

WEYERHAEUSER CO

Form 10-K

February 16, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

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.)

220 OCCIDENTAL AVENUE SOUTH, SEATTLE, WASHINGTON 98104-7800 TELEPHONE (206) 539-3000

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) New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

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). ☒ 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.

☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

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As of June 30, 2017, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$25.0 billion based on the closing sale price as reported on the New York Stock Exchange Composite Price Transactions.

As of February 5, 2018, 756,097,841 shares of the registrant's common stock (\$1.25 par value) were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Notice of 2018 Annual Meeting of Shareholders and Proxy Statement for the company's Annual Meeting of Shareholders to be held May 18, 2018, are incorporated by reference into Part II and III.

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OUR BUSINESS

We are one of the world's largest private owners of timberlands. We own or control 12.4 million acres of timberlands, primarily in the U.S., and manage an additional 14.0 million acres of timberlands under long-term licenses in Canada. We manage these timberlands on a sustainable basis in compliance with internationally recognized forestry standards. Our objective is to maximize the long-term value of timberlands we own. We analyze each timberland acre comprehensively to understand its highest-value use. We realize this value in many ways, particularly through harvesting the trees, but also by selling properties when we can create incremental value. In addition, we focus on opportunities to realize value for oil and natural gas production, construction aggregates and mineral extraction, wind power, communication tower leases and transportation rights of way that exist in our ownership.

We are also one of the largest manufacturers of wood products in North America. We provide high-quality wood products, including softwood lumber, engineered wood products, structural panels, medium density fiberboard and other specialty products. These products are primarily supplied to the residential, multi-family, industrial, light commercial and repair and remodel markets. Our manufacturing operations are located in the United States and Canada and span across 35 facility locations.

Our company is a real estate investment trust (REIT).

We are committed to operate as a sustainable company and are listed on the North American and Dow Jones World Sustainability Indices. In our operations, we focus on increasing energy and resource efficiency, reducing greenhouse gas emissions, reducing water consumption, conserving natural resources, and offering products that meet our customers' 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 communicate transparently.

In 2017, we generated \$7.2 billion in net sales from continuing operations and employed approximately 9,300 people who serve customers worldwide.

This portion of our Annual Report on 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 or for the fiscal year ended December 31, 2017.

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.

Throughout this Form 10-K, unless specified otherwise, references to “we,” “our,” “us” and “the company” refer to the consolidated company.

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 website — www.sec.gov;

• the SEC’s Public Conference Room, 100 F St. N.E., Washington, D.C., 20549, (800) SEC-0330; and

• our website (without charge) — www.weyerhaeuser.com.

When we file the information electronically with the SEC, it also is posted to our website.

WHO WE ARE

Weyerhaeuser Timber Company was incorporated in the state of Washington in January 1900, when Frederick Weyerhaeuser and 15 partners bought 900,000 acres of timberland. Today, we are working to be the world's premier timber, land, and forest products company for our shareholders, customers and employees.

REAL ESTATE INVESTMENT TRUST (REIT) ELECTION

Starting with our 2010 fiscal year, we elected to be taxed as a REIT. REIT income can be distributed to shareholders without first paying corporate level tax, substantially eliminating the double taxation on income. 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 and lump sum timber deeds. We continue to be required to pay federal corporate income taxes on earnings of our Taxable REIT Subsidiary (TRS), which includes our Wood Products segment and a portion of our Timberlands and Real Estate, Energy and Natural Resources (Real Estate & ENR) segments.

MERGER WITH PLUM CREEK

On February 19, 2016, pursuant to the Agreement and Plan of Merger dated November 6, 2015, Plum Creek Timber Company, Inc. (Plum Creek) merged with and into Weyerhaeuser. Plum Creek was a REIT that primarily owned and managed timberlands in the United States. Plum Creek also produced wood products, developed opportunities for mineral and other natural resource extraction, and sold real estate properties. The merger combined two industry leaders. The breadth and diversity of our combined timberlands, real estate, energy and natural resources assets, and wood products operations position Weyerhaeuser to capitalize on the improving housing market and to continue to capture value across the combined portfolio. See Note 4: Merger with Plum Creek in the Notes to Consolidated Financial Statements for further information about the merger.

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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, which are as follows:

• Timberlands;

• Real Estate, Energy and Natural Resources (Real Estate & ENR); and

• Wood Products.

Detailed financial information about our business segments and our geographic locations is provided 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 Management's Discussion and Analysis of Financial Condition and Results of Operations.

EFFECT OF MARKET CONDITIONS

The health of the U.S. housing market strongly affects the performance of all our business segments. 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. Real Estate is affected by local real estate market conditions, such as the level of supply or demand for properties sharing the same or similar characteristics as our timberlands. Energy and Natural Resources is affected by underlying demand for commodities, including oil and gas.

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 products. We compete in our markets primarily through product quality, service levels and price. We are relentlessly focused on operational excellence, producing quality products customers want and are willing to pay for, at the lowest possible cost.

Our business segments' competitive strategies are as follows:

• Timberlands — Extract maximum timber value from each acre we own or manage.

• Real Estate & ENR — Deliver premiums to timber value by identifying and monetizing higher and better use lands and capturing the full value of surface and subsurface assets.

