, recreational or cultural reasons. Some of our older trees are protected in acreage set aside for conservation, and some are not yet logged due to harvest rate regulations. While over the long term our average harvest age will decrease in accordance with our sustainable forestry practices, we will only harvest approximately 1.5 percent of our Western acreage each year.

Southern United States

Our Southern acres predominantly contain southern yellow pine and encompass timberlands in seven states. This area provides a constant year round flow of logs to a variety of internal and third-party customers. We sell grade logs to mills that manufacture a diverse range of products including lumber, plywood and veneer. We also sell chips and fiber logs to oriented strand board, pulp and paper mills. Our timberlands are well located to take advantage of road, logging and transportation systems for efficient delivery of logs to these customers.

We intensively manage our timber plantations using forestry research and planning systems to optimize grade log production. We also actively manage our land to capture revenues from our oil, gas and hard minerals resources. We do this while providing quality habitat for a range of animals and birds, which is in high demand for recreational purposes. We lease more than 95 percent of our acres to the public and state wildlife agencies for recreational purposes.

The average age of timber harvested in 2011 was 31 years for southern yellow pine. In accordance with our sustainable forestry practices, we harvest approximately 3.0 percent to 3.5 percent of our acreage each year in the South.

International

GEOGRAPHIC AREA	MILLIONS OF CUBIC METERS	THOUSANDS OF ACRES AT DECEMBER 31, 2011		
	TOTAL INVENTORY	FEE OWNERSHIP	LONG-TERM LEASES	TOTAL ACRES
Uruguay	7	300	26	326
China[(1)]	1	—	44	44
Total International	8	300	70	370

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

Our forestlands in Uruguay are approximately 51 percent loblolly pine and 49 percent eucalyptus. On average, the timber in Uruguay is in the first third of its rotation age. It is entering into that part of the growth rotation when we will see increased volume accretion. About 93 percent of the area to be planted has been afforested to date. The afforestation program is planned to be completed within the next two years.

In Uruguay, the target rotation ages are 21 to 22 years for pine and 14 to 17 years for eucalyptus. We manage both species to a grade (appearance) regime.

We also operate a plywood mill in Uruguay with a production capacity of 210,000 cubic meters and a production volume of 140,500 cubic meters reached in 2011.

In Brazil, Weyerhaeuser is a managing partner in a joint venture. We own 67 percent and Fibria Celulose SA owns 33 percent. A hardwood sawmill with 65,000 cubic meters of capacity produces high-value eucalyptus (Lyptus®)

lumber and related appearance wood products. The mill's production in 2011 was 56,000 cubic meters.

Our investment in China is a joint venture with a public company that is controlled by the state and local governments. Weyerhaeuser is the managing partner in a joint venture started in 2007. Ownership is 51 percent Weyerhaeuser and 49 percent Fujian Yong'An Forestry Company. The joint venture currently manages 44,000 acres of timberlands.

In China, the target rotation age is seven years, since we are managing the forests of loblolly pine and eucalyptus for fiber.

Canada — Licensed Timberlands

GEOGRAPHIC AREA	MILLIONS OF CUBIC METERS	THOUSANDS OF ACRES AT DECEMBER 31, 2011
	TOTAL INVENTORY LICENSED STANDING VOLUME	TOTAL LICENSE ARRANGEMENTS
Canada:		
Alberta	253	5,306
British Columbia	12	1,018
Ontario	39	2,573
Saskatchewan	80	4,968
Total Canada	384	13,865

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We lease and license forestland in Canada from the provincial government to secure the volume for our manufacturing units in the various provinces. When the volume is harvested, we pay the province at stumpage rates set by the government and generally based on prevailing market prices. The harvested logs are transferred to our manufacturing facilities at cost (stumpage plus harvest, haul and overhead costs less any margin on selling logs to third parties). Any conversion profit is recognized at the respective mill in either the Cellulose Fibers or Wood Products segment.

Five-Year Summary of Timberlands Production

PRODUCTION IN THOUSANDS	2011	2010	2009	2008	2007
Fee depletion – cubic meters:					
West	6,595	5,569	6,359	10,626	10,403
South	9,738	8,197	8,996	12,363	12,645
International(1)	854	349	503	—	—
Total	17,187	14,115	15,858	22,989	23,048

(1) International forestlands started commercial thinning in 2009 leading to production volumes.

Our Timberlands annual fee depletion represents the harvest of the timber assets we own. Depletion is a method of expensing the cost of establishing the fee timber asset base over the harvest or timber sales volume. The decline in fee depletion from 2008 through 2010 reflects the company's decision to defer harvest and preserve the long-term value of the assets.

HOW MUCH WE SELL

Our net sales to unaffiliated customers over the last two years were:

- $1.0 billion in 2011 — up 19 percent from 2010; and
- $874 million in 2010.

Our intersegment sales over the last two years were:

- $646 million in 2011 — up 7 percent from 2010; and
- $603 million in 2010.

Five-Year Summary of Net Sales for Timberlands

NET SALES IN MILLIONS OF DOLLARS	2011	2010	2009	2008	2007
To unaffiliated customers:					
Logs:					
West	$545	$414	$329	$547	$565
South	196	145	144	97	56
Canada	17	17	13	20	38
Total	758	576	486	664	659
Pay as cut timber sales	34	33	31	32	25
Timberlands sales and exchanges(1)	77	109	66	73	128
Higher and better use land sales(1)	25	22	11	11	33
Minerals, oil and gas	53	60	62	61	40
Products from international operations(2)	86	65	44	40	12
Other products	11	9	14	18	25
Subtotal sales to unaffiliated customers	1,044	874	714	899	922
Intersegment sales:					
United States	424	409	392	817	983
Other	222	194	145	217	363
Subtotal intersegment sales	646	603	537	1,034	1,346
Total	$1,690	$1,477	$1,251	$1,933	$2,268

(1) Higher and better use timberland and non-strategic timberlands are conducted through Forest Products subsidiaries.

(2) Includes logs, plywood and hardwood lumber harvested or produced by our international operations, primarily in South America.

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Five-Year Trend for Total Net Sales in Timberlands
Percentage of 2011 Sales to Unaffiliated Customers
Log Sales Volumes
Logs sold to unaffiliated customers in 2011 increased approximately 2,316 thousand cubic meters — 27 percent — from 2010.

- Sales volumes in the West increased 791 cubic meters — 18 percent — primarily due to strong export demand. Our western sales to unaffiliated customers generally are higher-grade logs sold into the export market and domestic-grade logs sold to West Coast sawmills.
- Sales to unaffiliated customers in the South increased 1.5 million cubic meters — 45 percent — primarily due to increased harvest levels and increased sales of logs to third parties. Our southern sales volumes to unaffiliated customers generally are lower-grade fiber logs sold to pulp or containerboard mills. We use most of our high-grade logs in our own converting facilities.
- Sales volumes from Canada decreased 28 thousand cubic meters — 6 percent — in 2011. This decrease in volume to unaffiliated customers primarily was due to increased demand by our internal mills for logs mainly in Alberta.
- Sales volumes from our international operations increased 31 thousand cubic meters — 11 percent — in 2011. This increase in volume was due to sales of logs to China.

We sell three grades of logs — domestic grade, domestic fiber and export. Factors that may affect log sales in each of these categories include:

- domestic grade log sales — lumber usage, primarily for housing starts and repair and remodel activity, the needs of our own mills and the availability of logs from both outside markets and our own timberlands;
- domestic fiber log sales — demand for chips by pulp and containerboard mills; and
- export log sales — the level of housing starts in Japan, where most of our North American export logs are sold.

Our sales volumes include logs purchased in the open market and all our domestic and export logs that are sold to unaffiliated customers or transferred at market prices to our internal mills by the sales and marketing staff within our Timberlands business units.
Five-Year Summary of Log Sales Volumes to Unaffiliated Customers for Timberlands
SALES VOLUMES IN THOUSANDS

	2011	2010	2009	2008	2007
Logs – cubic meters:					
West	5,267	4,476	4,479	6,967	6,212
South	4,879	3,357	3,536	2,347	1,581
Canada	479	507	409	529	925
International	314	283	305	329	—
Total	10,939	8,623	8,729	10,172	8,718

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Log Prices

The majority of our log sales to unaffiliated customers involves sales to the export market and to other domestic sawmills in the Pacific Northwest. Following is a five-year summary of selected export log prices.

Five-Year Summary of Selected Export Log Prices (#2 Sawlog Bark On — $/MBF)

Our log prices are affected by the supply of and demand for grade and fiber logs and are influenced by the same factors that affect log sales. Export log prices are particularly affected by the Japanese housing market.

Average 2011 log realizations in the West increased from 2010 — primarily due to higher demand for logs in the Chinese market. Export prices rose as a result of the demand from China, which also resulted in higher Western domestic prices. Average 2011 log realizations in the South decreased from 2010 — primarily due to weaker demand for logs in the South.

Minerals and Energy Products

Mineral revenue decreased in 2011 as recognition of leasing revenue was completed on older leases and sales of producing oil and gas properties was limited. The decline was partially offset by increased oil and gas royalties as the Haynesville Shale gas wells began to produce commercially. Earnings from construction aggregates decreased slightly. Revenues from wind power and geothermal agreements increased from year-to-year, as the company entered into three new wind power agreements and three new geothermal agreements.

WHERE WE’RE HEADED

Our competitive strategies 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 raw materials to internal supply chains;
- building long-term relationships with external customers who rely on a consistent supply of high-quality raw material;
- continuously reviewing our portfolio of land holdings to create the greatest value for the company;
- investing in technology and advances in silviculture to improve yields and timber quality;
- positioning ourselves as one of the largest, lowest-cost growers of global softwood and hardwood timber;
- leveraging our mineral ownership position; and
- positioning ourselves to take advantage of new market opportunities that may be created by energy and climate change legislation and regulation.

In addition, we believe we will generate additional revenues from new products and services, such as wetland mitigation banking and conservation easements, and from participating in emerging carbon and energy markets.

WOOD PRODUCTS

We are a large manufacturer and distributor of wood products primarily in North America and Asia.

WHAT WE DO

Our wood products segment:

- provides a family of high-quality softwood lumber, engineered lumber, structural panels and other specialty products to the residential, multi-family and light commercial markets;
- delivers innovative homebuilding solutions to help our customers quickly and efficiently meet their customers’ needs;
- sells our products and services primarily through our own sales organizations and distribution facilities as well as building materials that we purchase from other manufacturers;
- sells certain products into the repair and remodel market through the wood preserving and home-improvement warehouse channels; and
- exports our softwood lumber and engineered building materials to Asia and Europe.

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Wood Products

PRODUCTS	HOW THEY'RE USED
Structural lumber	Structural framing for new residential, repair and remodel, treated applications, industrial and commercial structures
Engineered lumber • Solid section • I-joists	Floor and roof joists, and headers and beams for residential, multi-family and commercial structures
Structural panels • Oriented strand board (OSB) • Softwood plywood	Structural sheathing, subflooring and stair tread for residential, multi-family and commercial structures
Other products	Complementary building products such as cedar, decking, siding, insulation, rebar and engineered lumber connectors

WHERE WE DO IT

We operate manufacturing facilities in the United States and Canada. We distribute through a combination of Weyerhaeuser and third-party locations. Information about the locations, capacities and actual production of our manufacturing facilities is included below.

Principal Manufacturing Locations

Locations of our principal manufacturing facilities as of December 31, 2011, by major product group were:

- Structural lumber
  – U.S. — Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Oklahoma, Oregon and Washington
  – Canada — Alberta and British Columbia
- Engineered lumber
  – U.S. — Alabama, Georgia, Louisiana, Oregon and West Virginia
  – Canada — British Columbia and Ontario
- Oriented strand board
  – U.S. — Louisiana, Michigan, North Carolina and West Virginia
  – Canada — Alberta and Saskatchewan
- Softwood plywood
  – U.S. — Arkansas and Louisiana

Summary of 2011 Wood Products Capacities

CAPACITIES IN MILLIONS

	PRODUCTION CAPACITY	NUMBER OF FACILITIES
Structural lumber – board feet	4,515	18
Engineered solid section – cubic feet	33	7
Engineered I-joists – lineal feet	380	3
Oriented strand board – square feet (3/8")	3,015	6
Softwood plywood – square feet (3/8")	460	2

Capacities include two indefinitely closed facilities that produce engineered solid section and I-joists products.

In response to market conditions over the last few years, we sold or closed a number of facilities and curtailed production at several other mills. We also sold our hardwoods operations in August 2011. More information about this sale is in Note 3: Discontinued Operations in the Notes to Consolidated Financial Statements. The sales and closures include:

- Sales:
  – 2011 — two lumber mills, one oriented strand board mill, one engineered lumber mill and our hardwoods operations;
  – 2010 — one lumber mill; and
  – 2009 — TJ® Commercial business, Albany Trucking and one engineered lumber mill.
- Permanent closures:
  – 2011 — three engineered lumber mills;

– 2010 — one lumber mill, one engineered lumber mill, one oriented strand board mill; and
– 2009 — four lumber mills, two engineered lumber mills and six distribution centers.
Indefinite closures:
– 2010 — one engineered lumber mill; and
– 2009 — one lumber mill and five engineered lumber mills.

In addition to these sales and closures, we discontinued our contractual relationship with two southern lumber mills in 2010. We no longer produce lumber at Bogalusa, Louisiana and Silver Creek, Mississippi.

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Five-Year Summary of Wood Products Production

PRODUCTION IN MILLIONS

	2011	2010	2009	2008	2007
Structural lumber – board feet	3,528	3,289	3,098	4,451	5,490
Engineered solid section – cubic feet[1]	13	15	11	22	28
Engineered I-joists – lineal feet[1]	122	133	109	218	339
Oriented strand board – square feet (3/8”)	2,127	1,721	1,448	2,468	3,428
Softwood plywood – square feet (3/8”)[2]	197	212	150	333	423
Hardwood lumber – board feet[3]	135	231	201	253	294

(1) Weyerhaeuser engineered I-joist facilities also may produce engineered solid section.

(2) All Weyerhaeuser plywood facilities also produce veneer.

(3) Reflects the sale of our hardwoods operations in August 2011.

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. In 2011, Wood Products net sales were $2.5 billion, a decrease of 4 percent, compared with $2.6 billion in 2010.

Five-Year Summary of Net Sales for Wood Products

NET SALES IN MILLIONS OF DOLLARS

	2011	2010	2009	2008	2007
Structural lumber	$1,087	$1,044	$846	$1,351	$2,006
Engineered solid section	253	272	238	414	608
Engineered I-joists	161	171	162	284	467
Oriented strand board	361	334	234	416	589
Softwood plywood	69	73	58	148	293
Hardwood lumber[1]	138	223	206	291	355
Other products produced	156	145	146	225	226
Other products purchased for resale[1]	273	329	344	639	1,155
Total	$2,498	$2,591	$2,234	$3,768	$5,699

(1) Reflects the sale of our hardwoods operations in August 2011.

Five-Year Trend for Total Net Sales in Wood Products

Percentage of 2011 Net Sales in Wood Products

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Wood Products Volume

The volume of structural lumber and OSB sold in 2011 increased from 2010 due to increased demand and the re-opening of our Hudson Bay, Saskatchewan OSB facility. Volumes for engineered lumber decreased primarily due to continued weakness in the U.S. housing market.

Five-Year Summary of Sales Volume for Wood Products

SALES VOLUMES IN MILLIONS

	2011	2010	2009	2008	2007
Structural lumber – board feet	3,586	3,356	3,319	4,659	6,344
Engineered solid section – cubic feet	14	15	13	23	30
Engineered I-joists – lineal feet	128	145	139	227	338
Oriented strand board – square feet (3/8”)	2,008	1,607	1,432	2,438	3,466
Softwood Plywood – square feet (3/8”)	258	260	223	474	912
Hardwood lumber – board feet(1)	162	269	252	324	363

(1) Reflects the sale of our hardwoods operations in August 2011.

Wood Products Prices

Prices for commodity wood products — Structural lumber, OSB and Plywood — decreased in 2011 from 2010.

In general, the following factors influence prices for wood products:

- Demand for wood products used in residential and multi-family construction and the repair and remodel of existing homes affects prices. Residential construction is influenced by factors such as population growth and other demographics, the level of employment, consumer confidence, consumer income, availability of financing and interest rate levels, and the supply and pricing of existing homes on the market. Repair and remodel activity is affected by the size and age of existing housing inventory and access to home equity financing and other credit.
- The availability of supply of commodity building products such as structural lumber, OSB and plywood affects prices. A number of factors can influence supply, including changes in production capacity and utilization rates, weather, raw material supply and availability of transportation.

The North American housing market continues to struggle through the worst downturn on record. Demand for new homes fell dramatically from 2006 through 2009, and has been relatively flat from 2010 through 2011. Because demand for wood products is tied so closely to home construction, the weakness in this industry has resulted in depressed demand for and prices of wood products. The following graphs reflect product price trends for the past five years.

Five-Year Summary of Selected Published Lumber Prices — $/MBF

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Five-Year Summary of Selected Published Oriented Strand Board Prices — $/MSF

WHERE WE'RE HEADED

Our competitive strategies include:

- improving our cost competitiveness through operational excellence;
- expanding our customer base in nonresidential markets and geographies outside of North America;
- continuing to develop innovative building solutions and products to meet customer needs; and
- differentiating our products and services from other manufacturers to create demand for them in the marketplace, and build on our reputation as the preferred provider of quality building products.

CELLULOSE FIBERS

Our cellulose fibers segment is one of the world's largest producers of absorbent fluff used in products such as diapers. We also manufacture liquid packaging board and other pulp products. We have a 50 percent interest in North Pacific Paper Corporation (NORPAC) — a joint venture with Nippon Paper Industries that produces newsprint and high-brightness publication papers.

WHAT WE DO

Our cellulose fibers segment:

- provides cellulose fibers for absorbent products in markets around the world;
- works closely with our customers to develop unique or specialized applications;
- manufactures liquid packaging board used primarily for the production of containers for liquid products; and
- generates energy, of which 84 percent is from black liquor produced at the mills and biomass.