• Wood Products — Manufacture high-quality lumber, structural panels and engineered wood products, as well as deliver complementary building products for residential, multi-family, industrial and light commercial applications at competitive costs.

SALES OUTSIDE THE U.S.

In 2017, \$1,028 million — 14 percent — of our total consolidated sales from continuing operations were to customers outside the U.S. Our sales outside the U.S. are generally denominated in U.S. dollars. The table below shows sales outside the U.S. for the last three years.

DOLLAR AMOUNTS IN MILLIONS

	2017	2016 ⁽¹⁾	2015 ⁽¹⁾	
Exports from the U.S.	\$545	\$ 515	\$ 497	
Canadian export and domestic sales	443	342	317	
Other foreign sales	40	58	69	
Total	\$1,028	\$ 915	\$ 883	
Percent of total sales	14	% 14	% 17	%

(1)

Excludes sales from Discontinued Operations. Refer to Note 3: Discontinued Operations and Other Divestitures in the Notes to Consolidated Financial Statements for further information.

OUR EMPLOYEES

We have approximately 9,300 employees. Of these employees, approximately 2,500 are members of unions covered by multi-year collective-bargaining agreements. More information about these agreements is provided in Note 9: Pension and Other Postretirement Benefit Plans in the Notes to Consolidated Financial Statements.

WHAT WE DO

This section provides information about how we:

- grow and harvest trees;
- maximize the value of every acre we own; and
- manufacture and sell wood products.

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.

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TIMBERLANDS

Our Timberlands segment manages 12.4 million acres of private commercial timberlands in the U.S. We own 11.5 million of those acres and have long-term leases on the remaining acres. In addition, we have renewable, long-term licenses on 14.0 million acres of Canadian timberlands. The tables presented in this section include data from this segment's business units as of the end of 2017.

WHAT WE DO

Forestry Management

Our Timberlands segment:

- plants seedlings to reforest harvested areas using the most effective regeneration method for the site and species (natural regeneration is employed and managed in parts of Canada and the northern U.S.);
- manages our timberlands as the planted trees grow to maturity;
- harvests trees to be converted into lumber, wood products, pellets, pulp and paper;
- strives to sustain and maximize the timber supply from our timberlands while keeping the health of our environment a key priority; and
- offers recreational access to the public.

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

Competitive factors within each of our market areas generally include price, species, grade, quality, proximity to wood consuming facilities and the ability to consistently meet customer requirements. We compete in the marketplace through our ability to provide customers with a consistent and reliable supply of high-quality logs at scale volumes and competitive price. Our customers also value our status as a Sustainable Forestry Initiative® certified supplier.

Sustainable Forestry Practices

We manage our forests intensively to maximize the value of each acre and produce a sustainable supply of wood fiber for our customers. At the same time, we are careful to protect biological diversity, water quality and other ecosystem services. Our working forests also provide unique environmental, cultural, historical and recreational value. We work hard to protect these and other qualities, while still managing our forests to produce financially mature timber. We follow regulatory requirements, voluntary standards and certify one hundred percent of our North American timberlands under the Sustainable Forestry Initiative® (SFI) Forest Management Standard.

Canadian Forestry Operations

In Canada, we manage timberlands under long-term licenses that provide the primary source of the raw material for our manufacturing facilities in various provinces. When we harvest trees, we pay the provinces at stumpage rates set by the government. We transfer logs to our manufacturing facilities at cost, and do not generate any significant profit in the Timberlands segment from the harvest of timber from the licensed acres in Canada.

Timberlands Products

PRODUCTS HOW THEY'RE USED

Delivered logs:	Grade logs are made into lumber, plywood, veneer and other products used in residential homes, commercial structures, furniture, industrial and decorative applications. Fiber logs are sold to pulp, paper, and oriented strand board mills to make products used for printing, writing, packaging, homebuilding and consumer products, as well as into renewable energy and pellet manufacturing.
• Grade logs	
• Fiber logs	
Timber	Standing timber is sold to third parties.
Recreational leases	Timberlands are leased to the public for recreational purposes.
Other products	Seed and seedlings grown in the U.S. and plywood produced at our mill in Uruguay ⁽¹⁾ .

(1)

Our Uruguayan operations were divested on September 1, 2017. Refer to Note 3: Discontinued Operations and Other Divestitures in the Notes to Consolidated Financial Statements for further information on this divestiture.

HOW WE MEASURE OUR PRODUCT

We use multiple 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.

• Green tons (GT) — used in the South to measure weight; factors used for conversion to product volume can vary by species, size, location and season.

We report Timberland volumes in ton equivalents. Prior to 2016, we reported Timberlands volumes information in cubic meters. Volumes for periods prior to 2016 have been converted from cubic meters to tons using conversion factors as follows:

• West: $1.056 \text{ m}^3 = 1 \text{ ton}$

• South: $0.818 \text{ m}^3 = 1 \text{ ton}$

• Uruguay: $0.907 \text{ m}^3 = 1 \text{ ton}$

• Canada: $1.244 \text{ m}^3 = 1 \text{ ton}$

WHERE WE DO IT

We manage sustainable timberlands in twenty states. This includes owned or leased acres in the following locations:

• 2.93 million acres in the western U.S. (Oregon and Washington);

• 6.95 million acres in the southern U.S. (Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Texas and Virginia); and

• 2.48 million acres in the northern U.S. (Maine, Michigan, Montana, New Hampshire, Vermont, West Virginia and Wisconsin).

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In Canada, we manage timberlands under long-term licenses that provide raw material for our manufacturing facilities. These licenses are in Alberta, British Columbia, Ontario (license is managed by partnership) and Saskatchewan (license is managed by partnership).

Our total timber inventory — including timber on owned and leased land— is approximately 635 million tons. 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 these variables adjust.

We maintain our timber inventory in an integrated resource inventory system and geographic information system (“GIS”). The resource inventory component of the system is proprietary and is largely based on internally developed methods, including growth and yield models developed by our research and development organization. The GIS component is based on GIS software that is viewed as the standard in our industry.

Timber inventory data collection and verification techniques include the use of industry standard field sampling procedures as well as proprietary remote sensing technologies in some geographies. The data is collected and maintained at the timber stand level.

We also own and operate nurseries and seed orchards in Alabama, Arkansas, Georgia, Louisiana, Mississippi, Oregon, South Carolina, and Washington.

Summary of 2017 Standing Timber Inventory

GEOGRAPHIC AREA	MILLIONS OF TONS AT DECEMBER 31, 2017 TOTAL INVENTORY(1)
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U.S.:

West

Douglas fir/Cedar	164
Whitewood	34
Hardwood	15
Total West	213

South

Southern yellow pine	263
Hardwood	83
Total South	346

North

Conifer	35
Hardwood	41
Total North	76
Total Company	635

(1) Inventory encompasses all conservation and non-harvest areas.

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Summary of 2017 Timberland Locations

GEOGRAPHIC AREA	THOUSANDS OF ACRES AT DECEMBER 31, 2017		TOTAL ACRES ⁽¹⁾
	FEE OWNERSHIP	LONG-TERM LEASES	
U.S.:			
West			
Oregon	1,593	—	1,593
Washington	1,333	—	1,333
Total West	2,926	—	2,926
South			
Alabama	390	232	622
Arkansas	1,214	18	1,232
Florida	227	84	311
Georgia	623	55	678
Louisiana	1,027	351	1,378
Mississippi	1,154	76	1,230
North Carolina	564	1	565
Oklahoma	495	—	495
South Carolina	281	—	281
Texas	30	2	32
Virginia	124	—	124
Total South	6,129	819	6,948
North			
Maine	839	—	839
Michigan	558	—	558
Montana	713	—	713
New Hampshire	24	—	24
Vermont	86	—	86
West Virginia	258	—	258
Wisconsin	4	—	4
Total North	2,482	—	2,482
Total Company	11,537	819	12,356

(1) Acres include all conservation and non-harvest areas.

We provide a year-round flow of logs to internal and external customers. We sell grade and fiber logs to manufacturers that produce a diverse range of products. We also sell standing timber to third parties and lease land for recreational purposes. Our timberlands are generally well located to take advantage of road, logging and transportation systems for efficient delivery of logs to customers.

Western United States

Our Western timberlands are well situated to serve the wood product and pulp markets in Oregon and Washington. Additionally, our location on the West Coast provides access to higher-value export markets for Douglas fir and whitewood logs to Japan, China and Korea. Our largest export market is Japan where Douglas fir is the preferred species for higher-valued post and beam homebuilding. The size and quality of our Western Timberlands, coupled with their proximity to several deep-water port facilities, competitively positions us to meet the needs of Pacific Rim log markets.

Our holdings are composed primarily of Douglas fir, a species highly valued for its structural strength, stiffness and visual appearance. Most of our lands are located on the west side of the Cascade Mountain Range with soil and rainfall conditions considered favorable for growing this species. Approximately 80 percent of our lands are in established Douglas fir plantations. Our remaining holdings include a mix of whitewood and hardwood.

Our management systems and supply chain expertise provide us a competitive operating advantage in a number of areas including research and forestry, harvesting, marketing, and logistics. Additionally, our scale, diversity of timberlands ownership and infrastructure in the West Coast allow us to consistently and reliably supply logs to our customers year round.

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2017 Western U.S. Inventory by Species

2017 Western U.S. Inventory by Age / Species

The average age of timber harvested from our Western timberlands in 2017 was 50 years. In accordance with our sustainable forestry practices, we harvest approximately 2 percent of our Western acreage each year.

Southern United States

Our Southern acres, covering 11 states, are well situated to serve domestic wood products and pulp markets, including our own mills. Additionally, our coastal locations position us to serve a developing Asian log export market. Our holdings are comprised of 76 percent Southern yellow pine and 24 percent hardwoods.

We intensively manage our timber plantations using:

- forestry research and planning systems to optimize log production,
- customized silviculture prescriptions increasing productivity across our acreage and
- innovative planting and harvesting techniques on varying Southern terrain.

Operationally, we focus on efficiently harvesting and hauling logs from our ownership and capitalizing on our scale and supply chain expertise to consistently and reliably serve customers through seasonal events.

We lease more than 95 percent of our owned Southern acreage for recreational purposes.