Cellulose Fibers Products

PRODUCTS	HOW THEY'RE USED
Pulp	
• Fluff pulp (Southern softwood kraft fiber)	• Used in sanitary disposable products that require bulk, softness and absorbency
• Papergrade pulp (Southern and Northern softwood kraft fiber)	• Used in products that include printing and writing papers and tissue
• Specialty chemical cellulose pulp	• Used in textiles, absorbent products, specialty packaging, specialty applications and proprietary high-bulking fibers
Liquid packaging board	Converted into containers to hold liquid materials such as milk, juice and tea
Other products	
• Slush pulp • Wet lap pulp	Used in the manufacture of paper products

WHERE WE DO IT

Our cellulose fibers (pulp) products are distributed through a global direct sales network, and our liquid packaging products are sold directly to carton and food product packaging converters in North America and Asia. Locations of our principal manufacturing facilities by major product group are:

- Pulp
  – U.S. — Georgia (2), Mississippi and North Carolina
  – Canada — Alberta
- Liquid packaging board
  – U.S. — Washington

Summary of 2011 Cellulose Fibers Capacities

CAPACITIES IN THOUSANDS

	PRODUCTION CAPACITY	NUMBER OF FACILITIES
Pulp – air-dry metric tons	1,835	5
Liquid packaging board – tons	300	1

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Five-Year Summary of Cellulose Fibers Production

PRODUCTION IN THOUSANDS

	2011	2010	2009	2008	2007
Pulp – air-dry metric tons	1,769	1,774	1,629	1,760	1,851
Liquid packaging board – tons	307	316	282	297	283

HOW MUCH WE SELL

Revenues of our Cellulose Fibers segment come from sales to customers who use the products for further manufacturing or distribution and for direct use. Our net sales were $2.1 billion in 2011, an increase of 8 percent, compared with $1.9 billion in 2010.

Five-Year Summary of Net Sales for Cellulose Fibers

NET SALES IN MILLIONS OF DOLLARS

	2011	2010	2009	2008	2007
Pulp	$1,617	$1,489	$1,148	$1,357	$1,478
Liquid packaging board	346	337	290	290	247
Other products	95	85	73	118	107
Total	$2,058	$1,911	$1,511	$1,765	$1,832

Five-Year Trend for Total Net Sales in Cellulose Fibers

Percentage of 2011 Net Sales in Cellulose Fibers

Pulp Volumes

Our sales volumes of cellulose fiber products were 1.8 million tons in 2011 and 1.7 million tons in 2010 and 2009. Factors that affect sales volumes for cellulose fiber products include:

- growth of the world gross domestic product and
- demand for paper production and diapers.

Five-Year Summary of Sales Volume for Cellulose Fibers

SALES VOLUMES IN THOUSANDS

	2011	2010	2009	2008	2007
Pulp – air-dry metric tons	1,756	1,714	1,697	1,704	2,070
Liquid packaging board – tons	297	311	288	302	286

Pulp Prices

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Our average pulp prices in 2011 increased compared with 2010 due to the:
- weakening of the U.S. dollar,
- level of demand and
- world economic environment.

Five-Year Summary of Selected Published Pulp Prices — $/TON

WHERE WE'RE HEADED

Our competitive strategies include:
- improving our cost-competitiveness through operational excellence and noncapital solutions;
- focusing capital investments on new and improved product capabilities, cost-reduction, and green energy opportunities;
- collaborating with third parties to develop new value-added products; and
- focusing research and development resources on new ways to expand and improve the range of applications for cellulose fibers and new product opportunities.

REAL ESTATE

Our Real Estate business segment includes our wholly-owned subsidiary Weyerhaeuser Real Estate Company (WRECO) and its subsidiaries.

WHAT WE DO

The Real Estate segment focuses on:
- constructing single-family housing and
- developing residential lots for our use and for sale.

Real Estate Products and Activities

PRODUCTS	HOW THEY'RE USED
Single-family housing	Residential living
Land	Residential lots and land for construction and sale, master-planned communities with mixed-use property

WHERE WE DO IT

Our operations are concentrated in metropolitan areas in Arizona, California, Maryland, Nevada, 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 decreased to $838 million in 2011, down 9 percent, compared with $923 million in 2010. This decrease occurred as a result of fewer home closings in a challenged market, affected by low consumer confidence, high unemployment, tightened mortgage underwriting standards and continued downward pressure on pricing caused by excess supply.

The following factors affect revenues in our Real Estate business segment:
- The market prices of the homes that we build varies.
- The product and geographic mix of sales varies based on the following:

– the markets where we build vary by geography;

– we build homes that range in price points to meet our target customers' needs, from first-time to semi-custom homes based on geography; and

– the mix of price points, which differ for traditional, single-family detached homes and attached products such as townhomes and condominiums.

- Land and lot sales are a component of our activities. These sales do not occur evenly from year to year and may range from approximately 5 percent to 15 percent of total Real Estate revenues annually.
- From time to time, we sell apartment buildings and other income producing properties.

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Five-Year Summary of Net Sales for Real Estate

REVENUE IN MILLIONS OF DOLLARS

	2011	2010	2009	2008	2007
Single-family housing	$768	$842	$832	$1,294	$2,079
Land	67	64	68	99	213
Other	3	17	4	15	67
Total	$838	$923	$904	$1,408	$2,359

Five-Year Trend for Total Net Sales in Real Estate

Percentage Breakdown of 2011 Net Sales in Real Estate

Five-Year Summary of Single-Family Unit Statistics

SINGLE-FAMILY UNIT STATISTICS

	2011	2010	2009	2008	2007
Homes sold	1,902	1,914	2,269	2,522	4,152
Homes closed	1,912	2,125	2,177	3,188	4,427
Homes sold but not closed (backlog)	429	439	650	558	1,224
Cancellation rate	16%	20%	23%	32%	26%
Buyer traffic	50,125	68,430	65,781	112,817	181,896
Average price of homes closed	$402,000	$396,000	$382,000	$406,000	$470,000
Single-family gross margin – excluding impairments (%)[1]	23.3%	23.7%	17.5%	15.1%	21.5%

(1) Single-family gross margin equals revenue less cost of sales and period costs (other than impairments, deposit write-offs and project abandonments).

During 2011, we experienced lower traffic year-over-year, however the number of homes sold remained comparable as our conversion rates improved.

WHERE WE'RE HEADED

Our competitive strategies include:

- offering customer-driven, distinct value propositions to specific market niches in each of our targeted geographies;
- delivering quality homes to satisfied customers — measured, in part, by "willingness to refer" rates from independent surveys of homebuyers;
- replicating best practices developed in each geographic area; and
- optimizing value from our land portfolio.

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CORPORATE AND OTHER

WHAT WE DO

Corporate and Other includes certain gains or charges that are not related to an individual operating segment and the portion of items such as share-based compensation, pension and postretirement costs, foreign exchange transaction gains and losses associated with financing and other general and administrative expenses that are not allocated to the business segments. Historically, Corporate and Other included the results of our transportation operations. This included our five short line railroads that were sold at the end of 2010 and Westwood Shipping Lines that was sold on September 30, 2011. Westwood results are included in our results of discontinued operations.

HOW MUCH WE SELL

Sales and revenues for Corporate and Other are related to our discontinued transportation and international operations. In 2011, our net sales were $180 million compared with $253 million in 2010. The decrease in revenues is due to the sale of our transportation operations.

Five-Year Summary of Net Sales for Corporate and Other

NET SALES IN MILLIONS OF DOLLARS

	2011	2010	2009	2008	2007
Transportation(1)	$180	$253	$165	$259	$223
International wood products(2)	—	—	—	133	209
Total	$180	$253	$165	$392	$432

(1) Reflects the sale of Westwood Shipping Lines in September 2011 and our five short line railroads in December 2010.

(2) Reflects the divestitures of our Australian operations in July 2008.

Five-Year Trend for Total Net Sales in Corporate and Other, Including Discontinued Operations

Catchlight Energy

Catchlight Energy is Weyerhaeuser’s joint venture with Chevron, which is focused on the commercialization of liquid transportation fuels produced from conversion of forest-based material. During 2011, Catchlight was engaged in research and development work in the areas of sustainability, feedstock sourcing and scalability, and conversion technologies. Catchlight Energy also spent time developing relationships with selected technology partners. Our share of Catchlight Energy results are reported in Corporate and Other.

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NATURAL RESOURCE AND ENVIRONMENTAL MATTERS

Many social values are expressed in the laws and regulations that pertain to growing and harvesting timber. We participate in voluntary certification of our timberlands to assure that we sustain their values including the protection of wildlife and water quality. We are also subject to laws regulating forestry practices. Changes in law and regulation 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, including:

- the northern spotted owl, the marbled murrelet, a number of salmon species, bull trout and steelhead trout in the Pacific Northwest;
- several freshwater mussel and sturgeon species; and
- the red-cockaded woodpecker, gopher tortoise and American burying beetle in the South or Southeast.

Additional species or populations may be listed as threatened or endangered as a result of pending or future citizen petitions or petitions initiated by federal or state agencies.

Restrictions on our timber harvests result, or could result from:

- federal and state requirements to protect habitat for threatened and endangered species;
- additional listings of fish and wildlife species as endangered, threatened or sensitive under the ESA or similar state laws; or
- regulatory actions taken in the future by federal or state agencies to protect habitat for these species.

Such actions also could increase our operating costs and affect timber supply and prices in general.

In Canada:

- The federal Species at Risk Act (SARA) requires protective measures for species identified as being at risk and for critical habitat.
- Environment Canada announced a series of western science studies in 2010 that, with other landscape information, are designed to identify critical habitat.
- The Canadian Minister of the Environment released for comment in 2011 a strategy for the recovery of the boreal woodland caribou population under SARA.

The identification and protection of habitat may, over time, result in additional restrictions on timber harvests and other forest management practices that could increase operating costs for operators of forestlands in Canada. To date these Canadian measures have not had, and in 2012 will not have, a significant effect on our harvesting operations. We anticipate that future measures will not disproportionately affect Weyerhaeuser as compared with comparable operations.

REGULATIONS AFFECTING FORESTRY PRACTICES

In the United States, regulations established by federal, state and local governments or agencies to protect water quality and wetlands could affect future harvests and forest management practices on some of our timberlands. Forest practice acts in some states in the United States that increasingly affect present or future harvest and forest management activities include:

- limits on the size of clearcuts,
- requirements that some timber be left unharvested to protect water quality and fish and wildlife habitat,
- regulations regarding construction and maintenance of forest roads,
- rules requiring reforestation following timber harvest,
- procedures for state agencies to review and approve proposed forest practice activities and
- 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.

In Canada, our forest operations are carried out on public forestlands under forest licenses. All forest operations are subject to:

- forest practices and environmental regulations and
- license requirements established by contract between us and the relevant province designed to:
  - protect environmental values and
  - encourage other stewardship values.

On May 18, 2010, 21 member companies of the Forest Products Association of Canada (FPAC), including Weyerhaeuser's Canadian subsidiary, announced the signing of a Canadian Boreal Forest Agreement (CBFA) with nine environmental organizations. The CBFA applies to approximately 72 million hectares of public forests licensed to FPAC members and, when fully implemented, is expected to lead to the conservation of significant areas of Canada's boreal forest and protection of woodland caribou. CBFA signatories continue to meet with provincial governments, and aboriginal and local communities to seek their participation in advancing the goals of the CBFA. Progress under the CBFA is measured by an independent auditor.

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FOREST CERTIFICATION STANDARDS

We operate in North America 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 nonregulatory forest management programs described above have:

- increased our operating costs;
- resulted in changes in the value of timber and logs from our timberlands;
- contributed to increases in the prices paid for wood products and wood chips during periods of high demand;
- sometimes made it more difficult for us to respond to rapid changes in markets, extreme weather or other unexpected circumstances; and
- potentially encouraged 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 2012 will not have, a significant effect on the total harvest of timber in the United States or Canada. 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.

CANADIAN ABORIGINAL RIGHTS

Many of the Canadian forestlands are subject to the constitutionally protected treaty or common-law rights of 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 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,
- potential increase in operating costs and
- effects on 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 2012, although they may have such an effect in the future. In 2008, FPAC, of which we are a member, signed a Memorandum of Understanding with the Assembly of First Nations, under which the parties agree to work together to strengthen Canada's forest sector through economic-development initiatives and business investments, strong environmental stewardship and the creation of skill-development opportunities particularly targeted to aboriginal youth.

POLLUTION-CONTROL REGULATIONS

Our operations are subject to various laws and regulations, including:

- federal,
- state,
- provincial and
- local pollution controls.

These laws and regulations, as well as market demands, impose controls with regard to:

- air, water and land;
- solid and hazardous waste management;
- disposal and remediation; and
- the chemical content of some of our products.

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, it is difficult to isolate the environmental component of most manufacturing capital projects.

Our capital projects typically are designed to:

- enhance safety,
- extend the life of a facility,
- increase capacity,
- increase efficiency,
- change raw material requirements,
- increase the economic value of assets or products and
- comply with regulatory standards.

We estimate that our capital expenditures made primarily for environmental compliance were approximately $5 million in 2011 (approximately 2 percent of total capital expenditures). Based on our understanding of current regulatory requirements in the U.S. and Canada, we expect no material capital expenditures for environmental compliance in 2012.

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ENVIRONMENTAL CLEANUP

We are involved in the environmental investigation or remediation of numerous sites. Of these sites:

- we may have the sole obligation to remediate,
- we may share that obligation with one or more parties,
- several parties may have joint and several obligations to remediate or
- we may have been named as a potentially responsible party for sites designated as Superfund sites.

Our liability with respect to these various sites ranges from insignificant to substantial. The amount of liability depends on:

- the quantity, toxicity and nature of materials at the site; and
- the number and economic viability of the other responsible parties.

We spent approximately $5 million in 2011 and expect to spend approximately $6 million in 2012 on environmental remediation of these sites.

It is our policy to accrue for environmental-remediation costs when we:

- determine it is probable that such an obligation exists and
- can reasonably estimate the amount of the obligation.

We currently believe it is reasonably possible that our costs to remediate all the identified sites may exceed our current accruals of $34 million. The excess amounts required may be insignificant or could range, in the aggregate, up to $90 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 U.S.

The United States Environmental Protection Agency (EPA) had promulgated regulations for air emissions from:

- pulp and paper manufacturing facilities,
- wood products facilities and
- industrial boilers.

These regulations cover:

- hazardous air pollutants that require use of maximum achievable control technology (MACT) and
- controls for pollutants that contribute to smog, haze and more recently greenhouse gases.

The U.S. Court of Appeals for the D.C. Circuit issued decisions in 2007:

- vacating the MACT standards for air emissions from industrial boilers and process heaters and
- remanding the standards for plywood and composite wood products to the EPA.

The EPA must promulgate:

- technology and residual risk review for pulp and paper manufacturing facilities,
- supplemental MACT standards for plywood and composite products and
- new MACT standards for boilers.

Pending final action by the EPA, we expect:

- some states may implement MACT requirements for boilers on a case-by-case basis and
- we might spend as much as $30 million to $45 million over the next few years to comply with the MACT standards that are finally determined by the EPA and the states.

We cannot currently quantify the amount of capital we will need in the future to comply with new regulations being developed by the EPA or Canadian environmental agencies because final rules have not been promulgated.

In 2007, the U.S. Supreme Court ruled that greenhouse gases are pollutants that can be subject to regulation under the Clean Air Act. As a result, the EPA:

- promulgated regulations in 2009 for reporting greenhouse gas emissions that are applicable to our manufacturing operations;
- issued a final rule in 2010 to limit the growth in greenhouse gas emissions from new projects meeting certain emission thresholds starting in 2011 that applies to our manufacturing operations on a project-by-project basis;

- issued a final rule deferring for three years greenhouse gas permitting requirements for carbon dioxide emissions from biomass;
- initiated in 2011 efforts to further develop independent scientific analysis and rulemaking on how biomass emissions should be treated.

It is unclear what the effect of EPA’s greenhouse gas regulations will be on our operations until final rules regarding biomass emissions are promulgated.

To address concerns about greenhouse gases as a pollutant, we:

- closely monitor legislative, regulatory and scientific developments pertaining to climate change;
- adopted in 2006, as part of the Company's sustainability program, a goal of reducing greenhouse gas emissions by 40 percent by 2020 compared with our emissions in 2000, assuming a comparable portfolio and regulations;
- determined to achieve this goal by increasing energy efficiency and using more greenhouse gas-neutral, biomass fuels instead of fossil fuels; and
- reduced greenhouse gas emissions by approximately 26 percent considering changes in the asset portfolio according to 2010 data, compared to our 2000 baseline.

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Additional factors that could affect greenhouse gas emissions in the future include:

- policy proposals by state governments regarding regulation of greenhouse gas emissions,
- Congressional legislation regulating greenhouse gas emissions within the next several years or
- establishment of a multistate and federal greenhouse gas emissions reduction trading system with potentially significant implications for all U.S. businesses.

It is not yet known when and to what extent these policy activities may come into force or how they may relate to each other in the future.

We believe these measures have not had, and in 2012 will not have, a significant effect on our operations, although they may have such an effect in the future. We expect we will not be disproportionately affected by these measures as compared with typical owners of comparable operations. We maintain an active forestry research program to track and understand any potential effect from actual climate change related parameters that could affect the forests we own and manage and do not anticipate any disruptions to our planned operations.

REGULATION OF AIR EMISSIONS IN CANADA

In Canada:

- We participate in negotiations between the FPAC and Environment Canada to define industry obligations for complying with Canada's national plan for reducing greenhouse gas emissions and achieving ambient air quality objectives over the next several years.
- We work with provincial forestry associations to develop technically sound and economically viable policies, practices and procedures for

measuring, reporting and managing greenhouse gas emissions and protecting air quality.

The Canada federal government:

- proposed a regulatory framework for air emissions in 2007 that adopted some aspects of the Kyoto Protocol;
- called for mandatory reductions in greenhouse gas emissions for heavy industrial emissions producers, among other measures, to be put in place by 2010;
- signed the Copenhagen Accord in December 2009, committing to reducing its greenhouse gas emissions by 17 percent below 2005 levels; and
- announced in December 2011 that it is withdrawing from the Kyoto Protocol.

All Canadian provincial governments:

- have greenhouse gas reporting requirements;
- are working on reduction strategies; and
- together with the Canadian federal government, are considering new or revised emission standards.

We believe these measures have not had, and in 2012 will not have, a significant effect on our operations, although they may have such an effect in the future. We expect we will not be disproportionately affected by these measures as compared with typical owners of comparable operations. We also expect that these measures will not significantly disrupt our planned operations.

REGULATION OF WATER

In the U.S., as a result of litigation (some of which is ongoing), additional federal or state permits will be required in the future

under the federal Clean Water Act in one or more of the states in which we operate in relation to:

- pollution discharges from forest roads,
- other drainage features on forest land and
- the application of pesticides, including herbicides, on forest lands.

Some of these permits will be in effect in 2012 and will entail additional costs for Weyerhaeuser and some other forest landowners.

In Canada, in 2011, a National Round Table on the Environment and the Economy (NRTEE) proposed changes to water-use management across Canada and recommended that federal, provincial and territorial governments develop new water strategies. NRTEE will convene experts from across Canada to develop a national action plan on how to effectively implement the report's recommendations. Recommendations, which have not yet been developed, may entail additional costs. However, we do not expect a disproportionate effect on Weyerhaeuser as compared to comparable operations of other forest landowners.

POTENTIAL CHANGES IN POLLUTION REGULATION

State governments continue to promulgate total maximum daily load (TMDL) requirements for pollutants in water bodies that do not meet state or EPA water quality standards. 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 nonpoint sources, including timberland operations, to reduce the amounts of pollutants.