2017 Southern U.S. Inventory by Species

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2017 Southern U.S. Inventory by Age / Species

The average age of timber harvested from our Southern timberlands in 2017 was 30 years. In accordance with our sustainable forestry practices, we harvest approximately 3 percent of our acreage each year in the South.

Northern United States

We are one of the largest private owners of northern hardwood timberlands. Our Northern acres contain a diverse mix of temperate broadleaf hardwoods and mixed conifer species across timberlands located in seven states. Species include American beech, balsam fir, birch, cedar, cherry, Douglas fir, hemlock, maple, oak, poplar, red pine, spruce, Western larch and white pine. We grow over 50 species and market over 600 product grades to a diverse mix of customers.

Our large-diameter cherry saw logs and veneer logs serve domestic and export furniture markets. Our hard maple and other appearance woods support furniture and high-value decorative applications. In addition to high value hardwood saw logs, our mix includes hardwood fiber logs for pulp and OSB applications. Hardwood pulpwood is a significant market in the Northern region and we have long term supply agreements, primarily at market rates, for nearly 86 percent of our production.

We also grow softwood logs that supply our Montana medium density fiberboard (MDF), lumber and plywood mills and other customers. Our competitive advantages include a merchandising program to capture the value of the premium hardwood logs and steep slope harvest mechanizing systems.

Regeneration is predominantly natural, augmented by planting where appropriate.

2017 Northern U.S. Inventory by Species

2017 Northern U.S. Inventory by Age / Species

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The average age of timber harvested from our Northern timberlands in 2017 was 66 years. Timber harvested in the North is sold predominantly as delivered logs to domestic mills, including our manufacturing facilities located in Montana and West Virginia. In accordance with our sustainable forestry practices, we harvest approximately 1 percent of our acreage each year in the North.

Canada — Licensed Timberlands

We manage timberlands in Canada under long-term licenses from the provincial governments to secure volume for our manufacturing facilities in various provinces. The provincial governments regulate the volume of timber that may be harvested each year through Annual Allowable Cuts (AAC), which are updated every 10 years. As of December 31, 2017, our AAC by province was:

Alberta — 3,107 thousand tons,
 British Columbia — 627 thousand tons,
 Ontario — 254 thousand tons and
 Saskatchewan — 632 thousand tons.

When the volume is harvested, we pay the province at stumpage rates set by the government. 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 profit from harvesting the log through to converting to finished products is recognized at the respective mill in our Wood Products segment.

A small amount of harvested volumes are sold to unaffiliated customers.

GEOGRAPHIC AREA THOUSANDS OF ACRES AT
 DECEMBER 31, 2017
 TOTAL ACRES UNDER LICENSE
 ARRANGEMENTS

Province:

Alberta	5,398
British Columbia	1,012
Ontario ⁽¹⁾	2,574
Saskatchewan ⁽¹⁾	4,987
Total Canada	13,971

(1) License is managed by partnership.

HOW MUCH WE HARVEST

Our fee harvest volumes are managed sustainably across all regions to ensure the preservation of long-term economic value of the timber and to capture maximum value from the markets. This is accomplished by ensuring annual harvest schedules target financially mature timber and reforestation activities align with the growing of timber through its life cycle to financial maturity.

Five-Year Summary of Timberlands Fee Harvest Volumes

FEE HARVEST VOLUMES IN THOUSANDS

	2017	2016	2015	2014	2013
Fee harvest volume – tons:					
West	10,083	11,083	10,563	10,580	8,435
South	27,149	26,343	14,113	14,276	14,177
North	2,205	2,044	—	—	—
Uruguay ⁽¹⁾	822	1,119	980	1,091	902
Other ⁽²⁾	1,384	701	—	—	—
Total	41,643	41,290	25,656	25,947	23,514

(1)

Our Uruguayan operations were divested on September 1, 2017. Refer to Note 3: Discontinued Operations and Other Divestitures in the Notes to Consolidated Financial Statements for further information on this divestiture.

(2)

Other includes volumes managed for the Twin Creeks Venture. Our management agreement for the Twin Creeks Venture began in April 2016 and terminated in December 2017. For additional information see Note 8: Related Parties in Notes to Consolidated Financial Statements.

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PERCENTAGE OF GRADE AND FIBER

		2017	2016	2015	2014	2013
West	Grade	89	% 87	% 87	% 89	% 90
	Fiber	11	% 13	% 13	% 11	% 10
South	Grade	52	% 52	% 59	% 59	% 57
	Fiber	48	% 48	% 41	% 41	% 43
North	Grade	49	% 47	% —	—	—
	Fiber	51	% 53	% —	—	—
Uruguay ⁽¹⁾	Grade	69	% 66	% 65	% 63	% 60
	Fiber	31	% 34	% 35	% 37	% 40
Other ⁽²⁾	Grade	47	% 45	% —	—	—
	Fiber	53	% 55	% —	—	—
Total	Grade	63	% 64	% 73	% 73	% 69
	Fiber	37	% 36	% 27	% 27	% 31

(1)

Our Uruguayan operations were divested on September 1, 2017. Refer to Note 3: Discontinued Operations and Other Divestitures in the Notes to Consolidated Financial Statements for further information on this divestiture.