It is not possible to estimate the capital expenditures that may be required for us to meet pollution allocations across the various proposed state TMDL programs until a specific TMDL is promulgated.

Various levels of government in Canada have started work to address water usage and quality issues. Regional watershed protection is increasing and appears to be a part of future water strategies across Canada. As part of our membership in the U.S. Business Roundtable S.E.E. Change (society, environment and economy) initiative, we established a goal in May 2008 to reduce water use at our cellulose fibers mills 20 percent by the end of 2012, using a 2007 baseline. We achieved a 16 percent water use reduction in 2010 compared to our 2007 baseline.

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FORWARD-LOOKING STATEMENTS

This report contains statements concerning our future results and performance that are forward-looking statements within the meaning of 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 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 it 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 other variations of those terms.

STATEMENTS

We make forward-looking statements of our expectations regarding first quarter 2012 as compared to fourth quarter 2011, including:

- increased fee harvest volumes in the West, slightly improved average selling prices due to a higher percentage of export logs sold to Japan, flat fee harvest volume and prices in the South, higher fuel costs across all geographies, higher silviculture expenses in the South, and slightly higher earnings in the Timberlands segment excluding earnings from disposition of non-strategic timberlands;
- increased sales and slightly higher selling prices for lumber, higher sales volumes and over five percent increase in selling prices for oriented strand board, increased sales volumes and flat prices for engineered wood products, higher log costs in the South and Canada and lower log costs in the West, higher operating rates across all product lines, and a smaller loss from continuing operations in the Wood Products segment excluding special items;
- considerably lower average selling prices for pulp and slightly lower shipment volumes, significantly higher maintenance costs and lower production due to scheduled annual maintenance outages, higher energy and chemical costs, and substantially lower earnings in the Cellulose Fibers segment;
- seasonally lower home closing volume, lower average selling prices and margins due to mix, and a loss from single-family homebuilding operations in the Real Estate segment.

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

- the economy;
- regulations;
- adverse litigation outcomes and the adequacy of reserves;
- changes in accounting principles;
- contributions to pension plans;
- projected benefit payments;
- projected tax rates and credits; and
- other related matters.

RISKS, UNCERTAINTIES AND ASSUMPTIONS

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

- general economic conditions, including employment rates, housing starts, the level of interest rates, availability of financing for home mortgages, and strength of the U.S. dollar;
- market demand for our products, which is related to the strength of the various U.S. business segments and economic conditions;
- performance of our manufacturing operations, including maintenance requirements;
- successful execution of our internal performance plans, including restructurings and cost-reduction initiatives;
- level of competition from domestic and foreign producers;

- raw material and energy prices and transportation costs;
- the effect of design value changes on demand for the company's southern yellow pine lumber;
- the effect of forestry, land use, environmental and other governmental regulations;
- federal tax policies;
- legal proceedings;
- the effect of timing of retirements and changes in the market price of our common stock on charges for share-based compensation;
- the effect of weather;
- risk of loss from fires, floods, windstorms, hurricanes, pest infestations and other natural disasters;
- changes in accounting principles;
- performance of pension fund investments and related derivatives; and
- 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 and China;
- currency exchange rates — particularly the relative value of the U.S. dollar to the euro and the Canadian dollar, and the relative value of the euro to the yen; 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, our 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 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

MACROECONOMIC CONDITIONS

The industries in which we operate are sensitive to macroeconomic conditions and consequently highly cyclical.

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 as well as on local economic conditions. Current economic conditions in the United States and the global economic downturn, combined with the decreased availability of credit due to extremely conservative underwriting criteria and high foreclosure rates, has resulted in a continued weakness in the homebuilding industry (including the company's Real Estate business), increased inventories of available new homes, significant declines in home prices, loss of home-equity values and loss of consumer confidence and demand. Our Wood Products segment is highly dependent on the strength of the homebuilding industry and the weakness in that industry has resulted in depressed prices of and demand for wood products and building materials. This has been further reflected in declining prices and demand for logs and reduced harvests in our Timberland segment. The length and magnitude of industry cycles have varied over time and by product, but generally reflect changes in macroeconomic conditions. A further decline in the recovery of consumer demand could further adversely affect our businesses.

COMMODITY PRODUCTS

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 and competition from substitute products. Prices for our products are affected by many factors outside of our control, and we have no influence over the timing and extent of price changes, which often are volatile. Our profitability with respect to these products depends, in part, on managing our costs, particularly raw material and energy costs, which represent significant components of our operating costs and can fluctuate based upon factors beyond our control. Prices of and demand for many of our products have declined significantly in recent quarters, while many of our raw material or energy costs have increased. This has adversely affected both our sales and profitability.

INDUSTRY SUPPLY OF LOGS, WOOD PRODUCTS AND PULP

Excess supply of products may adversely affect prices and margins.

Industry supply of logs, wood products and pulp is subject to changing macroeconomic and industry conditions that may cause producers to idle or permanently close individual machines or entire mills or to decrease harvest levels. 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 of products also may result from producers introducing new capacity or increasing harvest levels in response to favorable short-term pricing trends. Industry supplies of pulp 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 in recent years has improved the company's competitive position and mitigated the levels of imports, the recent strengthening of the U.S. dollar and decreases in demand for consumer products in emerging markets may result in increased imports of pulp from overseas, resulting in lower prices. Continuation of these factors could materially and adversely affect sales volumes and margins of our operations.

HOMEBUILDING MARKET AND ECONOMIC RISKS

Continuing high foreclosure rates, low demand and low levels of consumer confidence could continue to adversely affect our sales volume, pricing and margins and result in further impairments.

Demand for homes is sensitive to changes in economic conditions such as the level of employment, consumer confidence, consumer income, the availability of financing and interest rate levels. During the period of 2007 through 2011, the mortgage industry experienced significant instability and increasing default rates, particularly with regard to subprime and other nonconforming loans. This caused many lenders to tighten credit requirements and reduce the number of mortgage loans available for financing home purchases. Demand for new homes also has been adversely affected by factors such as continued high unemployment, elevated foreclosure rates and distress sales of houses, significant declines in home values and a collapse of consumer confidence. While our cancellation rates have improved, homebuyers may still find it more advantageous to forfeit a deposit than to complete the purchase of the home because of the fear of further price declines.

The company has traditionally carried a larger supply of land for development than many of our competitors. Some of the land was purchased during the last few years. Land prices have fallen in these markets and may continue to fall. As new housing demand in our markets has fallen significantly, we have elected to sell some of our non-strategic land and lots at a loss or declined to exercise options, even though that required us to forfeit deposits and write off preacquisition costs. We also have changed our competitive strategies in some markets and elected to discontinue or postpone development in other markets in response to the downturn. As a result, we continue to look for opportunities to reposition our portfolio through the sale of our assets.

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Our homebuyers' ability to qualify for and obtain affordable mortgages could be affected by changes in government sponsored entities and private mortgage insurance companies supporting the mortgage market.
The federal government has historically had a significant role in supporting mortgage lending through its sponsorship of Fannie Mae and Freddie Mac. As a result of turbulence in the credit markets and mortgage finance industry in the last few years, the effect of the federal government's conservatorship of these government sponsored entities on the short-term and long-term demand for new housing remains unclear. The liquidity provided to the mortgage industry by Fannie Mae and Freddie Mac, both of which purchase home mortgages and mortgage-backed securities originated by mortgage lenders, is critical to the housing market. There have been significant concerns about the future purpose of Fannie Mae and Freddie Mac and a number of proposals to curtail their activities over time are under review. Any limitations or restrictions on the availability of financing by these entities could adversely affect interest rates, mortgage financing, and increase the effective cost of our homes, which could reduce demand for our homes and adversely affect our results of operations.
Changes in tax regulations could harm our future sales and earnings.
Significant costs of homeownership include mortgage interest expense and real estate taxes, both of which are generally deductible for an individual's federal and, in some cases, state income taxes. Any changes to income tax laws by the federal government or a state government to eliminate or substantially reduce these income tax deductions, as has been considered from time to time, would increase the after-tax cost of owning a home. Increases in real estate taxes by local governmental authorities also increase the cost of homeownership. Any such increases to the cost of homeownership could adversely affect the demand for and sales prices of new homes.

CAPITAL MARKETS
Deterioration in economic conditions and the credit markets could adversely affect our access to capital.
Financial and credit markets have been experiencing a period of turmoil that has included the failure or sale of various financial institutions, a continuing series of international economic crises, particularly in Europe, and increasingly restrictive underwriting standards. While it is difficult to predict the ultimate results of these events, they may impair the company's ability to borrow money. Similarly, our customers may be unable to borrow money to fund their operations.
Continued deteriorating or volatile market conditions could:
- adversely affect our ability to access credit markets on terms acceptable to us,
- limit our capital expenditures for repair or replacement of existing facilities or equipment,
- adversely affect our compliance with covenants under existing credit agreements,
- result in adverse changes in the credit ratings of our debt securities,
- have an adverse effect on our customers and suppliers and their ability to purchase our products,
- adversely affect the banks providing financial security for the transaction structures used to defer taxes related to several major sales of timber,
- adversely affect the performance of our pension plans requiring additional company contributions and
- reduce our ability to take advantage of growth and expansion opportunities.

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 could limit our access to the credit markets, increase our cost of financing, and have an adverse effect on the market price of our securities.

SUBSTITUTION

Some of our products are vulnerable to declines in demand due to competing technologies or materials.
Our products may compete with nonfiber-based alternatives or with alternative products in certain market segments. For example, plastic, wood/plastic or composite materials may be used by builders as alternatives to the products produced by our Wood Products businesses such as lumber, veneer, plywood and oriented strand board. Changes in prices for oil, chemicals and wood-based fiber can change the competitive position of our products relative to available alternatives and could increase substitution of those products for our products. As the use of these alternatives grows, demand for our products may further decline.

CHANGES IN PRODUCT MIX OR PRICING

Our results of operations 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 we will be successful in implementing previously announced or future price increases, or plans to move customers to higher-priced products. Delays in acceptance of price increases or failure of customers to accept higher-priced products 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 also are 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

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successful with respect to any key competitive factor, our ability to attract and retain customers could be materially adversely affected. If we are unable to compete effectively, such failure could have a material adverse effect on our business, financial condition and results of operations.

MATERIAL DISRUPTION OF MANUFACTURING

A material disruption at one of our manufacturing facilities could prevent us from meeting customer demand, reduce our sales or negatively affect 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;
- 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, windstorms, 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 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.

The company has substantial capital requirements for expansion and repair or replacement of existing facilities or equipment. Although we maintain our production equipment with regular scheduled maintenance, key pieces of equipment may need to be repaired or 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.

We believe our capital resources will be adequate to meet our current projected operating needs, capital expenditures and other cash requirements. 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.

LAWS AND REGULATIONS

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

For example, the U.S. Environmental Protection Agency (EPA) is in the process of developing Maximum Achievable Control Technology (MACT) standards that regulate air emissions from pulp and paper facilities, wood products facilities and industrial boilers. The EPA also is in the process of developing final rules regulating greenhouse gases that apply to our operations on a project-by-project basis and may be applied to carbon dioxide emissions from biomass. These and similar laws and regulations in the U.S. and Canada 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, including in our homebuilding business, 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.

We also anticipate public policy developments at the state, federal and international level regarding climate change and energy access, security and competitiveness. We expect these developments to address emission of carbon dioxide, renewable energy and fuel standards, and the

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monetization of carbon. Compliance with regulations that implement new public policy in these areas might require significant expenditures. 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. We also anticipate public policy developments at the state, federal and international level regarding taxes, health care and a number of other areas that could require significant expenditures.

CURRENCY EXCHANGE RATES

We will be affected by changes in currency exchange rates.

We have manufacturing operations in Canada, Uruguay and Brazil. We are also a large exporter and compete with producers of products very similar to ours. Therefore, we are affected by changes in the strength of the U.S. dollar relative to the Canadian dollar, euro and yen, and the strength of the euro relative to the yen.

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 costs 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 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 affect 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.

REIT STATUS

If we fail to remain qualified as a REIT, we would be subject to tax at corporate rates and would not be able to deduct dividends to shareholders when computing our taxable income because our timber-related income will be subject to taxation.

In any taxable year in which we fail to qualify as a REIT, unless we are entitled to relief under the Internal Revenue Code:

- We would be subject to federal and state income tax on our taxable income at regular corporate rates.
- We would not be allowed to deduct dividends to shareholders in computing our taxable income.
- We also would be disqualified from treatment as a REIT for the four taxable years following the year during which we lost qualification.

If we fail to qualify as a REIT, we might need to borrow funds or liquidate some investments to pay the additional tax liability. Accordingly, funds available for investment or dividends to our shareholders could be reduced.

Qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code to our operations and the determination of various factual matters and circumstances not entirely within our control. There are only limited judicial or administrative interpretations of these provisions. Although we operate in a manner consistent with the REIT qualification rules, we cannot assure you that we are or will remain so qualified.

In addition, federal and state tax laws are constantly under review by persons involved in the legislative process, the Internal Revenue Service, the United States Department of the Treasury, and state taxing authorities. Changes to the tax law could adversely affect our shareholders. We cannot predict with certainty whether, when, in what forms, or with what effective dates, the tax laws applicable to us or our shareholders may be changed.

Certain of our business activities are potentially subject to prohibited transactions tax or corporate-level income tax.

Under the Internal Revenue Code, REITs generally must engage in the ownership and management of income producing real estate. For the Company, this generally includes owning and managing a timberland portfolio for the production and sale of standing timber. Accordingly, the manufacture and sale by us of wood products, the harvesting and sale of logs, and the development or sale of certain timberlands, the manufacture and sale of pulp products, the development of real estate, the building and sale of single-family houses and the development and sale of land and lots for real estate development are conducted through one or more of our wholly-owned taxable REIT subsidiaries (“TRSs”) because such activities could generate non-qualifying REIT income and could constitute “prohibited transactions.” Prohibited transactions are defined by the Internal Revenue Code generally to be sales or other dispositions of property to customers in the ordinary course of a trade or business. By conducting our business in this manner we believe that we satisfy the REIT requirements of the Internal Revenue Code and are not subject to the 100 percent tax that could be imposed if a REIT were to conduct a prohibited transaction. We may not always be successful, however, in limiting such activities to our TRSs. Therefore, we could be subject to the 100 percent prohibited transactions tax if such instances were to occur. The net income of our TRSs is subject to corporate-level income tax.

The extent of our use of our TRS may affect the price of our common shares relative to the share price of other REITs.

We conduct a significant portion of our business activities through one or more TRSs. Our use of our TRSs enables us to engage in non-REIT qualifying business activities such as the sale of logs, production and sale of wood products and pulp products, real estate development and

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single-family home sales, and sale of HBU property. Our TRSs are subject to corporate-level tax. Therefore, we pay income taxes on the income generated by our TRSs. Under the Code, no more than 25 percent of the value of the gross assets of a REIT may be represented by securities of one or more TRS. This limitation may affect our ability to increase the size of our TRSs' operations. Furthermore, our use of TRSs may cause the market to value our common shares differently than the shares of other REITs, which may not use TRSs as extensively as we use them.

We may be limited in our ability to fund distributions using cash generated through our taxable REIT subsidiaries.

The ability of the REIT to receive dividends from our TRS is limited by the rules with which we must comply to maintain our status as a REIT. In particular, at least 75 percent of gross income for each taxable year as a REIT must be derived from passive real estate sources including sales of our standing timber and other types of qualifying real estate income and no more than 25 percent of our gross income may consist of dividends from our TRS and other non-real estate income.

This limitation on our ability to receive dividends from our TRSs may affect our ability to fund cash distributions to our shareholders using cash flows from our TRSs. We can, however, under current law, issue stock dividends for up to 90 percent of our regular dividend distribution for calendar years through 2011. The net income of our TRSs is not required to be distributed, and income that is not distributed will not be subject to the REIT income distribution requirement.

Our cash dividends are not guaranteed and may fluctuate.

Generally, REITs are required to distribute 90 percent of their ordinary taxable income and 95 percent of their net capital gains income. Capital gains may be retained by the REIT, but would be subject to income taxes. If capital gains are retained rather than distributed, our shareholders would be notified and they would be deemed to have received a taxable distribution, with a refundable credit for any federal income tax paid by the REIT. Accordingly, we believe that we are not required to distribute material amounts of cash since substantially all of our taxable income is treated as capital gains income. Our Board of Directors, in its sole discretion, determines the amount of quarterly dividends to be provided to our shareholders based on consideration of a number of factors. These factors include, but are not limited to, our results of operations, cash flow and capital requirements, economic conditions, tax considerations, borrowing capacity and other factors, including debt covenant restrictions that may impose limitations on cash payments, future acquisitions and divestitures, harvest levels, changes in the price and demand for our products and general market demand for timberlands including those timberland properties that have higher and better uses. Consequently, our dividend levels may fluctuate.

We may not be able to complete desired like-kind exchange transactions for timberlands and real estate we sell.

When we sell timberlands and real estate, we generally seek to match these sales with the acquisition of suitable replacement timberlands. This allows us "like-kind exchange" treatment for these transactions under section 1031 and related regulations of the Code. This matching of sales and purchases provides us with significant tax benefits, most importantly the deferral of any gain on the property sold until ultimate disposition of the replacement property. While we attempt to complete like-kind exchanges wherever practical, we may not be able to do so in all instances due to various factors, including the lack of availability of suitable replacement property on acceptable terms and our inability to complete a qualifying like-kind exchange transaction within the time frames required by the Code. The inability to obtain like-kind exchange treatment would result in the payment of taxes with respect to the property sold, and a corresponding reduction in earnings and cash available for distribution to shareholders as dividends.

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 Note 15: Legal Proceedings, Commitments and Contingencies 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, there have been several lawsuits filed against us alleging that we violated U.S. antitrust laws. Those included lawsuits alleging antitrust violations against us and other manufacturers of oriented strand board and lawsuits

alleging antitrust violations with respect to alder logs and lumber. All of these matters have been settled.
It is possible that there could be adverse judgments against us in some or all major litigation against us and that we could be required to take 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 year in which we record it.