(2)

Other includes volumes managed for the Twin Creeks Venture. Our management agreement for the Twin Creeks Venture began in April 2016 and terminated in December 2017. For additional information see Note 8: Related Parties in Notes to Consolidated Financial Statements.

HOW MUCH WE SELL

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

\$1.9 billion in 2017 — up 8 percent from 2016; and

\$1.8 billion in 2016.

Effective December 31, 2017, we terminated the agreements under which we had managed the Twin Creeks timberlands. Refer to Note 8: Related Parties in Notes to Consolidated Financial Statements for further detail.

Our intersegment sales over the last two years were:

\$762 million in 2017 — a decrease of 9 percent from 2016; and

\$840 million in 2016.

The decrease in intersegment sales is primarily due to a decrease in chip and pulp log intersegment sales, which were previously sold to our Cellulose Fibers business segment. Refer to Note 3: Discontinued Operations and Other Divestitures in Notes to Consolidated Financial Statements for further detail regarding this divestiture.

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Five-Year Summary of Net Sales for Timberlands

NET SALES IN MILLIONS OF DOLLARS

	2017	2016	2015	2014	2013
To unaffiliated customers:					
Delivered Logs:					
West	\$915	\$865	\$830	\$972	\$828
South	616	566	241	257	256
North	95	91	—	—	—
Other ⁽¹⁾	59	38	24	22	19
Total	1,685	1,560	1,095	1,251	1,103
Stumpage and pay-as-cut timber	73	85	37	18	9
Uruguay operations ⁽²⁾	63	79	87	88	76
Recreational lease revenue	59	44	25	22	21
Other products ⁽³⁾	62	37	29	36	40
Subtotal sales to unaffiliated customers	1,942	1,805	1,273	1,415	1,249
Intersegment sales:					
United States	520	590	559	576	518
Canada	242	250	271	291	281
Subtotal intersegment sales	762	840	830	867	799
Total	\$2,704	\$2,645	\$2,103	\$2,282	\$2,048

(1) Other delivered logs include sales to unaffiliated customers in Canada and sales from timberlands managed for the Twin Creeks Venture. Our management agreement for the Twin Creeks Venture began in April 2016 and terminated in December 2017. For additional information see [Note 8: Related Parties](#) in [Notes to Consolidated Financial Statements](#).

(2) Sales from our Uruguay operations include plywood and hardwood lumber. Our Uruguayan operations were divested on September 1, 2017. Refer to [Note 3: Discontinued Operations and Other Divestitures](#) in the [Notes to Consolidated Financial Statements](#) for further information on this divestiture.

(3) Other products sales include sales of seeds and seedlings from our nursery operations, chips, and sales from our operations in Brazil (operations sold in 2014).

Five-Year Trend for Total Net Sales in Timberlands

Percentage of 2017 Sales Dollars to Unaffiliated Customers

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Log Sales Volume

Logs sold to unaffiliated customers in 2017 increased 1.8 million tons — 7 percent — from 2016.

Sales volume in the South increased 1.9 million tons — 12 percent — primarily due to the addition of volumes harvested from acquired Plum Creek Timberlands.

Sales to "Other" unaffiliated customers increased 0.5 million tons — 55 percent — primarily due to increased chips sales in Canada, which we previously sold to our former Cellulose Fibers segment and were intersegment sales during 2016.

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, containerboard mills, pellet mills and OSB mills; and
- export log sales — the level of housing starts in Japan and construction in China.

Our sales volume includes 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.

Five-Year Summary of Log Sales Volume to Unaffiliated Customers

SALES VOLUME IN THOUSANDS

	2017	2016	2015	2014	2013
Logs – tons:					
West	8,202	8,713	8,212	8,504	7,300
South	17,895	15,967	6,480	6,941	7,198
North	1,574	1,500	—	—	—
Uruguay ⁽¹⁾	291	470	714	667	394
Other ⁽²⁾	1,458	943	551	474	410
Total	29,420	27,593	15,957	16,586	15,302

(1) Our Uruguayan operations were divested on September 1, 2017. Refer to [Note 3:](#)

[Discontinued Operations and Other Divestitures](#) in the [Notes to Consolidated Financial Statements](#) for further information on this divestiture.

(2) Other includes our Canadian operations and managed Twin Creeks Venture. Our management agreement for the Twin Creeks Venture began in April 2016 and terminated in December 2017. For additional information see [Note 8: Related Parties](#) in [Notes to Consolidated Financial Statements](#).

Log Prices

The majority of our log sales to unaffiliated customers involve sales to domestic sawmills and the export market. Log prices in the following tables are on a delivered (mill) basis:

Five-Year Summary of Published Domestic Log Prices (#2 Sawlog Bark On — \$/MBF)

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

Log prices are affected by the supply of and demand for grade and fiber logs. Export log prices are particularly affected by the Japanese housing market and Chinese demand.

WHERE WE'RE HEADED

Our competitive strategies include:

- continuing to capitalize on our scale of operations, silviculture expertise and sustainability practices;
- optimizing cash flow through operational excellence initiatives including merchandising for value, harvest and transportation efficiencies, and flexing harvest to capture seasonal and short-term opportunities;
- sustaining our export and domestic market access, infrastructure and strong customer relationships;
- increasing our recreational lease revenue stream; and
- continuing to maximize the value of our timberlands portfolio by managing the acres with the ultimate best use in mind.