EXPORT TAXES
We may be required to pay significant export taxes or countervailing and anti-dumping duties for exported products.
We may experience reduced revenues and margins on some of our businesses as a result of export taxes or countervailing and anti-dumping duty applications. For example, in 2001, a group of companies filed petitions with the U.S. Department of Commerce and the International Trade Commission claiming that production of softwood lumber in Canada was being subsidized by Canada and that imports into the U.S. from Canada were being sold in U.S. markets at less than their fair value. We have softwood lumber facilities in Canada that export lumber into the U.S. We paid a total of $370 million in deposits for countervailing duty and anti-dumping tariffs from 2002 through 2006 related to those lumber exports. The U.S. and Canadian governments reached a settlement of the dispute in 2006. As a result of the settlement, we received a refund of $344 million in the fourth quarter of 2006. However, our Canadian softwood lumber facilities will have to pay an export tax when the price of lumber is at or below a threshold price. The export tax could be as high as 22.5 percent if a province exceeds its total allotted export share. The U.S. subsequently claimed that British Columbia violated the 2006 agreement by downgrading timber in British Columbia's interior region to lower its price. Canada has responded to the claim, which will be heard by the London Court of International Arbitration in March 2012. If the U.S. claims are upheld, our Canadian operations could be subject to damage claims for as much as $15 million. Similar types of actions have been initiated from time to time against us and other U.S. producers of products such as paper or lumber by countries such as China and Korea. It is possible that countervailing duty and antidumping tariffs, or similar types of tariffs could be imposed on us in the future. We may experience reduced revenues and margins in any business that is subject to such tariffs or to the terms of the settlements of such international disputes. These tariffs or settlement terms could have a material adverse effect on our business, financial results and financial condition, including facility closures or impairments of assets.

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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, severe wind and rainstorms, 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.

SOUTHERN YELLOW PINE DESIGN VALUES

The demand for our southern yellow pine could be adversely affected by design value changes.

The Southern Pine Inspection Bureau (SPIB) submitted proposed design value changes to the American Lumber Standards Committee (ALSC) in 2011 for visually graded southern yellow pine lumber. The proposed changes were the result of tests on southern yellow pine No. 2 2X4 specimens that showed reductions in certain design values. Our Southern timberlands predominantly contain southern yellow pine. We sell both visually graded and mechanically graded southern yellow pine. Under the SPIB proposal, design values for mechanically graded lumber would not change. The ALSC held two public hearings on the matter and the results of the tests. On January 11, 2012, the ALSC Board of Review approved new design values for southern yellow pine 2X4 lumber of grade No. 2 and lower, with a recommended effective date of June 1, 2012, but declined to approve design value changes for other sizes. Further testing and analysis of other sizes of southern yellow pine is expected to be completed later in 2012. It is unknown whether the testing of other sizes will result in a SPIB proposal for additional design value changes or what changes the ALSC Board of Review would make or the timing for their implementation if changes were proposed. The design value reductions for visually graded southern yellow pine 2X4s of grade No. 2 and lower, and the possibility of additional design value reductions for other widths could result in an increase in product substitution or species substitution and could adversely affect demand for visually graded southern yellow pine.

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;
- changes in accounting principles; and
- changes in tax laws and regulations.

In addition, there has been significant volatility in the market price and trading volume of securities of companies operating in the forest products industry that 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.

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

Details about our facilities, production capacities and locations are found in the Our Business — What We Do section of this report.

- For details about our Timberlands properties, go to Our Business/What We Do/Timberlands/Where We Do It.
- For details about our Wood Products properties, go to Our Business/What We Do/Wood Products/Where We Do It.
- For details about our Cellulose Fibers properties, go to Our Business/What We Do/Cellulose Fibers/Where We Do It.
- For details about our Real Estate properties, go to Our Business/What We Do/Real Estate/Where We Do It.

Production capacities listed represent annual production volume under normal operating conditions and producing a normal product mix for each individual facility. Production capacities do not include any capacity for facilities that were sold or permanently closed as of the end of 2011.

LEGAL PROCEEDINGS

See Note 15: Legal Proceedings, Commitments and Contingencies in the Notes to Consolidated Financial Statements for a summary of legal proceedings.

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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 and
- Chicago Stock Exchange

As of December 31, 2011, there were approximately 9,724 holders of record of our common shares.

Dividend-per-share data and the range of closing market prices for our common stock for each of the four quarters in 2011 and 2010 are included in Note 22: Selected Quarterly Financial Information (unaudited) in the 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(1)	32,799,526	$ 22.37	11,714,621
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	32,799,526	$ 22.37	11,714,621

(1) Includes 1,738,574 restricted stock units and 314,426 performance share units. Because there is no exercise price associated with restricted stock units and performance share units, such stock units are not included in the weighted average price calculation.

INFORMATION ABOUT COMMON STOCK REPURCHASES DURING 2011

	TOTAL NUMBER OF SHARES (OR UNITS) PURCHASED	AVERAGE PRICE PAID PER SHARE (OR UNIT)	TOTAL NUMBER OF SHARES (OR UNITS) PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS	MAXIMUM NUMBER (OR APPROXIMATE DOLLAR VALUE) OF SHARES (OR UNITS) THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS
Common Stock Repurchases During Third Quarter:				
July	—	N/A	—	$ 248,142,704
August	1,199,800	$ 16.67	1,199,800	$ 250,000,000
September	589,824	$ 15.89	589,824	$ 240,625,690
Total repurchases during third quarter	1,789,624	$ 16.41	1,789,624	$ 240,625,690
Common Stock Repurchases During Fourth Quarter:				
October	500,000	$ 15.33	500,000	$ 232,962,165

November	—	N/A	—	$ 232,962,165
December	—	N/A	—	$ 232,962,165
Total repurchases during fourth quarter	500,000	$ 15.33	500,000	$ 232,962,165
Total common stock repurchases during 2011	2,289,624	$ 15.63	2,289,624	$ 232,962,165

(1) On August 11, 2011, our board of directors terminated the 2008 stock repurchase program and approved the 2011 stock repurchase program under which we are authorized to repurchase up to $250 million of outstanding shares. As of December 31, 2011, we had repurchased $20 million and $17 million under the 2008 and 2011 programs, respectively. All common stock purchases under both programs were made in open-market transactions.

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COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL SHAREHOLDER RETURN
Weyerhaeuser Company, S&P 500 and S&P Global Timber & Forestry Index

PERFORMANCE GRAPH ASSUMPTIONS

- Assumes $100 invested on December 31, 2006 in Weyerhaeuser common stock, the S&P 500 Index and the S&P Global Timber & Forestry Index.
- Total return assumes dividends are reinvested quarterly.
- Measurement dates are the last trading day of the calendar year shown.

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SELECTED FINANCIAL DATA
DOLLAR AMOUNTS IN MILLIONS, EXCEPT PER-SHARE FIGURES

PER SHARE

	2011	2010	2009	2008	2007
Diluted earnings (loss) from continuing operations attributable to Weyerhaeuser common shareholders	$0.59	3.96	(2.38)	(8.73)	(1.06)
Diluted earnings (loss) from discontinued operations attributable to Weyerhaeuser common shareholders[1]	0.02	0.03	(0.20)	3.16	4.66
Diluted net earnings (loss) attributable to Weyerhaeuser common shareholders	$0.61	3.99	(2.58)	(5.57)	3.60
Dividends paid	$0.60	26.61	0.60	2.40	2.40
Weyerhaeuser shareholders' interest (end of year)	$7.95	8.60	19.13	22.78	37.80

FINANCIAL POSITION

	2011	2010	2009	2008	2007
Total assets:					
Forest Products	$10,681	11,476	13,248	14,080	20,026
Real Estate	1,917	1,953	2,002	2,615	3,736
Total	$12,598	13,429	15,250	16,695	23,762
Total long-term debt:					
Forest Products	$4,193	4,710	5,284	5,560	6,566
Real Estate	285	350	402	456	775
Total	$4,478	5,060	5,686	6,016	7,341
Weyerhaeuser shareholders' interest	$4,263	4,612	4,044	4,814	7,981
Percent earned on average Weyerhaeuser shareholders' interest	7.5%	29.6%	(12.3)%	(18.4)%	9.3%

OPERATING RESULTS

	2011	2010	2009	2008	2007
Net sales and revenues	$6,216	5,954	5,068	7,413	10,065
Earnings (loss) from continuing operations	$319	1,274	(525)	(1,911)	(284)
Discontinued operations, net of income taxes[1]	12	9	(43)	669	1,023
Net earnings (loss)	331	1,283	(568)	(1,242)	739
Less: Net loss (earnings) attributable to noncontrolling interest	—	(2)	23	66	51
Net earnings (loss) attributable to Weyerhaeuser common shareholders	$331	1,281	(545)	(1,176)	790

CASH FLOWS

	2011	2010	2009	2008	2007
Net cash from operations	$291	689	(203)	(1,411)	489
Cash from investing activities	$122	164	276	5,571	917
Cash from financing activities	$(927)	(1,255)	(498)	(1,980)	(1,535)
Net change in cash and cash equivalents	$(514)	(402)	(425)	2,180	(129)

STATISTICS (UNAUDITED)

	2011	2010	2009	2008	2007
Number of employees	12,800	14,250	14,888	19,843	37,857
Number of shareholder accounts at year-end:					
Common	9,724	10,050	10,577	11,088	10,489

Exchangeable	—	—	—	—	1,037
Number of shares outstanding at year-end (thousands):					
Common	536,425	535,976	211,359	211,289	209,546
Exchangeable	—	—	—	—	1,600
Weighted average shares outstanding – diluted (thousands)	539,879	321,096	211,342	211,258	219,305

(1) A summary of our discontinued operations is presented in Note 3: Discontinued Operations in the Notes to Consolidated Financial Statements.

To implement our decision to be taxed as a REIT, we distributed to our shareholders our accumulated earnings and profits, determined under federal income tax provisions, as a “Special Dividend.” On September 1, 2010, we paid a dividend of $5.6 billion which included the Special Dividend and the regular quarterly dividend of approximately $11 million. At the election of each shareholder, the Special Dividend was paid in cash or Weyerhaeuser common shares. The number of common shares issued was approximately 324 million. The stock portion of the Special Dividend was treated as the issuance of new shares for accounting purposes and affects our earnings per share only for periods after the distribution. Prior periods are not restated. The required treatment results in earnings per share that is less than would have been the case had the common shares not been issued. See Note 4: Net Earnings (Loss) Per Share in the Notes to Consolidated Financial Statements for pro forma results giving effect to the common stock distribution for diluted earnings per common share as if the common stock distribution had occurred at the beginning of each period.

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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:

- economic and market conditions affecting our operations;
- real estate investment trust (REIT) election;
- financial performance summary;
- results of our operations — consolidated and by segment;
- liquidity and capital resources — where we discuss our cash flows;
- off-balance sheet arrangements;
- environmental matters, legal proceedings and other contingencies; and
- accounting matters — where we discuss critical accounting policies and areas requiring judgments and estimates.

ECONOMIC AND MARKET CONDITIONS AFFECTING OUR OPERATIONS

In 2011, the U.S. economy slowed its pace of recovery. The underlying causes included the Japan earthquake and tsunami, the U.S. deficit and related political instability and European debt crisis. These factors weighed heavily on the economy, delaying many anticipated improvements in key economic indicators. The U.S. housing market continues to be affected by these events and consequently lags other sectors in the recovery. Improvement in the latter part of 2011 in key areas such as job creation, industrial production and GDP may help spur growth in U.S. housing; however, the sector remains burdened by excess inventory and a diminished pool of qualified home buyers. The health of the U.S. housing market strongly affects our Real Estate, Wood Products and Timberlands segments. Real Estate focuses on building single family homes. Wood Products primarily sells into the new residential building and repair and remodel markets. Demand for logs from our Timberlands segment is affected by the production of wood-based building products as well as export demand. Cellulose Fibers is primarily affected by global demand and the relative strength of the U.S. dollar.

HOUSING MARKET

We track certain indicators such as employment, consumer confidence, housing starts, home sales, foreclosures, home prices, mortgage interest rates and the number of homes for sale to assess housing market conditions. The following market statements refer to industry conditions in general and not to Weyerhaeuser operations directly.

Total U.S. housing starts for 2011 were 606 thousand units, with single family units accounting for 429 thousand of the total. This represents a 9 percent decline in single family starts from 2010; however demand for homes was bolstered by government programs such as the new home buyer tax credit for part of the year in 2010. These programs were not renewed in 2011. Multifamily construction did relatively better in 2011 compared with 2010, averaging 177 thousand units compared with 114 thousand in 2010. In total, current housing demand remains well below 1 million or more single family starts, the typical level during the 15-year period of 1992-2007. New home sales in the U.S. totaled 303 thousand units in 2011. This level of new home sales is 6 percent lower than 2010 and lower than any year recorded since 1963, when U.S. Census started reporting this data. Through much of 2011 the unemployment rate has remained above 9 percent, but as of December had fallen to 8.5 percent, the lowest level for the year. Weak employment growth contributed to weak consumer confidence, limiting any growth in demand for housing and wood products. The number of mortgages in default remains very large and the number of foreclosures is expected to remain high relative to historic trends. This will continue to contribute to the inventory of existing homes for sale, which limits demand for new homes.

Demand for wood products continued to be affected by the depressed level of new home construction in 2011. Overall demand levels for lumber increased 3 percent from 2010 while demand for oriented strand board (OSB), which is more heavily dependent on residential construction, increased 1.5 percent from 2010 levels. Demand for both lumber and OSB remain 35 percent to 40 percent below peak levels. As a result, industry operating rates for lumber and OSB have averaged between 70 and 80 percent of capacity. Prices for some commodity wood products were modestly higher in 2011, while others such as southern yellow pine lumber and OSB were lower in 2011 than in 2010. In 2011, most prices peaked in the second quarter, coinciding with the strongest quarter of construction, but decreased to levels closer to their costs of production for much of the year. Demand for logs increased as lumber production increased slightly. In the western region, weak domestic demand for logs was offset by demand from Japan, China and Korea, resulting in significant increases in western log prices in 2011.

U.S. DOLLAR/GLOBAL DEMAND

The U.S. dollar remained weak relative to most developed world currencies during 2011. Cellulose Fibers benefited from the decline in the value of the U.S. dollar, as our pulp mills became more competitive compared to European, Canadian and South American producers. The combination of the weaker dollar, steady global demand and flat capacity helped prices for the key indicator, northern bleached softwood kraft (NBSK) pulp, to remain above $950/ton in 2011, 2 percent higher than in 2010. Pulp prices started the year similar to 2010, peaking in the second quarter and then declining into the fourth quarter, largely as a result of a weakening euro. Debt concerns in the Eurozone countries has lowered the value of the euro relative to the U.S. dollar, reducing the competiveness of U.S. producers relative to European competitors, causing a decline in the key NBSK indicator price in the fourth quarter.

The weaker dollar compared to the yen resulted in U.S. logs being less expensive to importers in Japan. Although Japan experienced a major disruption with the earthquake and tsunami in March 2011, total housing starts in Japan increased 3 percent from 2010 levels as rebuilding efforts began in the second half of the year. The export log market was affected by increased demand from China. Chinese imports of softwood logs from the U.S. were estimated to exceed 5 million cubic meters for 2011, double the level from 2010.

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WHERE WE ARE HEADED

Growth in the U.S. economy improved to 2.8 percent in fourth quarter 2011 compared to 1.8 percent in third quarter 2011 and that momentum is expected to continue into 2012. Job growth also has shown gradual improvement in the latter part of 2011 and the U.S. is expected to add enough jobs to lower the overall unemployment rate in 2012. Single-family starts are expected to gradually increase in 2012, a result of improving demand for homes and record low inventory of new homes for sale. Demand for wood products is expected to increase as a result of greater demand for housing; however sustainable demand growth is expected to be modest in 2012. As a result, prices in 2012 are expected to be similar to 2011. Log prices in western markets are expected to remain flat, exclusive of seasonal swings. In the South, log prices are also expected to remain flat, but at lower levels than the West, which benefits from strong demand from Asia. The U.S. dollar is expected to remain weak relative to developed currencies outside of the euro, which is expected to continue to be affected by uncertainty in the Eurozone. Weakness in the euro is expected to undermine the competitive position of U.S. market pulp producers and will likely put downward pressure on prices.

REAL ESTATE INVESTMENT TRUST (REIT) ELECTION

Starting with our 2010 fiscal year, we elected to be taxed as a REIT. We expect to derive most of our REIT income from investments in timberlands, including the sale of standing timber through pay-as-cut sales contracts. REIT income can be distributed to shareholders without first paying corporate level tax, substantially eliminating the double taxation on income. A significant portion of our timberland segment earnings receives this favorable tax treatment. We are, however, subject to corporate taxes on built-in-gains (the excess of fair market value over tax basis at January 1, 2010) on sales of real property (other than standing timber) held by the REIT during the first 10 years following the REIT conversion. We continue to be required to pay federal corporate income taxes on earnings of our Taxable REIT Subsidiary (TRS), which principally includes our manufacturing businesses, our real estate development business and our non-qualified timberland segment income. Following are points related to our conversion:

- To implement our decision to be taxed as a REIT, we distributed to our shareholders our accumulated earnings and profits, determined under federal income tax provisions, as a “Special Dividend.” On September 1, 2010, we paid a dividend of $5.6 billion which included the Special Dividend and the regular quarterly dividend of approximately $11 million. At the election of each shareholder, the Special Dividend was paid in cash or Weyerhaeuser common shares. The aggregate amount of cash distributed was $560 million and the number of common shares issued was approximately 324 million.
- The stock portion of the Special Dividend is treated as the issuance of new shares for accounting purposes and affects our earnings (loss) per share only for periods after the distribution. Prior periods are not restated. The required treatment results in earnings (loss) per share that is less than would have been the case had the common shares not been issued.
- We reversed certain deferred income tax liabilities, which resulted in a benefit in the Consolidated Statement of Operations during 2010 of approximately $1,064 million. Our 2010 effective income tax rate also decreased due to lower taxes on REIT qualifying timberlands income.

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FINANCIAL PERFORMANCE SUMMARY
Net Sales and Revenues by Segment
Contribution (Charge) to Pretax Earnings by Segment, Including Discontinued Operations

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RESULTS OF OPERATIONS

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

- Price realizations refer to net selling prices — this includes selling price plus freight minus normal sales deductions.
- Net contribution to earnings can be positive or negative and refers to earnings (loss) attributable to Weyerhaeuser shareholders before interest expense and income taxes.

CONSOLIDATED RESULTS

HOW WE DID IN 2011

Summary of Financial Results

DOLLAR AMOUNTS IN MILLIONS, EXCEPT PER-SHARE FIGURES

	2011	2010	2009	AMOUNT OF CHANGE 2011 vs. 2010	AMOUNT OF CHANGE 2010 vs. 2009
Net sales and revenues	$6,216	$5,954	$5,068	$262	$886
Operating income (loss)	594	454	(379)	140	833
Earnings (loss) from discontinued operations, net of tax	12	9	(43)	3	52
Net earnings (loss) attributable to Weyerhaeuser common shareholders	$331	$1,281	$(545)	$(950)	$1,826
Basic earnings (loss) per share attributable to Weyerhaeuser common shareholders	$0.62	$4.00	$(2.58)	$(3.38)	$6.58
Diluted earnings (loss) per share attributable to Weyerhaeuser common shareholders	$0.61	$3.99	$(2.58)	$(3.38)	$6.57

COMPARING 2011 WITH 2010

Net Sales and Revenues

Net sales and revenues increased $262 million — 4 percent — primarily due to the following:

- Timberlands segment sales increased $170 million, as a result of higher log prices and volumes sold;
- Cellulose Fibers segment sales increased $147 million, as a result of higher pulp prices and volumes sold; and
- Wood Products segment sales from continuing operations increased $52 million, as a result of increased volumes sold of structural lumber and OSB.

These increases were partially offset by an $85 million decrease in Real Estate segment sales, as a result of fewer home closings.

Net Earnings (Loss) Attributable to Weyerhaeuser Common Shareholders

Our net earnings attributable to Weyerhaeuser common shareholders decreased $950 million — 74 percent — primarily due to certain significant benefits in 2010 that were not repeated in 2011, including:

- $1,064 million reversal of certain deferred income tax liabilities as a result of our conversion to a REIT in 2010;
- $149 million cellulosic biofuel producer credit in 2010; and
- $46 million gain on the sale of five short line railroads in 2010.

These decreases in our earnings were partially offset by:

- $96 million net gain on sale of 82,000 acres of non-strategic timberlands in 2011;
- $76 million tax benefit related to foreign tax credits in 2011;
- $68 million decrease in interest expense due to lower charges associated with the early extinguishment of debt and lower interest expense due to a lower level of debt;
- $65 million decrease in restructuring, closure and asset impairment charges, primarily due to decreased impairments recognized in our Wood Products segment; and
- $49 million decrease in selling, general and administrative expenses.

COMPARING 2010 WITH 2009

Net Sales and Revenues

Net sales and revenues increased $886 million — 17 percent — primarily due to the following:

- Cellulose Fibers segment sales increased $400 million, as a result of higher pulp sales realizations;
- Wood Products segment sales from continuing operations increased $302 million, as a result of increased price realizations and sales volumes for residential building products; and
- Timberlands segment sales increased $160 million, as a result of increased price realizations for log sales in the West and increased land exchanges, dispositions of non-strategic timberlands and sales of higher and better-use lands.

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Net Earnings (Loss) Attributable to Weyerhaeuser Common Shareholders

Our net earnings attributable to Weyerhaeuser common shareholders increased $1,826 million primarily due to the following:

- $943 increase in income tax benefit, primarily due to $1,064 million reversal of certain deferred income tax liabilities as a result of our conversion to a REIT in 2010 and a tax benefit of $149 million for cellulosic biofuel producer credits in 2010, partially offset by a reduced income tax benefit due to having earnings before tax in 2010 compared to a loss in 2009;
- $716 million increase in gross margin, primarily due to higher domestic and export prices in our Timberlands segment, increased price realizations for OSB and structural lumber in our Wood Products segment, increased price realizations for pulp in our Cellulose Fibers segment and increased contributions from single-family closings and land and lot sales in our Real Estate segment, partially offset by increased operating costs in our Timberlands, Wood Products and Cellulose Fibers segments;
- $542 million decrease in restructuring, closure and asset impairment charges, primarily due to charges recognized in our Timberlands, Wood Products, Real Estate and Corporate and Other segments in 2009; and
- $52 million increase in net earnings from discontinued operations.

The increases were partially offset by the following:

- $344 million tax benefit for alternative fuel mixture credits in 2009 and
- $98 million net gain on sale of 140,000 acres of non-strategic timberlands in 2009.

TIMBERLANDS

HOW WE DID IN 2011

We report sales volume and annual production data for our Timberlands business segment in Our Business/What We Do/Timberlands.

Here is a comparison of net sales and revenues to unaffiliated customers, intersegment sales, and net contribution to earnings for the last three years:

Net Sales and Revenues and Net Contribution to Earnings for Timberlands

DOLLAR AMOUNTS IN MILLIONS

				AMOUNT OF CHANGE	
	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
Net sales and revenues to unaffiliated customers:					
Logs:					
West	$545	$414	$329	$131	$85
South	196	145	144	51	1
Canada	17	17	13	—	4
Total	758	576	486	182	90
Pay as cut timber sales	34	33	31	1	2
Timberlands exchanges(1)	77	109	66	(32)	43
Higher and better-use land sales(1)	25	22	11	3	11
Minerals, oil and gas	53	60	62	(7)	(2)
Products from international operations(2)	86	65	44	21	21
Other products	11	9	14	2	(5)
Subtotal sales to unaffiliated customers	1,044	874	714	170	160
Intersegment sales:					
United States	424	409	392	15	17
Other	222	194	145	28	49
Subtotal intersegment sales	646	603	537	43	66

Total	$1,690	$1,477	$1,251	$213	$226
Net contribution to earnings	$485	$282	$338	$203	$(56)

(1) Disposition of higher and better use timberland and non-strategic timberlands are conducted through Forest Products subsidiaries.
(2) Includes logs, plywood and hardwood lumber harvested or produced by our international operations, primarily in South America.

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COMPARING 2011 WITH 2010

Net Sales and Revenues — Unaffiliated Customers

Net sales and revenues to unaffiliated customers increased $170 million — 19 percent — primarily due to the following:

- Western log sales increased by $131 million due to increased sales volumes of 18 percent and increased price realizations of 12 percent as a result of strong export demand.
- Southern log sales increased by $51 million due to increased sales volumes of 45 percent resulting from increased harvest levels and increased sales of logs to third parties.
- Sales from our International operations increased by $21 million, primarily due to increased plywood sales volumes of 34 percent.

The above items were partially offset by a decrease of $29 million in land exchanges and higher and better-use land sales.

Intersegment Sales

Intersegment sales increased $43 million — 7 percent — primarily due to the following:

- $28 million increase due to increased Canadian log and chip sales volumes and
- $15 million increase due to higher log prices and sales volumes in the West partially offset by lower log prices and sales volumes in the South.

Net contribution to earnings

Net contribution to earnings increased $203 million — 72 percent — primarily due to the following:

- $152 million pretax gain on the first quarter 2011 sale of 82,000 acres of non-strategic timberlands in southwestern Washington;
- $77 million increase, primarily due to higher domestic and export prices in the West; and
- $59 million increase, primarily due to an increase in harvest levels of 18 percent in the West and 19 percent in the South.

These items were partially offset by:

- $33 million increase in operating costs, primarily due to higher fuel and silviculture costs;
- $23 million decrease due to fewer land exchanges and higher and better-use land sales; and
- $20 million decrease due to lower prices for logs in the South.

COMPARING 2010 WITH 2009

Net Sales and Revenues — Unaffiliated Customers

Net sales and revenues to unaffiliated customers increased $160 million primarily due to the following:

- Western log sales increased $85 million due to increased price realizations of 26 percent.
- Land exchanges, dispositions of non-strategic timberlands and sales of higher and better-use lands increased $54 million.
- Sales from our International operations increased $21 million due to improvement in prices across most products and increased sales volumes.

Intersegment Sales

Intersegment sales increased $66 million, primarily due to the following:

- $49 million increase due to increased Canadian log and chip sales volumes and
- $17 million increase due to an increase in U.S. log prices.

Net contribution to earnings

The $56 million decrease in net contribution to earnings resulted primarily from the following:

- $163 million pre-tax gain on the third quarter 2009 sale of 140,000 acres of non-strategic timberland in northwestern Oregon;
- $30 million decrease resulting from increased incentive compensation and increased allocations of corporate costs to the business segments;
- $24 million decrease due to decreased harvest levels of 9 percent in the South and 12 percent in the West; and
- $17 million increase in operating costs, which includes higher road maintenance and increased fuel costs.

These items were partially offset by:

- $125 million increase, primarily due to higher domestic and export prices;

- $27 million increase due to land exchanges, dispositions of non-strategic timberlands and sales of higher and better-use lands; and
- $25 million decrease in charges for restructuring, closures and asset impairments.

OUR OUTLOOK

Excluding earnings from disposition of non-strategic timberlands, we expect slightly higher earnings from the Timberlands segment in first quarter 2012 as compared to fourth quarter 2011. We anticipate increased fee harvest volumes in the West and slightly improved average selling prices due to a higher percentage of export logs sold to Japan. We also anticipate higher fuel costs and seasonally higher silviculture expenses.

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WOOD PRODUCTS
HOW WE DID IN 2011
We report sales volume and annual production data for our Wood Products business segment in Our Business/What We Do/Wood Products.
We sold our hardwoods operations in a transaction that closed on August 1, 2011. The hardwoods results are included in our Wood Products segment and results of discontinued operations for all periods presented in this report. Here is a comparison of net sales and revenues and net contribution to earnings for the last three years:
Net Sales and Revenues and Net Contribution to Earnings for Wood Products
DOLLAR AMOUNTS IN MILLIONS

				AMOUNT OF CHANGE	
	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
Net sales and revenues:					
Structural lumber	$1,087	$1,044	$846	$43	$198
Engineered solid section	253	272	238	(19)	34
Engineered I-joists	161	171	162	(10)	9
Oriented strand board	361	334	234	27	100
Softwood plywood	69	73	58	(4)	15
Hardwood lumber	138	223	206	(85)	17
Other products produced	156	145	146	11	(1)
Other products purchased for resale	273	329	344	(56)	(15)
Total	2,498	2,591	2,234	(93)	357
Less sales of discontinued operations	(222)	(367)	(312)	145	(55)
Net sales and revenues from continuing operations	$2,276	$2,224	$1,922	$52	$302
Net contribution to earnings from continuing operations	$(245)	$(318)	$(686)	$73	$368
Net contribution to earnings from discontinued operations	(25)	8	(47)	(33)	55
Net contribution to earnings	$(270)	$(310)	$(733)	$40	$423

COMPARING 2011 WITH 2010
Restructuring, Closures and Asset Impairments
During 2011, we recognized $29 million of impairment charges in the Wood Products segment primarily related to the decision to permanently close four engineered lumber facilities that had been previously indefinitely closed. These facilities are located in Albany, Oregon; Dodson, Louisiana; Pine Hill, Alabama; and Simsboro, Louisiana. Total restructuring, closures and asset impairment charges in 2011 for the segment were $64 million. This compares with total Wood Products restructuring, closures and asset impairment charges of $114 million in 2010.
Net Sales and Revenues, Including Discontinued Operations
Net sales and revenues decreased $93 million — 4 percent — primarily due to the following:
- Structural lumber average price realizations decreased 3 percent as a result of:
– An 11 percent decrease in southern yellow pine realizations. In 2011, southern yellow pine accounted for 50 percent of the sales volume from our sawmills.
– This was partially offset by a 9 percent increase in Douglas fir realizations.
- OSB average price realizations decreased 14 percent.
- Engineered solid section shipment volumes decreased 10 percent.
- Engineered I-joints shipment volumes decreased 12 percent.
- Hardwood lumber sales decreased due to the sale of our hardwoods operations.

- Other products purchased for resale decreased primarily as a result of ceasing to offer a composite decking product line and the sale of our hardwoods operations.

These items were partially offset by the following:

- Structural lumber shipment volumes increased 7 percent.
- OSB shipment volumes increased 25 percent, primarily due to the re-opening of our Hudson Bay, Saskatchewan facility.
- Engineered I-joists average price realizations increased 7 percent.

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Net Contribution to Earnings, Including Discontinued Operations

Net contribution to earnings increased $40 million — 13 percent — primarily due to the following:

- $74 million decrease in manufacturing costs, primarily due to increased operating rates;
- $64 million decrease in selling and administrative costs, primarily due to previous cost reduction efforts and the sale of our hardwoods operations;
- $50 million decrease in charges for restructuring, closures and asset impairments; and
- $32 million increase in by-product sales.

These changes were partially offset by the following:

- $62 million decrease due to lower sales price realizations, primarily for OSB and structural lumber;
- $43 million increase in freight expense due to higher fuel cost and increasing shipments of OSB and structural lumber;
- $40 million pretax gain on the sale of certain British Columbia forest licenses and associated rights in 2010;
- $22 million increase in charges related to the sale of our hardwoods operations; and
- $16 million increase in log costs as domestic prices increased in the West as a result of strong export demand.

COMPARING 2010 WITH 2009

Net Sales and Revenues, Including Discontinued Operations

The $357 million increase in net sales and revenues was primarily due to the following:

- Structural lumber average price realizations increased 22 percent.
- OSB average price realizations increased 27 percent and shipment volumes increased 12 percent.
- Softwood plywood average price realizations increased 8 percent and shipment volumes increased 17 percent.
- Hardwood lumber shipment volumes increased 8 percent.

Net Contribution to Earnings, Including Discontinued Operations

The $423 million improvement in net contribution to earnings was primarily due to the following:

- $276 million increase due to sales price realizations, primarily OSB and structural lumber;
- $63 million decrease in charges for restructuring, closures and asset impairments;
- $59 million decrease in manufacturing and other costs of sales as a result of increased operating efficiencies and cost reductions;
- $52 million increase in the net pretax gain on the sale of assets and operations, including the sale of certain British Columbia forest licenses and associated rights;
- $35 million decrease in selling and administrative costs, primarily due to staff reductions in 2009; and
- $13 million decrease in litigation charges, primarily due to the settlement of Alder litigation in 2009.

These improvements were partially offset by a $64 million increase in log costs.

OUR OUTLOOK

Excluding special items, we anticipate a smaller loss from the Wood Products segment in first quarter 2012 as compared to fourth quarter 2011. We expect slightly higher selling prices for lumber and OSB and increased sales volumes across all product lines. Unit manufacturing costs should decline due to seasonally improved operating rates.

CELLULOSE FIBERS

HOW WE DID IN 2011

We report sales volume and annual production data for our Cellulose Fibers business segment in Our Business/What We Do/Cellulose Fibers.

Here is a comparison of net sales and revenues and net contribution to earnings for the last three years:

Net Sales and Revenues and Net Contribution to Earnings for Cellulose Fibers

DOLLAR AMOUNTS IN MILLIONS

				AMOUNT OF CHANGE	
	2011	2010	2009	2011 vs. 2010	2010 vs. 2009

Net sales and revenues:					
Pulp	$1,617	$1,489	$1,148	$128	$341
Liquid packaging board	346	337	290	9	47
Other products	95	85	73	10	12
Total	$2,058	$1,911	$1,511	$147	$400
Net contribution to earnings	$435	$412	$444	$23	$(32)

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COMPARING 2011 WITH 2010

Net Sales and Revenues

Net sales and revenues increased $147 million — 8 percent — primarily due to the following:

- Pulp price realizations increased $52 per ton — 6 percent — primarily due to lower global softwood pulp inventories in the first half of the year and a change in sales mix to higher valued products;
- Sales volumes for pulp increased 42,000 tons — 2 percent; and
- Liquid packaging board price realizations increased $82 per ton — 8 percent — due to a favorable shift in product mix to coated board sales and an increase in market price.

Net Contribution to Earnings

Net contribution to earnings increased $23 million — 6 percent — primarily due to the following:

- $92 million increase due to higher pulp price realizations;
- $24 million improvement in liquid packaging board price realizations; and
- $13 million increase in other non operating income, which includes earnings from an equity affiliate.

Partially offsetting these increases in earnings are the following:

- $57 million increase, primarily due to rising fiber and chemical costs;
- $41 million increase in operating costs, maintenance, freight, energy and the effect on Canadian operating costs of the weakening U.S. dollar compared to the Canadian dollar; and
- $12 million increase in selling, general and administrative costs.

COMPARING 2010 WITH 2009

Net Sales and Revenues

Net sales and revenues increased $400 million primarily due to the following:

- Pulp price realizations increased $192 per ton — 28 percent — primarily due to tight global softwood pulp inventories, due in part to lower industry production in the first half of 2010 as a result of the Chilean earthquake that occurred in February 2010.
- Sales volumes for pulp increased 17,000 tons — 1 percent.
- Liquid packaging board price realizations increased $80 per ton — 8 percent — primarily due to a favorable shift in product mix to coated board.
- Sales volumes for liquid packaging board increased approximately 23,000 tons — 8 percent.

Net Contribution to Earnings

Net contribution to earnings decreased $32 million primarily due to the following:

- $344 million decrease due to alternative fuel mixture credits, see “Liquidity and Capital Resources — Cash From Operations” for more information related to the alternative fuel mixture credits;
- $69 million increase in operating costs, freight and the effect on Canadian operating costs of the weakening U.S. dollar compared to the Canadian dollar; and
- $11 million increase in general and administrative cost.

Partially offsetting these decreases in earnings were the following increases:

- $330 million increase due to higher pulp price realizations,
- $24 million increase in other product realizations,
- $25 million increase due to higher liquid packaging board price realizations and
- $12 million in other non operating income.

OUR OUTLOOK

We expect substantially lower earnings from the Cellulose Fibers segment in first quarter 2012 as compared to fourth quarter 2011. We anticipate considerably lower average selling prices for pulp and significantly higher maintenance costs due to scheduled annual maintenance outages. We also expect seasonally higher energy costs and increased fiber and chemical costs.

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REAL ESTATE
HOW WE DID IN 2011

We report single-family unit statistics for our Real Estate business segment in Our Business/What We Do/Real Estate.
Here is a comparison of net sales and revenues and net contribution to earnings for the last three years:

Net Sales and Revenues and Net Contribution to Earnings for Real Estate
DOLLAR AMOUNTS IN MILLIONS

	2011	2010	2009	AMOUNT OF CHANGE 2011 vs. 2010	AMOUNT OF CHANGE 2010 vs. 2009
Net sales and revenues:					
Single-family housing	$768	$842	$832	$(74)	$10
Land	67	64	68	3	(4)
Other	3	17	4	(14)	13
Total	$838	$923	$904	$(85)	$19
Net contribution to earnings	$58	$91	$(299)	$(33)	$390

COMPARING 2011 WITH 2010

Net Sales and Revenues

Net sales and revenues decreased $85 million — 9 percent — primarily due to:

- Home closings declined 10 percent to 1,912 in 2011 from 2,125 in 2010.
- Revenues from land and other sales decreased $11 million.

Net Contribution to Earnings

Net contribution to earnings decreased $33 million — 36 percent — primarily due to:

- $33 million decrease in contribution from the sale of partnership interests — first quarter 2010 included the sale of interests in two commercial partnerships;
- $25 million decrease — 12 percent — in contribution from single-family operations, primarily due to fewer home closings; and
- $9 million decrease in contribution from partnerships interests.

These decreases were partially offset by the following improvements:

- $16 million decrease in selling, general and administrative expenses, resulting from both lower closing volumes and ongoing cost reduction efforts;
- $11 million related to contingent loss reserves – 2011 included net income from reserve adjustments for settled matters compared to net charges in 2010; and
- $10 million decrease in impairments and restructuring charges.