REAL ESTATE, ENERGY AND NATURAL RESOURCES

Our Real Estate & ENR segment maximizes the value of our timberland ownership through application of our asset value optimization (AVO) process and captures the full value of surface and subsurface assets, such as oil, natural gas, minerals and wind resources.

WHAT WE DO

Real Estate

Properties that exhibit higher value than commercial timberlands are monetized within our Real Estate business. We analyze existing U.S. timberland holdings using a process we call AVO. We start with understanding the value of a parcel operating as commercial timberlands and then assess the specific real estate attributes of the parcel and its corresponding market. The assessment includes demographics, infrastructure and proximity to amenities and recreation to determine the potential to yield a premium value to commercial timberland. Attributes can evolve over time, and accordingly, the assignment of value and opportunity can change.

These properties are acres we expect to sell, and/or entitle to support development, for recreational, conservation, commercial or residential purposes over time. Development, outside of entitlement activities, is typically performed by third parties. Some of our real estate activities are conducted through our taxable REIT subsidiary.

Occasionally we sell a small amount of timberlands acreage in areas where we choose to reduce our market presence, or we can capture a price that exceeds the value derivable from holding and operating as commercial timberlands.

These transactions will vary based on factors including the locations and physical characteristics of the timberlands.

The timing of real estate sales is a function of many factors, including the general state of the economy, demand in local real estate markets, the ability of buyers to obtain financing, the number of competing properties listed for sale, the seasonal nature of sales (particularly in the Northern states), the plans of adjacent landowners, our expectation of future price appreciation, the timing of the harvesting activities, and the availability of government and not-for-profit funding. In any period, the average sales price per acre will vary based on the location and physical characteristics of parcels sold.

The AVO review of our legacy Weyerhaeuser Southern timberlands was completed in fourth quarter 2016. The AVO review of our legacy Weyerhaeuser Western timberlands was completed in second quarter 2017. We will continually revisit our AVO assessment of all of our U.S. timberland acres, including legacy Plum Creek acres for which AVO assessment was completed prior to the merger.

Energy and Natural Resources

We focus on maximizing potential opportunities for oil, natural gas, construction materials, industrial minerals, coal, renewable energy and rights of way easements on our timberlands portfolio and retained mineral interests.

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As the owner of mineral rights and interests, we typically do not invest in operations but instead enter into contracts with operators granting them the rights to explore and sell natural resources produced from our property in exchange for rents and royalties. Our primary sources of revenue are:

- rentals and royalties from the exploration, extraction, generation and sale of minerals, oil and natural gas, coal and wind energy production;
- rental payments from communication, energy and transportation rights of way; and
- the occasional sale of mineral assets.

We generally reserve mineral rights when selling timberlands acreage. Some Energy and Natural Resources activities are conducted through our taxable REIT subsidiary.

Real Estate Development Joint Venture

Our share of equity earnings from WestRock-Charleston Land Partners, LLC (WR-CLP) is included in the net contribution to earnings of our Real Estate & ENR segment. WR-CLP develops and sells its acreage of high value rural lands and development-quality lands near Charleston, South Carolina. Refer to Note 8: Related Parties in Notes to Consolidated Financial Statements for further information.

Real Estate, Energy and Natural Resources Sources of Revenue

SOURCES	ACTIVITIES
	Select timberland tracts are sold for recreational, conservation, commercial or residential purposes.
Real Estate	
Energy and Natural Resources	• Rights are sold to explore and extract construction aggregates (rock, sand and gravel), coal, industrial materials and oil and natural gas for sale into energy markets. • Ground leases and easements are granted to wind and solar developers to generate renewable electricity from our timberlands. • Rights are granted to access and utilize timberland

acreage for
communications,
pipeline,
powerline and
transportation
rights of way.

WHERE WE DO IT

Our Real Estate business identifies opportunities to realize premium value for our U.S. timberland acreage.

Our significant Energy and Natural Resources revenue sources are located in Oregon, South Carolina and Georgia (construction material royalties); the Gulf South (oil and natural gas royalties); and West Virginia (coal reserves).

HOW MUCH WE SELL

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

\$280 million in 2017 — up 24 percent from 2016; and

\$226 million in 2016.

Five-Year Summary of Net Sales for Real Estate, Energy and Natural Resources

NET SALES IN MILLIONS OF DOLLARS

	2017	2016	2015	2014	2013
Net Sales:					
Real Estate	\$208	\$172	\$75	\$72	\$84
Energy and Natural Resources	72	54	26	32	31
Total	\$280	\$226	\$101	\$104	\$115

Five-Year Summary of Real Estate Sales Statistics

REAL ESTATE SALES STATISTICS

	2017	2016	2015	2014	2013
Acres sold	97,235	82,687	27,390	24,583	25,781
Average price per acre	\$2,079	\$2,072	\$2,490	\$2,428	\$2,462

WHERE WE'RE HEADED

Our competitive strategies include:

- continuing to apply the AVO process to identify opportunities to capture a premium to timber value;
- maintaining a flexible, low-cost execution model by continuing to leverage strategic relationships with outside real estate brokers;
- capturing the full value of our oil and natural gas, aggregates and industrial minerals, and wind renewable energy resources; and
- delivering the most value from every acre.