COMPARING 2010 WITH 2009

Net Sales and Revenues

Net sales and revenues increased $19 million — 2 percent — primarily from:

- $10 million increase in single-family housing revenues, primarily due to a shift in product mix; and
  – The average price of homes closed improved to $396,000 in 2010 from $382,000 in 2009.
  – This was partially offset by a 2 percent decline in home closings — 2010 included closings of 2,125 compared to 2,177 in 2009.
- $9 million net increase in land and other revenues, primarily related to the sale of an apartment building in 2010.

Net Contribution to Earnings

Net contribution to earnings increased $390 million, primarily due to:

- $264 million decrease in impairments, restructuring and other related charges;
- $56 million increase — 37 percent — in contribution from single-family closings. The net contribution reflects a $60 million benefit as a result of improved margins due to the mix of homes closed, partially offset by a $4 million decrease as a result of fewer closings;
-

- $24 million increase in contributions from sales of partnership interests — 2010 included gains of $33 million on sales compared to $9 million in 2009;
- $23 million increase in contribution from land and lot sales; and
- $19 million decrease in selling and general and administrative expenses due to cost cutting measures, including reductions in headcount.

OUR OUTLOOK

We anticipate a loss from single-family homebuilding operations in first quarter 2012 as compared to fourth quarter 2011. We expect a seasonal decline in home closing volume and lower average margins due to mix.

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CORPORATE AND OTHER
We report what our Corporate and Other segment includes in Our Business/What We Do/Corporate and Other.
Here is a comparison of net sales and revenues and net contribution to earnings for the last three years:
Net Sales and Revenues and Net Contributions to Earnings for Corporate and Other
DOLLAR AMOUNTS IN MILLIONS

				AMOUNT OF CHANGE	
	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
Net sales and revenues	$180	$253	$165	$(73)	$88
Less sales of discontinued operations	(180)	(231)	(148)	51	(83)
Net sales and revenues from continuing operations	$—	$22	$17	$(22)	$5
Net contributions to earnings from continuing operations	$(92)	$65	$(86)	$(157)	$151
Net contributions to earnings from discontinued operations	45	6	(21)	39	27
Net contributions to earnings	$(47)	$71	$(107)	$(118)	$178

HOW WE DID IN 2011
Corporate and Other includes certain gains or charges that are not related to an individual operating segment and the portion of items such as share-based compensation, pension and postretirement costs, foreign exchange transaction gains and losses associated with financing and other general and administrative expenses that are not allocated to the business segments. Historically, Corporate and Other included the results of our transportation operations. This included our five short line railroads that were sold at the end of 2010 and Westwood Shipping Lines that was sold on September 30, 2011. Westwood results are included in our results of discontinued operations.
COMPARING 2011 WITH 2010
Net Sales and Revenues, Including Discontinued Operations
Net sales and revenues decreased $73 million — 29 percent — primarily due to the sale of our transportation operations.
Net Contribution to Earnings, Including Discontinued Operations
Net contribution to earnings decreased $118 million, primarily due to the following:

- $100 million increase in pension and postretirement costs, primarily due to the amortization of deferred pension losses;
- $46 million gain on the sale of our five short line railroads recognized in 2010;
- $16 million decrease in foreign exchange, primarily as a result of a weaker Canadian dollar relative to the U.S. dollar;
- $14 million decrease in transportation contribution to earnings as a result of the sale of these operations; and
- $11 million increase in environmental remediation expense related to discontinued operations.

These items were partially offset by the following:

- $49 million gain on the sale of Westwood Shipping Lines in 2011 and
- $10 million decrease in share-based compensation expense.

COMPARING 2010 WITH 2009
Net Sales and Revenues, Including Discontinued Operations
Net sales and revenues increased $88 million— 53 percent — primarily due to increased revenues from Westwood operations as a result of higher volumes and prices.
Net Contribution to Earnings, Including Discontinued Operations
Net contribution to earnings increased $178 million, primarily due to the following:

- $183 million decrease in charges for asset impairments and corporate restructuring activities;
- $46 million gain on the sale of our five short line railroads recognized in 2010; and
- $32 million increase in earnings from transportation operations, primarily from Westwood operations.

These items were partially offset by the following:

- $29 million decrease related to litigation and insurance reimbursements received in 2009;
- $28 million decrease in foreign exchange, primarily resulting from a smaller change in the Canadian dollar relative to the U.S. dollar; and
- $18 million decrease related to the 2009 sale of a Honolulu box plant site.

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INTEREST EXPENSE

Our net interest expense incurred for the last three years was:

- $384 million in 2011,
- $452 million in 2010 and
- $462 million in 2009.

Reductions in our amount of outstanding debt was:

- $583 million in 2011,
- $627 million in 2010 and
- $327 million in 2009.

In connection with the repayments, included in our net interest expense, we recognized the following pretax losses on early extinguishment of debt:

- $26 million in 2011,
- $50 million in 2010 and
- $28 million in 2009.

INCOME TAXES

Our benefit for income taxes for our continuing operations over the last three years was:

- $62 million in 2011,
- $1,192 million in 2010 and
- $249 million in 2009.

During 2011, we recorded the following tax benefits or charges:

- $76 million tax benefit related to foreign tax credits associated with the repatriation of Canadian earnings,
- $57 million tax charge resulting from the sale of non-strategic timberlands and
- $10 million tax benefit due to the early extinguishment of debt.

During 2010, we recorded the following tax benefits or charges:

- We reversed certain deferred income tax liabilities as a result of our conversion to a REIT, which resulted in a benefit of $1,064 million.
- We recorded a tax benefit of $149 million for cellulosic biofuel producer credits; see "Fuel Credits" for more information.
- We recorded a $32 million tax charge as a result of the Patient Protection and Affordable Care Act, as modified by the Health Care and Education Reconciliation Act and a change in our postretirement medical plan.

There were no one-time deferred tax benefits or charges during 2009.

As a REIT, we generally are not subject to corporate level tax on income of the REIT that is distributed to shareholders. We will, however, be subject to corporate taxes on built-in-gains (the excess of fair market value over tax basis at January 1, 2010) on sales of real property (other than standing timber) held by the REIT during the first 10 years following the REIT conversion. We also will continue to be required to pay federal corporate income taxes on earnings of our TRS, which principally includes our manufacturing businesses, our real estate development business and the portion of our timberlands segment income included in the TRS.

The table below summarizes the historical tax characteristics of distributions to shareholders for the years ended December 31:

AMOUNTS PER SHARE

	2011	2010	2009
Qualified dividend	$—	$25.53	$0.60
Capital gain dividend	0.60	0.61	—
Return of capital	—	—	—
Pre-March 1, 1913 earnings	—	0.47	—
Total distributions	$0.60	$26.61	$0.60

LIQUIDITY AND CAPITAL RESOURCES

We are committed to maintaining a sound, conservative capital structure that enables us to:

- protect the interests of our shareholders and lenders and
- have access at all times to major financial markets.

CASH FROM OPERATIONS

Cash from operations includes:

- cash received from customers;
- cash paid to employees, suppliers and others;
- cash paid for interest on our debt; and
- cash paid or received for taxes.

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Consolidated net cash provided by (used in) our operations was:

- $291 million in 2011,
- $689 million in 2010 and
- $(203) million in 2009.

COMPARING 2011 WITH 2010

Net cash provided by operations decreased $398 million in 2011 as compared with 2010:

- Net cash inflows related to income taxes decreased $481 million. We paid taxes of $28 million in 2011 and received $453 million in 2010.
- Cash paid to employees, suppliers and others increased $144 million.

Partially offsetting the above decreases were:

- Pension and postretirement contributions decreased $137 million. These contributions were $143 million in 2011 compared to $280 million in 2010.
- Cash we received from customers increased $80 million, primarily due to increased net sales and revenues from our Timberlands and Cellulose Fibers segments partially offset by decreased net sales in our Wood Products, Real Estate and Corporate and Other segments.

COMPARING 2010 WITH 2009

Net cash used in operations increased $892 million in 2010 as compared with 2009:

- Cash we received from customers increased approximately $864 million primarily due to increased net sales and revenues from our Wood Products, Cellulose Fibers, Timberlands and Corporate and Other segments.
- Consolidated cash received for income taxes increased $495 million as compared to 2009. We received taxes of $453 million in 2010 and paid $42 million in 2009.

Partially offsetting the above increases were:

- Cash paid to employees, suppliers and others increased $312 million.
- Pension and postretirement contributions increased $165 million. These contributions were $280 million in 2010 compared to $115 million in 2009.

Fuel Credits

During 2009, the U.S. Internal Revenue Code allowed a $0.50 per gallon tax credit for the alternative fuel component of alternative fuel mixtures produced and used as a fuel in a taxpayer’s trade or business. In 2009, we had 688 million gallons of qualifying alternative fuel mixture, resulting in $344 million of credits. The alternative fuel mixture credit expired on December 31, 2009.

In 2010, the IRS concluded that black liquor sold or used in 2009 qualifies for the cellulosic biofuel producer credit. Black liquor potentially qualifies for either the cellulosic biofuel producer credit or the alternative fuel mixture credit (but not both on the same gallon of black liquor). During 2009, we produced approximately 238 million gallons of black liquor, which did not qualify for the alternative fuel mixture credit. This equals $240 million of potential cellulosic biofuel producer credit at $1.01 per gallon, or $149 million net of tax, which we recognized in fourth quarter 2010.

INVESTING IN OUR BUSINESS

Cash from investing activities includes:

- acquisitions of property, equipment, timberlands and reforestation;
- investments in or distribution from equity affiliates;
- proceeds from sale of assets and operations; and
- purchases and redemptions of short-term investments.

The pension trust repaid net amounts of $146 million in 2010 and $54 million in 2009 of short-term loans made in 2008 and 2009.

Three-Year Summary of Capital Spending by Business Segment

DOLLAR AMOUNTS IN MILLIONS

	2011	2010	2009
Timberlands	$53	$72	$83

Wood Products	35	31	53
Cellulose Fibers(1)	146	123	61
Corporate and Other	1	1	13
Real Estate	3	5	8
Discontinued operations	3	2	5
Total	$241	$234	$223

(1) 2010 includes the exercise of an option to acquire liquid packaging board extrusion equipment for $21 million, including the assumption of liabilities of $4 million.

We anticipate that our net capital expenditures for 2012 — excluding acquisitions — will be approximately $260 million to $290 million. However, that amount could change due to:

- future economic conditions,
- weather and
- timing of equipment purchases.

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PROCEEDS FROM THE SALE OF NONSTRATEGIC ASSETS

Proceeds received from the sale of nonstrategic assets over the last three years were:

- $362 million in 2011 including:
  – $192 million for the sale of 82,000 acres of non-strategic timberlands in southwestern Washington;
  – $84 million for the sale of our hardwoods operations (we expect to receive an additional $25 million plus interest in 2016 from a note receivable);
  – $58 million for the sale of our Westwood Shipping Lines operations; and
  – $28 million for the sale of other non-strategic assets.
- $213 million in 2010 including:
  – $66 million for the sale of Wood Products assets,
  – $52 million for the sale of five short line railroads,
  – $40 million for the sale of British Columbia forest licenses and associated rights in our Wood Products segment,
  – $33 million for the sale of partnership interests in our Real Estate segment and
  – $22 million for the sale of other non-strategic assets.
- $355 million in 2009 including:
  – $295 million from the sale of nonstrategic timberlands in Oregon and
  – $20 million from the sale of our closed Honolulu box plant.

Discontinued operations are discussed in Note 3: Discontinued Operations in the Notes to Consolidated Financial Statements.

FINANCING

Cash from financing activities includes:

- issuances and payments of long-term debt,
- borrowings and payments under revolving lines of credit,
- changes in book overdrafts,
- proceeds from stock offerings and option exercises and
- payments of cash dividends and repurchasing stock.

DEBT

Our consolidated long-term debt was:

- $4.5 billion as of December 31, 2011;
- $5.1 billion as of December 31, 2010; and
- $5.7 billion as of December 31, 2009.

Long-term debt proceeds were $491 million in 2009. There were no proceeds in 2010 or 2011.

Long-term debt we retired according to its scheduled maturity was:

- $33 million in 2011,
- $43 million in 2010 and
- $459 million in 2009.

Long-term debt we retired prior to its scheduled maturity was:

- $550 million in 2011,
- $589 million in 2010 and
- $367 million in 2009.

Losses recognized on early extinguishment of debt and included in our net interest expense were:

- $26 million in 2011 and
- $50 million in 2010 and
- $28 million in 2009.

See Note 13: Long-Term Debt in the Notes to Consolidated Financial Statements for more information.

REVOLVING CREDIT FACILITIES

During June 2011, Weyerhaeuser Company and Weyerhaeuser Real Estate Company (WRECO) entered into a new $1.0 billion 4-year revolving credit facility that expires in June 2015. This replaces a $1.0 billion revolving credit facility that was set to expire December 2011. WRECO can borrow up to $50 million under this facility. Neither of the entities is a guarantor of the borrowing of the other under this credit facility.

There were no net proceeds from the issuance of debt or from borrowings (repayments) under our available credit facility in 2011, 2010 or 2009.

Debt covenants:

As of December 31, 2011, Weyerhaeuser Company and WRECO:

- had no borrowings outstanding under our credit facility and
- were in compliance with the credit facility covenants.

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Weyerhaeuser Company Covenants:

Key covenants related to Weyerhaeuser Company include the requirement to maintain:

- a minimum defined net worth of $3.0 billion;
- a defined debt-to-total-capital ratio of 65 percent or less; and
- ownership of, or long-term leases on, no less than four million acres of timberlands.

Weyerhaeuser Company's defined net worth is comprised of:

- total Weyerhaeuser shareholders' interest,
- plus or minus accumulated comprehensive income (loss) related to pension and postretirement benefits,
- minus Weyerhaeuser Company's investment in subsidiaries in our Real Estate segment or other unrestricted subsidiaries.

Total Weyerhaeuser Company capitalization is comprised of:

- total Weyerhaeuser Company (excluding WRECO) debt
- plus total defined net worth.

As of December 31, 2011, Weyerhaeuser Company had:

- a defined net worth of $5.0 billion and
- a defined debt-to-total-capital ratio of 46.1 percent.

Weyerhaeuser Real Estate Company Covenants

Key covenants related to WRECO revolving credit facility and medium-term notes include the requirement to maintain:

- a minimum capital base of $100 million,
- a defined debt-to-total-capital ratio of 80 percent or less and
- Weyerhaeuser Company or a subsidiary must own at least 79 percent of WRECO.

WRECO's defined net worth is:

- total WRECO shareholders' interest,
- minus intangible assets,
- minus WRECO's investment in joint ventures and partnerships.

Total WRECO defined debt is:

- total WRECO debt — including any intercompany debt
- plus outstanding WRECO guarantees and letters of credit.

Total WRECO capitalization is defined as:

- total WRECO defined debt and
- total WRECO defined net worth.

As of December 31, 2011, WRECO had:

- a capital base of $850 million and
- a defined debt-to-total-capital ratio of 50.5 percent.

There are no other significant financial debt covenants related to our third party debt for either Weyerhaeuser Company or WRECO.

See Note 12: Lines of Credit in the Notes to Consolidated Financial Statements for more information.

OPTION EXERCISES

We received cash proceeds of $38 million from the exercise of stock options in 2011.

PAYING DIVIDENDS AND REPURCHASING STOCK

We paid cash dividends of:

- $323 million in 2011,
- $608 million in 2010 and
- $127 million in 2009.

Changes in the amount of dividends we paid were primarily due to:

- the Special Dividend paid on September 1, 2010;

- an increase in the number of our common shares outstanding as a result of the Special Dividend; and
- an increase in our quarterly dividend from 5 cents per share to 15 cents per share in February 2011.

On February 9, 2012, our board declared a dividend of 15 cents per share, payable on March 15, 2012.

During 2011, we repurchased 1,199,800 shares of common stock for $20 million under the 2008 stock repurchase program. On August 11, 2011, our board of directors terminated the 2008 stock repurchase program and approved the 2011 stock repurchase program under which we are authorized to repurchase up to $250 million of outstanding shares. During 2011, we repurchased 1,089,824 shares of common stock for $17 million under the 2011 program. As of December 31, 2011, we had remaining authorization of $233 million for future share repurchases.

During 2009, we repurchased 66,691 shares of common stock for $2 million under the 2008 stock repurchases program. All common stock purchases under both programs were made in open-market transactions.

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OUR CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

More details about our contractual obligations and commercial commitments are in Note 8: Pension and Other Postretirement Benefit Plans, Note 13: Long-Term Debt, Note 15: Legal Proceedings, Commitments and Contingencies and Note 20: Income Taxes in the Notes to Consolidated Financial Statements.

Significant Contractual Obligations as of December 31, 2011

DOLLAR AMOUNTS IN MILLIONS

		PAYMENTS DUE BY PERIOD			
	TOTAL	LESS THAN 1 YEAR	1–3 YEARS	3–5 YEARS	MORE THAN 5 YEARS
Long-term debt obligations:					
Forest Products	$4,198	$12	$340	$—	$3,846
Real Estate	285	176	84	—	25
Interest(1)	4,069	354	634	620	2,461
Operating lease obligations	218	35	51	24	108
Purchase obligations(2)	143	63	62	11	7
Employee-related obligations(3)	705	271	123	49	107
Liabilities related to unrecognized tax benefits(4)	284	—	—	—	—
Total	$9,902	$911	$1,294	$704	$6,554

(1) Amounts presented for interest payments assume that all long-term debt obligations outstanding as of December 31, 2011 will remain outstanding until maturity, and interest rates on variable-rate debt in effect as of December 31, 2011 will remain in effect until maturity.

(2) Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on the company and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude arrangements that the company can cancel without penalty.

(3) The timing of certain of these payments will be triggered by retirements or other events. When the timing of payment is uncertain, the amounts are included in the total column only. Minimum pension funding is required by established funding standards and estimates are not made beyond 2013. Estimated payments of contractually obligated postretirement benefits are not made beyond 2011.

(4) We have recognized total liabilities related to unrecognized tax benefits of $284 million as of December 31, 2011, including interest of $33 million. The timing of payments related to these obligations is uncertain; however, none of this amount is expected to be paid within the next year.

OFF-BALANCE SHEET ARRANGEMENTS

Off-balance sheet arrangements have not had — and are not reasonably likely to have — a material effect on our current or future financial condition, results of operations or cash flows. Note 9: Variable Interest Entities and Note 12: Lines of Credit in the Notes to Consolidated Financial Statements contain our disclosures of:

- surety bonds,
- letters of credit and guarantees and
- information regarding variable interest entities.

ENVIRONMENTAL MATTERS, LEGAL PROCEEDINGS AND OTHER CONTINGENCIES

See Note 15: Legal Proceedings, Commitments and Contingencies in the Notes to Consolidated Financial Statements.

ACCOUNTING MATTERS

CRITICAL ACCOUNTING POLICIES

Our critical accounting policies involve a higher degree of judgment and estimates. They also have a high degree of complexity.