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WOOD PRODUCTS

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

WHAT WE DO

Our wood products segment:

provides high-quality softwood lumber, engineered wood products, structural panels, medium density fiberboard (MDF) and other specialty products to the residential, multi-family, industrial, light commercial and repair and remodel markets;

distributes our products as well as complementary building products that we purchase from other manufacturers; and exports our softwood lumber, oriented strand board (OSB) and engineered wood products, primarily to Asia.

Wood Products

PRODUCTS	HOW THEY'RE USED
Structural lumber	Structural framing for new residential, repair and remodel, treated applications, industrial and commercial structures
Engineered wood products	Floor and roof joists, and headers and beams for residential, multi-family and commercial structures
• Solid section	
• I-joists	
Structural panels	Structural sheathing, subflooring and stair tread for residential, multi-family and commercial structures
• OSB	
• Softwood plywood	
Medium density fiberboard (MDF)	Furniture and cabinet components, architectural moldings, doors, store fixtures, core material for hardwood plywood, face material for softwood plywood, commercial wall paneling and substrate for laminate flooring
Other products	Wood chips and other byproducts
Complementary building products	Complementary building products such as cedar, decking, siding, insulation and rebar sold in our distribution facilities

WHERE WE DO IT

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

Summary of Wood Products Capacities and Principal Manufacturing Locations as of December 31, 2017

CAPACITIES IN MILLIONS

	PRODUCTION CAPACITY	NUMBER OF FACILITIES	LOCATION
Structural lumber – board feet	4,985	19	Alabama, Arkansas, Louisiana (2), Mississippi (3), Montana, North Carolina (3), Oklahoma, Oregon (2), Washington (2), Alberta (2), British Columbia
Engineered solid section – cubic feet ⁽¹⁾	43	6	Alabama, Louisiana, Oregon, West Virginia, British Columbia, Ontario
Oriented strand board – square feet (3/8")	3,035	6	Louisiana, Michigan, North Carolina, West Virginia, Alberta, Saskatchewan
Softwood plywood – square feet (3/8")	610	3	Arkansas, Louisiana, Montana
Medium density fiberboard – square feet (3/4") (1)	265	1	Montana

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This represents total press capacity. Three facilities also produce I-Joist to meet market demand. In 2017, approximately 26 percent of the total press production was converted into 213 lineal feet of I-Joist.

Production capacities listed represent annual production volume under normal operating conditions and producing a normal product mix for each individual facility.

We also own or lease 18 distribution centers in the U.S. where our products and complementary building products are sold.

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Five-Year Summary of Wood Products Production

PRODUCTION IN MILLIONS

	2017	2016	2015	2014	2013
Structural lumber – board feet	4,509	4,516	4,252	4,152	4,084
Engineered solid section – cubic feet ⁽¹⁾	25.1	22.8	20.9	20.4	18.0
Engineered I-joists – lineal feet ⁽¹⁾	213	184	185	182	168
Oriented strand board – square feet (3/8")	2,995	2,910	2,847	2,749	2,723
Softwood plywood – square feet (3/8 ²)	370	396	248	252	241
Medium density fiberboard – square feet (3/4")	232	209	—	—	—

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

(2) All Weyerhaeuser plywood facilities also produce veneer.

HOW MUCH WE SELL

Revenues of our Wood Products segment come from sales to wood products dealers, do-it-yourself retailers, builders and industrial users. Wood Products net sales were \$5.0 billion in 2017 and \$4.3 billion in 2016.

Five-Year Summary of Net Sales for Wood Products

NET SALES IN MILLIONS OF DOLLARS

	2017	2016	2015	2014	2013
Structural lumber	\$2,058	\$1,839	\$1,741	\$1,901	\$1,873
Engineered solid section	500	450	428	402	353
Engineered I-joists	336	290	284	277	247
Oriented strand board	904	707	595	610	809
Softwood plywood	176	174	129	143	144
Medium density fiberboard	183	158	—	—	—
Other products produced ⁽¹⁾	276	201	189	176	171
Complementary building products	541	515	506	461	412
Total	\$4,974	\$4,334	\$3,872	\$3,970	\$4,009

(1) Includes wood chips and other byproducts.

Five-Year Trend for Total Net Sales in Wood Products

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Percentage of 2017 Net Sales Dollars in Wood Products

Wood Products Volume

Five-Year Summary of Sales Volume for Wood Products

SALES VOLUME⁽¹⁾ IN MILLIONS

	2017	2016	2015	2014	2013
Structural lumber – board feet	4,658	4,723	4,588	4,463	4,436
Engineered solid section – cubic feet	25.1	23.3	21.3	20.0	18.2
Engineered I-joists – lineal feet	220	195	188	184	177
Oriented strand board – square feet (3/8")	2,971	2,934	2,972	2,788	2,772
Softwood Plywood – square feet (3/8")	453	481	381	395	402
Medium density fiberboard – square feet (3/4")	222	206	—	—	—

(1)

Sales volume includes sales of internally produced products and complementary building products sold primarily through our distribution centers.