In accounting, we base our judgments and estimates on:

- historical experience and
- assumptions we believe are appropriate and reasonable under current circumstances.

Actual results, however, may differ from the estimated amounts we have recorded.

Our most critical accounting policies relate to our:

- pension and postretirement benefit plans;
- potential impairments of long-lived assets;
- legal, environmental and product liability reserves; and
- depletion accounting.

Details about our other significant accounting policies — what we use and how we estimate — are in Note 1: Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements.

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PENSION AND POSTRETIREMENT BENEFIT PLANS

We sponsor several pension and postretirement benefit plans for our employees. Key assumptions we use in accounting for the plans include our:

- discount rates,
- expected long-term rate of return,
- anticipated trends in health care costs,
- assumed increases in salaries and
- mortality rates.

At the end of every year, we review our assumptions with external advisers and make adjustments as appropriate. Actual experience that differs from our assumptions or any changes in our assumptions could have a significant effect on our financial position, results of operations and cash flows.

Other factors that affect our accounting for the plans include:

- actual pension fund performance,
- level of lump sum distributions,
- plan changes,
- changes in plan participation or coverage and
- portfolio changes and restructuring.

This section provides more information about our:

- expected long-term rate of return,
- discount rates and
- cash contributions.

Expected Long-Term Rate of Return

Plan assets are assets of the pension plan trusts that fund the benefits provided under the pension plans. The expected long-term rate of return is our estimate of the long-term rate of return that our plan assets will earn. Our expected long-term rate of return is important in determining the net income or expense we recognize for our plans.

After considering available information at the end of 2011, we reduced our expected long-term rate of return from 9.5 percent to 9.0 percent. Factors we considered include:

- the 14.8 percent net compounded annual return achieved by our U.S. pension trust investment strategy over the past 27 years and
- current and expected valuation levels in the global equity and credit markets.

The revised rate will affect the amount of net periodic benefit costs that we record in 2012. Every 0.5 percent decrease in our expected long-term rate of return would increase expense or reduce a credit by approximately:

- $19 million for our U.S. qualified pension plans and
- $3 million for our Canadian registered pension plans.

Likewise, every 0.5 percent increase in our expected long-term rate of return would decrease expense or increase a credit by those same amounts.

The actual return on plan assets in any given year may vary from our expected long-term rate of return. Actual returns on plan assets affect the funded status of the plans. Differences between actual returns on plan assets and the expected long-term rate of return are reflected as adjustments to cumulative other comprehensive income (loss), a component of total equity.

Discount Rates

Our discount rates as of December 31, 2011, are:

- 4.5 percent for our U.S. pension plans — compared with 5.4 percent at December 31, 2010;
- 4.1 percent for our U.S. postretirement plans — compared with 5.0 percent at December 31, 2010;
- 4.9 percent for our Canadian pension plans — compared with 5.3 percent at December 31, 2010; and
- 4.8 percent for our Canadian postretirement plans — compared with 5.2 percent at December 31, 2010.

We review our discount rates annually and revise them as needed. The discount rates are selected at the measurement date by matching current spot rates of high-quality corporate bonds with maturities similar to the timing of expected cash outflows for benefits.

Pension and postretirement benefit expenses for 2012 will be based on the 4.5 percent and 4.1 percent assumed discount rates for U.S. plans and the 4.9 percent and 4.8 percent assumed discount rates for the Canadian plans.
Our discount rates are important in determining the cost of our plans. A 0.5 percent decrease in our discount rate would increase expense or reduce a credit by approximately:

- $27 million for our U.S. qualified pension plans and
- $4 million for our Canadian registered pension plans.

Contributions Made and Benefits Paid

During 2011:

- We contributed approximately $82 million to our Canadian registered and nonregistered pension plans in accordance with minimum funding rules and respective provincial regulations.
- We contributed approximately $21 million to our U.S. nonqualified pension plans.
- We made benefit payments of approximately $40 million related to our U.S. and Canadian other postretirement plans.

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During 2012:

Based on estimated year-end assets and projections of plan liabilities we expect to:

- have a required contribution for our U.S. qualified plan for 2012 of approximately $60 million, which is payable by September 15, 2013;
- be required to contribute approximately $83 million to our Canadian registered and nonregistered pension plans;
- contribute $20 million to our U.S. nonqualified pension plans; and
- make benefit payments of $42 million to our U.S. and Canadian other postretirement plans.

LONG-LIVED ASSETS

We review the carrying value of our long-lived assets whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable through future operations. The carrying value is the amount assigned to long-lived assets in our books.

An impairment occurs when the carrying value of long-lived assets will not be recovered from future cash flows and is more than fair market value. Fair market value is the estimated amount we would receive if we were to sell the assets.

In determining fair market value and whether impairment has occurred, we are required to estimate:

- future cash flows,
- residual values and
- fair values of the assets.

Key assumptions we use in developing the estimates include:

- probability of alternative outcomes,
- product pricing,
- raw material costs,
- product sales and
- discount rate.

IMPAIRMENT OF LONG-LIVED ASSETS: REAL ESTATE

We review homebuilding long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. We recorded long-lived homebuilding asset impairments and related charges attributable to Weyerhaeuser shareholders of $11 million in 2011, $21 million in 2010 and $261 million in 2009.

Real Estate In Process of Development and Land Being Processed for Development

Real estate in process of development and land being processed for development includes subdivisions and master planned communities (MPCs). MPCs typically include several product segments such as residential, active adult, retail and commercial. We evaluate impairment at the subdivision or MPC product segment level. Factors that are considered when evaluating a subdivision or MPC product segment for impairment include:

- gross margins and selling costs on homes closed in recent months;
- projected gross margins and selling costs based on our operating budgets;
- competitor pricing and incentives in the same or nearby communities; and
- trends in average selling prices, discounts, incentives, sales velocity and cancellations.

We update the undiscounted cash flow forecast for each subdivision and MPC product segment that may be impaired. The undiscounted cash flow forecasts are affected by community-specific factors that include:

- estimates and timing of future revenues;
- estimates and timing of future land development, materials, labor and contractor costs;
- community location and desirability, including availability of schools, retail, mass transit and other services;
- local economic and demographic trends regarding employment, new jobs and taxes;
- competitor presence, product types, future competition, pricing, incentives and discounts; and
- land availability, number of lots we own or control, entitlement restrictions and alternative uses.

The carrying amount of each subdivision and MPC product segment is written down to fair value when the forecasted cash flows are less than the carrying amount of a subdivision or MPC product segment. An impairment charge for a subdivision or MPC product segment is allocated to each lot in the community in the same manner as land and development costs are allocated to each lot.

Real Estate for Sale

Real estate for sale includes homes that have been completed and land that we intend to sell. We regularly sell land or lots that do not fit our value proposition or development plans.

The carrying amount of real estate for sale is reduced to fair value less estimated costs to sell if the forecasted net proceeds are less than the carrying amount. The fair value analysis is affected by local market economic conditions, demographic factors and competitor actions, and is inherently uncertain. Actual net proceeds can differ from the estimates. The carrying amount of real estate for sale is evaluated quarterly.

Market Approach

We use the market approach to determine fair value of real estate assets when information for comparable assets is available. This approach is commonly used for completed inventory and individual assets for sale. We typically use:

- sales prices for comparable assets,
- market studies,
- appraisals or
- legitimate offers.

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Income Approach

We generally use the income approach to determine fair value of real estate for our inactive projects and assets in process of development. The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The fair value measurement is based on the value indicated by current market expectations regarding those future estimated cash inflows and outflows. We use present value techniques based on discounting the estimated cash flows at a rate commensurate with the inherent risks associated with the assets and related estimated cash flow streams. Discount rates applied to the estimated future cash flows of our homebuilding assets in 2011 ranged from 15 percent to 18 percent. The income approach relies on management judgment regarding the various inputs to the undiscounted cash flow forecasts.

CONTINGENT LIABILITIES

We are subject to lawsuits, investigations and other claims related to environmental, product and other matters, and are required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses.

We record contingent liabilities when:

- it becomes probable that we will have to make payments and
- the amount of loss can be reasonably estimated.

Assessing probability of loss and estimating probable losses requires analysis of multiple factors, including:

- historical experience,
- judgments about the potential actions of third party claimants and courts and
- recommendations of legal counsel.

In addition to contingent liabilities recorded for probable losses, we disclose contingent liabilities when there is a reasonable possibility that an ultimate loss may occur.

While we do our best in developing our projections, recorded contingent liabilities are based on the best information available and actual losses in any future period are inherently uncertain. If estimated probable future losses or actual losses exceed our recorded liability for such claims, we would record additional charges in other (income) expense, net. These exposures and proceedings can be significant and the ultimate negative outcomes could be material to our operating results or cash flow in any given quarter or year. See Note 15: Legal Proceedings, Commitments and Contingencies in the Notes to Consolidated Financial Statements for more information.

DEPLETION

We record depletion — the costs attributed to timber harvested — as trees are harvested.

To calculate our depletion rate, which is updated annually, we:

- take the total carrying cost of the timber and
- divide by the total timber volume estimated to be harvested during the harvest cycle.

Estimating the volume of timber available for harvest over the harvest cycle requires the consideration of the following factors:

- changes in weather patterns,
- effect of fertilizer and pesticide applications,
- changes in environmental regulations and restrictions,
- limits on harvesting certain timberlands,
- changes in harvest plans,
- scientific advancement in seedling and growing technology and
- changes in harvest cycles.

In addition, the length of the harvest cycle varies by geographic region and species of timber.

Depletion-rate calculations do not include estimates for:

- future silviculture — or sustainable forest management — costs associated with existing stands;
- future reforestation costs associated with a stand's final harvest; and
- future volume in connection with the replanting of a stand subsequent to its final harvest.

PROSPECTIVE ACCOUNTING PRONOUNCEMENTS

Currently there are no significant prospective accounting pronouncements that are expected to have a material impact on us.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

LONG-TERM DEBT OBLIGATIONS

The following summary of our long-term debt obligations includes:

- scheduled principal repayments for the next five years and after,
- weighted average interest rates for debt maturing in each of the next five years and after and
- estimated fair values of outstanding obligations.

We estimate the fair value of long-term debt based on quoted market prices we received for the same types and issues of our debt or on the discounted value of the future cash flows using market yields for the same type and comparable issues of debt. Changes in market rates of interest affect the fair value of our fixed-rate debt.

SUMMARY OF LONG-TERM DEBT OBLIGATIONS AS OF DECEMBER 31, 2011
DOLLAR AMOUNTS IN MILLIONS

	2012	2013	2014	2015	2016	THEREAFTER	TOTAL	FAIR VALUE
Forest Products:								
Fixed-rate debt	$12	$340	$—	$—	$—	$3,846	$4,198	$ 4,579
Average interest rate	6.58%	7.33%	—%	—%	—%	7.44%	7.43%	N/A
Real Estate:								
Fixed-rate debt	$176	$69	$15	$—	$—	$—	$260	$ 266
Average interest rate	6.10%	6.14%	6.22%	—%	—%	—%	6.12%	N/A
Variable-rate debt	$—	$—	$—	$—	$—	$25	$25	$ 25
Average interest rate	—%	—%	—%	—%	—%	0.44%	0.44%	N/A

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FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
The Board of Directors and Shareholders
Weyerhaeuser Company:
We have audited the accompanying consolidated balance sheets of Weyerhaeuser Company and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, cash flows, and changes in equity and comprehensive income for each of the years in the three-year period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.
We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Weyerhaeuser Company and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Weyerhaeuser Company's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 22, 2012 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.
/s/ KPMG LLP
Seattle, Washington
February 22, 2012

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 2011
DOLLAR AMOUNTS IN MILLIONS, EXCEPT PER-SHARE FIGURES

	2011	2010	2009
Net sales and revenues	$6,216	$5,954	$5,068
Costs of products sold	5,120	4,831	4,661
Gross margin	1,096	1,123	407
Selling, general and administrative expenses	601	650	681
Research and development expenses	30	34	51
Alternative fuel mixture credits (Note 20)	—	—	(344)
Charges for restructuring, closures and impairments (Note 18)	83	148	686
Other operating income, net (Note 19)	(212)	(163)	(288)
Operating income (loss)	594	454	(379)
Interest income and other	47	83	74
Impairment of investments and other related charges (Note 18)	—	(3)	(7)
Interest expense, net of capitalized interest (Note 13)	(384)	(452)	(462)
Earnings (loss) from continuing operations before income taxes	257	82	(774)
Income taxes (Note 20)	62	1,192	249
Earnings (loss) from continuing operations	319	1,274	(525)
	12	9	(43)

Earnings (loss) from discontinued operations, net of income taxes (Note 3)			
Net earnings (loss)	331	1,283	(568)
Less: net (earnings) loss attributable to noncontrolling interests	—	(2)	23
Net earnings (loss) attributable to Weyerhaeuser common shareholders	$331	$1,281	$(545)
Basic earnings (loss) per share attributable to Weyerhaeuser common shareholders (Note 4):			
Continuing operations	$0.60	$3.97	$(2.38)
Discontinued operations	0.02	0.03	(0.20)
Net earnings (loss) per share	$0.62	$4.00	$(2.58)
Diluted earnings (loss) per share attributable to Weyerhaeuser common shareholders (Note 4):			
Continuing operations	$0.59	$3.96	$(2.38)
Discontinued operations	0.02	0.03	(0.20)
Net earnings (loss) per share	$0.61	$3.99	$(2.58)
Dividends paid per share (Note 16)	$0.60	$26.61	$0.60
Weighted average shares outstanding (in thousands) (Note 4):			
Basic	537,534	319,976	211,342
Diluted	539,879	321,096	211,342

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET
ASSETS
DOLLAR AMOUNTS IN MILLIONS, EXCEPT PER-SHARE FIGURES

	DECEMBER 31, 2011	DECEMBER 31, 2010
Forest Products		
Current assets:		
Cash and cash equivalents	$950	$1,466
Receivables, less allowances of $6 and $8	490	451
Inventories (Note 5)	476	478
Prepaid expenses	68	81
Deferred tax assets (Note 20)	81	113
Total current assets	2,065	2,589
Property and equipment, less accumulated depreciation of $6,550 and $6,784 (Note 6)	2,901	3,217
Construction in progress	145	123
Timber and timberlands at cost, less depletion charged to disposals	3,978	4,035
Investments in and advances to equity affiliates (Note 7)	192	194
Goodwill	40	40
Other assets	444	363
Restricted assets held by special purpose entities (Note 9)	916	915
	10,681	11,476
Real Estate		
Cash and cash equivalents	3	1
Receivables, less discounts and allowances of $2 and $3	41	51
Real estate in process of development and for sale (Note 10)	555	517
Land being processed for development	936	974
Investments in and advances to equity affiliates (Note 7)	21	16
Deferred tax assets (Note 20)	240	266
Other assets	113	120

Consolidated assets not owned (Note 9)	8	8
	1,917	1,953
Total assets	$12,598	$13,429

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET
LIABILITIES AND EQUITY

	DECEMBER 31, 2011	DECEMBER 31, 2010
Forest Products		
Current liabilities:		
Current maturities of long-term debt (Notes 13 and 14)	$12	$—
Accounts payable	336	340
Accrued liabilities (Note 11)	593	734
Total current liabilities	941	1,074
Long-term debt (Notes 13 and 14)	4,181	4,710
Deferred income taxes (Note 20)	93	366
Deferred pension and other postretirement benefits (Note 8)	1,467	930
Other liabilities	408	393
Liabilities (nonrecourse to Weyerhaeuser) held by special-purpose entities (Note 9)	776	772
	7,866	8,245
Real Estate		
Long-term debt (Notes 13 and 14)	285	350
Other liabilities	172	212
Consolidated liabilities not owned (Note 9)	8	8
	465	570
Commitments and contingencies (Note 15)		
Total liabilities	8,331	8,815
Equity:		
Weyerhaeuser shareholders' interest (Notes 16 and 17):		
Common shares: $1.25 par value; authorized 1,360,000,000 shares; issued and outstanding: 536,425,400 and 535,975,518 shares	671	670
Other capital	4,595	4,552
Retained earnings	176	181
Cumulative other comprehensive loss	(1,179)	(791)
Total Weyerhaeuser shareholders' interest	4,263	4,612
Noncontrolling interests	4	2
Total equity	4,267	4,614
Total liabilities and equity	$12,598	$13,429

See accompanying Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 2011
DOLLAR AMOUNTS IN MILLIONS

	2011	2010	2009
Cash flows from operations:			
Net earnings (loss)	$331	$1,283	$(568)
Noncash charges (credits) to income:			
Depreciation, depletion and amortization	480	503	538
Deferred income taxes, net (Note 20)	(26)	(1,257)	66
Pension and other postretirement benefits (Note 8)	81	(21)	(19)
Share-based compensation expense (Note 17)	25	24	26
Charges for impairment of assets (Notes 18)	56	117	458
Net gains on dispositions of assets and operations	(236)	(149)	(197)
Foreign exchange transaction (gains) losses	6	(8)	(41)
Change in:			
Receivables less allowances	(53)	(67)	93
Receivable for taxes	(14)	583	(529)
Inventories	(46)	(30)	251
Real estate and land	(12)	5	125
Prepaid expenses	3	6	23
Accounts payable and accrued liabilities	(133)	(53)	(296)
Deposits on land positions and other assets	(4)	(10)	13
Pension and postretirement contributions	(143)	(280)	(115)
Other	(24)	43	(31)
Net cash from operations	291	689	(203)
Cash flows from investing activities:			
Property and equipment	(212)	(194)	(187)
Timberlands reforestation	(29)	(36)	(36)
Redemption of short-term investments	—	49	92
Proceeds from sale of assets and operations	362	213	355
Repayments from pension trust	—	146	54
Other	1	(14)	(2)
Cash from investing activities	122	164	276
Cash flows from financing activities:			
Issuance of debt	—	—	491
Notes, commercial paper borrowings and revolving credit facilities, net	—	(4)	—
Cash dividends	(323)	(608)	(127)
Change in book overdrafts	2	(10)	(30)
Payments on debt (Note 13)	(583)	(632)	(826)
Exercises of stock options	38	—	—
Repurchase of common stock (Note 16)	(37)	—	(2)
Other	(24)	(1)	(4)
Cash from financing activities	(927)	(1,255)	(498)
Net change in cash and cash equivalents	(514)	(402)	(425)
Cash and cash equivalents at beginning of year	1,467	1,869	2,294
Cash and cash equivalents at end of year	$953	$1,467	$1,869
Cash paid (received) during the year for:			
Interest, net of amounts capitalized of $30 in 2011, $29 in 2010, and $32 in 2009	$420	$463	$460

Income taxes	$28	$(453)	$42

See accompanying Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AND COMPREHENSIVE INCOME
FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 2011
DOLLAR AMOUNTS IN MILLIONS

	2011	2010	2009
Common shares:			
Balance at beginning of year	$670	$264	$264
Issued for exercise of stock options	4	1	—
Share repurchases	(3)	—	—
Special Dividend (Note 16)	—	405	—
Balance at end of year	$671	$670	$264
Other capital:			
Balance at beginning of year	$4,552	$1,786	$1,767
Exercise of stock options	35	2	—
Special Dividend (Note 16)	—	2,745	—
Repurchase of common shares	(34)	—	(2)
Share-based compensation	27	21	23
Other transactions, net	15	(2)	(2)
Balance at end of year	$4,595	$4,552	$1,786
Retained earnings:			
Balance at beginning of year	$181	$2,658	$3,278
Net earnings (loss) attributable to Weyerhaeuser common shareholders	331	1,281	(545)
Dividends on common shares (Note 16)	(336)	(3,758)	(75)
Balance at end of year	$176	$181	$2,658
Cumulative other comprehensive loss:			
Balance at beginning of year	$(791)	$(664)	$(495)
Annual changes – net of tax:			
Foreign currency translation adjustments	(8)	30	91
Changes in unamortized net pension and other postretirement benefit loss (Note 8)	(463)	(166)	(298)
Changes in unamortized prior service credit (Note 8)	82	9	37
Cash flow hedge fair value adjustments	—	—	(1)
Unrealized gains on available-for-sale securities	1	—	2
Balance at end of year	$(1,179)	$(791)	$(664)
Total Weyerhaeuser shareholders' interest:			
Balance at end of year	$4,263	$4,612	$4,044
Noncontrolling interests:			
Balance at beginning of year	$2	$10	$33
Net earnings (loss) attributable to noncontrolling interests	—	2	(23)
Contributions	2	—	2
Distributions	—	—	(2)
New consolidations, de-consolidations and other transactions	—	(10)	—
Balance at end of year	$4	$2	$10
Total equity:			
Balance at end of year	$4,267	$4,614	$4,054
Comprehensive income (loss):			
Consolidated net earnings (loss)	$331	$1,283	$(568)
Other comprehensive income (loss):			
Foreign currency translation adjustments	(8)	30	91
	(463)	(166)	(298)

Changes in unamortized net pension and other postretirement benefit loss, net of tax expense (benefit) of ($243) in 2011, $66 in 2010, and ($154) in 2009			
Changes in unamortized prior service credit, net of tax expense (benefit) of $49 in 2011, ($9) in 2010, and $3 in 2009	82	9	37
Cash flow hedges – reclassification of gains, net of tax expense of $1 in 2009	—	—	(1)
Unrealized gains on available-for-sale securities	1	—	2
Total comprehensive income (loss)	(57)	1,156	(737)
Less: comprehensive (earnings) loss attributable to noncontrolling interests	—	(2)	23
Total comprehensive income (loss) attributable to Weyerhaeuser shareholders	$(57)	$1,154	$(714)

See accompanying Notes to Consolidated Financial Statements.

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INDEX FOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our significant accounting policies describe:

- our election to be taxed as a real estate investment trust,
- how we report our results,
- changes in how we report our results and
- how we account for various items.

OUR ELECTION TO BE TAXED AS A REAL ESTATE INVESTMENT TRUST (REIT)

Starting with our 2010 fiscal year, we elected to be taxed as a REIT. We expect to derive most of our REIT income from investments in timberlands, including the sale of standing timber through pay-as-cut sales contracts. REIT income can be distributed to shareholders without first paying corporate level tax, substantially eliminating the double taxation on income. A significant portion of our timberland segment earnings receives this favorable tax treatment. We are, however, subject to corporate taxes on built-in-gains (the excess of fair market value over tax basis at January 1, 2010) on sales of real property (other than standing timber) held by the REIT during the first 10 years following the REIT conversion. We continue to be required to pay federal corporate income taxes on earnings of our Taxable REIT Subsidiary (TRS), which principally includes our manufacturing businesses, our real estate development business and our non-qualified timberland segment income.

HOW WE REPORT OUR RESULTS

Our report includes:

- consolidated financial statements,
- our business segments,
- foreign currency translation, and
- estimates.

CONSOLIDATED FINANCIAL STATEMENTS

Our consolidated financial statements provide an overall view of our results and financial condition. They include our accounts and the accounts of entities that we control, including:

- majority-owned domestic and foreign subsidiaries and
- variable interest entities in which we are the primary beneficiary.

They do not include our intercompany transactions and accounts, which are eliminated, and noncontrolling interests are presented as a separate component of equity.

We account for investments in and advances to unconsolidated equity affiliates using the equity method, with taxes provided on undistributed earnings. This means that we record earnings and accrue taxes in the period that the earnings are recorded by our unconsolidated equity affiliates.

We report our financial condition in two groups:

- Forest Products — our forest products-based operations, principally the growing and harvesting of timber, the manufacture, distribution and sale of forest products and corporate governance activities; and
- Real Estate — our real estate development and construction operations.

Throughout these Notes to Consolidated Financial Statements, unless specified otherwise, references to “Weyerhaeuser,” “we” and “our” refer to the consolidated company, including both Forest Products and Real Estate.

OUR BUSINESS SEGMENTS

We are principally engaged in:

- growing and harvesting timber;
- manufacturing, distributing and selling forest products; and
- developing real estate and constructing homes.

Our business segments are organized based primarily on products and services.

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Our Business Segments and Products

SEGMENT	PRODUCTS AND SERVICES
Timberlands	Logs, timber, minerals, oil and gas and international wood products
Wood Products	Softwood lumber, engineered lumber, structural panels and building materials distribution
Cellulose Fibers	Pulp, liquid packaging board and an equity interest in a newsprint joint venture
Real Estate	Real estate development, construction and sales
Corporate and Other	Certain gains or charges that are not related to an individual operating segment and the portion of items such as share-based compensation, pension and postretirement costs, foreign exchange transaction gains and losses associated with financing and other general and administrative expenses that are not allocated to the business segments.

We also transfer raw materials, semifinished materials and end products among our business segments. Because of this intracompany activity, accounting for our business segments involves:

- allocating joint conversion and common facility costs according to usage by our business segment product lines and
- pricing products transferred between our business segments at current market values.

FOREIGN CURRENCY TRANSLATION

Local currencies are the functional currencies for most of our operations outside the U.S. We translate foreign currencies into U.S. dollars in two ways:

- assets and liabilities — at the exchange rates in effect as of our balance sheet date; and
- revenues and expenses — at average monthly exchange rates throughout the year.

ESTIMATES

We prepare our financial statements according to U.S. generally accepted accounting principles (U.S. GAAP). This requires us to make estimates and assumptions during our reporting periods and at the date of our financial statements. The estimates and assumptions affect our:

- reported amounts of assets, liabilities and equity;
- disclosure of contingent assets and liabilities; and
- reported amounts of revenues and expenses.

While we do our best in preparing these estimates, actual results can and do differ from those estimates and assumptions.

CHANGES IN HOW WE REPORT OUR RESULTS

Changes in how we report our results come from:

- accounting changes made upon our adoption of new accounting guidance and
- our reclassification of certain balances and results from prior years to make them consistent with our current reporting.

RECLASSIFICATIONS

We have reclassified certain balances and results from the prior years to be consistent with our 2011 reporting. This makes year-to-year comparisons easier. Our reclassifications had no effect on net earnings (loss) or Weyerhaeuser shareholders' interest. The reclassifications include changes to the way we classify certain transactions as operating, investing or financing on our Consolidated Statement of Cash Flows and to present the results of operations discontinued in 2011 separately on our Consolidated Statement of Operations. Note 3: Discontinued Operations provides information about our discontinued operations.

HOW WE ACCOUNT FOR VARIOUS ITEMS

This section provides information about how we account for certain key items related to:

- capital investments,
- financing our business and
- operations.

ITEMS RELATED TO CAPITAL INVESTMENTS

Key items related to accounting for capital investments pertain to property and equipment, timber and timberlands, impairment of long-lived assets and goodwill.

Property and Equipment

We maintain property accounts on an individual asset basis. Here’s how we handle major items:

- Improvements to and replacements of major units of property are capitalized.
- Maintenance, repairs and minor replacements are expensed.
- Depreciation is calculated using a straight-line method at rates based on estimated service lives.
- Logging railroads and truck roads are generally amortized — as timber is harvested — at rates based on the volume of timber estimated to be removed.
- Cost and accumulated depreciation of property sold or retired are removed from the accounts and the gain or loss is included in earnings.

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Timber and Timberlands

We carry timber and timberlands at cost less depletion charged to disposals. Depletion refers to the carrying value of timber that is harvested, lost as a result of casualty, or sold.

Key activities affecting how we account for timber and timberlands include:

- reforestation,
- depletion and
- forest management in Canada.

Reforestation. Generally, we capitalize initial site preparation and planting costs as reforestation. We transfer reforestation to a merchantable timber classification when the timber is considered harvestable. That generally occurs after:

- 15 years in the South and
- 30 years in the West.

Generally, we expense costs after the first planting as they are incurred or over the period of expected benefit. These costs include:

- fertilization,
- vegetation and insect control,
- pruning and precommercial thinning,
- property taxes and
- interest.

Accounting practices for these costs do not change when timber becomes merchantable and harvesting starts.

Depletion. To determine depletion rates, we divide the net carrying value of timber by the related volume of timber estimated to be available over the growth cycle. To determine the growth cycle volume of timber, we consider:

- regulatory and environmental constraints,
- our management strategies,
- inventory data improvements,
- growth rate revisions and recalibrations and
- known dispositions and inoperable acres.

We include the cost of timber harvested in the carrying values of raw materials and product inventories. As these inventories are sold to third parties, we include them in the cost of products sold.

Forest management in Canada. We hold forest management licenses in various Canadian provinces that are:

- granted by the provincial governments;
- granted for initial periods of 15 to 25 years; and
- renewable every five years provided we meet reforestation, operating and management guidelines.

Calculation of the fees we pay on the timber we harvest:

- varies from province to province,
- is tied to product market pricing and
- depends upon the allocation of land management responsibilities in the license.

Impairment of Long-Lived Assets

We review long-lived assets — including certain identifiable intangibles — for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Impaired assets held for use are written down to fair value. Impaired assets held for sale are written down to fair value less cost to sell. We determine fair value based on:

- appraisals,
- market pricing of comparable assets,
- discounted value of estimated cash flows from the asset and
- replacement values of comparable assets.

Goodwill

Goodwill is the purchase price minus the fair value of net assets acquired when we buy another entity. We assess goodwill for impairment:

- using a fair-value-based approach and
- at least annually — at the beginning of the fourth quarter.

In 2011 the fair value of the reporting unit with goodwill substantially exceeded its carrying value.

Fair Value Measurements

We use a fair value hierarchy in accounting for certain nonfinancial assets and liabilities including:

- long-lived assets (asset groups) measured at fair value for an impairment assessment,
- reporting units measured at fair value in the first step of a goodwill impairment test,
- nonfinancial assets and nonfinancial liabilities measured at fair value in the second step of a goodwill impairment assessment and
- asset retirement obligations initially measured at fair value.

The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity’s pricing based upon its own market assumptions.

The fair value hierarchy consists of the following three levels:

- Level 1 — Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 — Inputs are:
  – quoted prices for similar assets or liabilities in an active market;
  – quoted prices for identical or similar assets or liabilities in markets that are not active; or
  – inputs other than quoted prices that are observable and market-corroborated inputs, which are derived principally from or corroborated by observable market data.
- Level 3 — Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

ITEMS RELATED TO FINANCING OUR BUSINESS

Key items related to financing our business include financial instruments, cash and cash equivalents and accounts payable.

Financial Instruments

We estimate the fair value of financial instruments where appropriate. The assumptions we use — including the discount rate and estimates of cash flows — can significantly affect our fair-value amounts. Our fair values are estimates and may not match the amounts we would realize upon sale or settlement of our financial positions.

Cash and Cash Equivalents

Cash equivalents are investments with original maturities of 90 days or less. We state cash equivalents at cost, which approximates market.

Accounts Payable

Our banking system replenishes our major bank accounts daily as checks we have issued are presented for payment. As a result, we have negative book cash balances due to outstanding checks that have not yet been paid by the bank. These negative balances are included in accounts payable on our Consolidated Balance Sheet. Changes in these negative cash balances are reported as financing activities in our Consolidated Statement of Cash Flows. Negative book cash balances were:

- $47 million at December 31, 2011; and
- $45 million at December 31, 2010.

ITEMS RELATED TO OPERATIONS

Key items related to operations include revenue recognition, inventories, shipping and handling costs, income taxes, share-based compensation, pension and other postretirement plans, and environmental remediation.

Revenue Recognition

Forest Products operations generally recognize revenue upon shipment to customers. For certain export sales, revenue is recognized when title transfers at the foreign port.

Real Estate operations recognize revenue when:

- closings have occurred,
- required down payments have been received,
- title and possession have been transferred to the buyer and
- all other criteria for sale and profit recognition have been satisfied.

Inventories

We state inventories at the lower of cost or market. Cost includes labor, materials and production overhead. We use LIFO — the last-in, first-out method — for certain of our domestic raw material, in-process and finished goods inventories. Our LIFO inventories were:

- $172 million at December 31, 2011; and
- $159 million at December 31, 2010.

We use FIFO — the first-in, first-out method — or moving average cost methods for the balance of our domestic raw materials and product inventories as well as for all material and supply inventories and all foreign inventories. If we used FIFO for all inventories, our stated product inventories would have been higher by:

- $120 million at December 31, 2011; and
- $121 million at December 31, 2010.

Shipping and Handling Costs

We classify shipping and handling costs in the costs of products sold in our Consolidated Statement of Operations.

Income Taxes

We account for income taxes under the asset and liability method. Unrecognized tax benefits represent potential future funding obligations to taxing authorities if uncertain tax positions the company has taken on previously filed tax returns are not sustained. In accordance with the company's accounting policy, accrued interest and penalties related to unrecognized tax benefits are recognized as a component of income tax expense.

We recognize deferred tax assets and liabilities to reflect:

- future tax consequences due to differences between the carrying amounts for financial purposes and the tax bases of certain items and
- operating loss and tax credit carryforwards.

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To measure deferred tax assets and liabilities, we:

- determine when the differences between the carrying amounts and tax bases of affected items are expected to be recovered or resolved and
- use enacted tax rates expected to apply to taxable income in those years.

Share-Based Compensation

We generally measure the fair value of share-based awards on the dates they are granted or modified. These measurements establish the cost of the share-based awards for accounting purposes. We then recognize the cost of share-based awards in our Consolidated Statement of Operations over each employee's required service period. Note 17: Share-Based Compensation provides more information about our share-based compensation.

Pension and Other Postretirement Benefit Plans

We recognize the overfunded or underfunded status of our defined benefit pension and other postretirement plans on our Consolidated Balance Sheet and recognize changes in the funded status through comprehensive income (loss) in the year in which the changes occur.

Actuarial valuations determine the amount of the pension and other postretirement benefit obligations and the net periodic benefit cost we recognize. The net periodic benefit cost includes:

- cost of benefits provided in exchange for employees' services rendered during the year;
- interest cost of the obligations;
- expected long-term return on fund assets;
- gains or losses on plan settlements and curtailments;
- amortization of prior service costs and plan amendments over the average remaining service period of the active employee group covered by the plans; and
- amortization of cumulative unrecognized net actuarial gains and losses — generally in excess of 10 percent of the greater of the accrued benefit obligation or market-related value of plan assets at the beginning of the year — over the average remaining service period of the active employee group covered by the plans.

Pension plans. We have pension plans covering most of our employees. Determination of benefits differs for salaried, hourly and union employees:

- Salaried employee benefits are based on each employee's highest monthly earnings for five consecutive years during the final 10 years before retirement.
- Hourly and union employee benefits generally are stated amounts for each year of service.
- Union employee benefits are set through collective-bargaining agreements.

We contribute to our U.S. and Canadian pension plans according to established funding standards. The funding standards for the plans are:

- U.S. pension plans — according to the Employee Retirement Income Security Act of 1974; and
- Canadian pension plans — according to the applicable Provincial Pension Benefits Act and the Income Tax Act.

Postretirement benefits other than pensions. We provide certain postretirement health care and life insurance benefits for some retired employees. In some cases, we pay a portion of the cost of the benefit. Note 8: Pension and Other Postretirement Benefit Plans provides additional information about changes made in our postretirement benefit plans during 2011 and 2010.

Environmental Remediation

We accrue losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Future expenditures for environmental remediation obligations are not discounted to their present value. Recoveries of environmental remediation costs from other parties are recorded as assets when the recovery is deemed probable and does not exceed the amount of losses previously recorded.

NOTE 2: BUSINESS SEGMENTS

Our business segments and how we account for those segments are discussed in Note 1: Summary of Significant Accounting Policies. This note provides key financial data by business segment.

DISCONTINUED OPERATIONS

We have disposed of various businesses and operations that are excluded in the segment results below. See Note 3: Discontinued Operations for information regarding our discontinued operations and the segments affected.

KEY FINANCIAL DATA BY BUSINESS SEGMENT

Sales, Revenues and Contribution (Charge) to Earnings

DOLLAR AMOUNTS IN MILLIONS

	TIMBERLANDS	WOOD PRODUCTS	CELLULOSE FIBERS	REAL ESTATE	CORPORATE AND OTHER	INTERSEGMENT ELIMINATIONS	CONSOLIDATED
Sales to and revenues from unaffiliated customers							
2011	$ 1,044	$ 2,276	$ 2,058	$ 838	$ —	$ —	$ 6,216
2010	$ 874	$ 2,224	$ 1,911	$ 923	$ 22	$ —	$ 5,954
2009	$ 714	$ 1,922	$ 1,511	$ 904	$ 17	$ —	$ 5,068
Intersegment sales							
2011	$ 646	$ 80	$ —	$ —	$ —	$ (726)	$ —
2010	$ 603	$ 63	$ —	$ —	$ 3	$ (669)	$ —
2009	$ 537	$ 55	$ —	$ —	$ 3	$ (595)	$ —
Contribution (charge) to earnings from continuing operations							
2011	$ 485	$ (245)	$ 435	$ 58	$ (92)	$ —	$ 641
2010	$ 282	$ (318)	$ 412	$ 91	$ 65	$ —	$ 532
2009	$ 338	$ (686)	$ 444	$ (299)	$ (86)	$ —	$ (289)

During 2010 we changed the methodology for allocating corporate costs to the business segments. The amounts for previous years were not reclassified. Had 2009 been presented using the same method, net contribution (charge) to earnings would have increased or decreased as follows:

Change in Contribution (Charge) to Earnings Resulting from Change in Allocation of Corporate Costs

DOLLAR AMOUNTS IN MILLIONS

	TIMBERLANDS	WOOD PRODUCTS	CELLULOSE FIBERS	REAL ESTATE	CORPORATE AND OTHER	CONSOLIDATED
Change in contribution (charge) to earnings						