Wood Products Prices

Prices for commodity wood products — Structural lumber, OSB and Plywood — increased in 2017 from 2016.

In general, the following factors influence sales realizations 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 and multi-family 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.

Demand for wood products continued to improve in 2017. The following graphs reflect product price trends for the past five years.

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

Five-Year Summary of Published Oriented Strand Board Price — \$/MSF

WHERE WE'RE HEADED

Our competitive strategies include:

- Industry leading controllable manufacturing costs through operational excellence and disciplined capital execution;
- strong alignment with fiber supply;
- leverage our brand and reputation as the preferred provider of quality building products; and
- pursue disciplined, profitable sales growth in target markets.

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EXECUTIVE OFFICERS OF THE REGISTRANT

Adrian M. Blocker, 61, has been senior vice president, Wood Products since January 2015. Previously, he served as senior vice president, Lumber, from August 2013 to December 2014. He joined the company in May 2013 as vice president, Lumber. Prior to joining the company, he served as CEO of the Wood Products Council. He has held numerous leadership positions in the industry focused on forest management, fiber procurement, consumer packaging, strategic planning, business development and manufacturing, including at West Fraser, International Paper and Champion International.

Russell S. Hagen, 52, has been senior vice president and chief financial officer since February 2016. Previously, he served as senior vice president, Business Development, at Plum Creek from December 2011 to February 2016. Prior to this he was vice president, Real Estate Development, overseeing the development activities of the company's real estate, oil and gas, construction materials and bioenergy businesses. Mr. Hagen began his career in 1988 with Coopers and Lybrand, where he was a certified public accountant and led the audits of public clients in technology, banking and natural resource industries. He joined Plum Creek in 1993 as Manager of Internal Audit and held director-level positions in accounting, financial operations, risk management and information technology.

Kristy T. Harlan, 44, has been senior vice president, general counsel and corporate secretary since January 2017. She leads the company's Law department, with responsibility for global legal, compliance, real estate services and land title functions. Before joining the company, she was a partner at K&L Gates LLP since 2007. Previously, she worked as an attorney at Preston Gates & Ellis LLP and Akin Gump Strauss Hauer & Feld.

Devin W. Stockfish, 44, has been senior vice president, Timberlands, since January 2018. Previously, he has served as senior vice president, general counsel and corporate secretary, and vice president, Western Timberlands. He joined the company in March 2013 as corporate secretary and assistant general counsel. Before joining the company, he was vice president & associate general counsel at Univar Inc. where he focused on mergers and acquisitions, corporate governance and securities law. Previously, he was an attorney in the law department at Starbucks Corporation and practiced corporate law at K&L Gates LLP. Before he began practicing law, Mr. Stockfish was an engineer with the Boeing Company.

James A. Kilberg, 61, has been senior vice president, Real Estate, Energy and Natural Resources, since April 2016. In this position, he oversees the company's real estate development, land asset management, conservation, mitigation banking, recreational lease management, oil and gas, construction materials, heavy minerals, wind and water. Prior to joining the company, he served as Plum Creek's senior vice president, Real Estate, Energy and Natural Resources, from 2006 until February 2016, and as Plum Creek's vice president, Land Management, from 2001 until 2006. Prior to joining Plum Creek, Mr. Kilberg held several executive positions in real estate, asset management and development. He currently serves on the board of the Georgia Chamber of Commerce and the Alliance Theater, as well as the Corporate Council of the Land Trust Alliance.

Denise M. Merle, 54, has been senior vice president, Human Resources and Information Technology, since February 2016. Prior to her current role, she was senior vice president, Human Resources and Investor Relations, since August 2014; and senior vice president, Human Resources, since February 2014. She was director, Finance and Human Resources, for the Lumber business since 2013. Prior to that, she was director, Compliance & Enterprise Planning, from 2009 to 2013, and director, Internal Audit, from 2004 to 2009. She has also held various roles in the company's paper and packaging businesses, including finance, capital planning and analysis, and business development. She is a licensed CPA in the state of Washington. She serves on the Board of Advisors of the Seattle University business school.

Doyle R. Simons, 54, has been president and chief executive officer since August 2013 and a director of the company since June 2012. He was appointed chief executive officer-elect and an executive officer of the company in June 2013. Prior to joining the company, he served as chairman and chief executive officer of Temple-Inland, Inc., from 2008 until February 2012 when it was acquired by International Paper Company. He held various management positions with Temple-Inland, including executive vice president from 2005 through 2007 and chief administrative officer from 2003 to 2005. Prior to joining Temple-Inland in 1992, he practiced real estate and banking law with Hutcheson and Grundy, L.L.P. He also serves on the Board of Fiserv, Inc.

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NATURAL RESOURCE AND ENVIRONMENTAL MATTERS

We are subject to a multitude of laws and regulations in the operation of our businesses. We also participate in voluntary certification of our timberlands to ensure that we sustain their overall quality, including the protection of wildlife and water quality. Changes in law and regulation, or certification standards, can significantly affect our business.

REGULATIONS AFFECTING FORESTRY PRACTICES

In the United States, regulations established by federal, state and local government agencies to protect water quality, wetlands and other wildlife habitat could affect future harvests and forest management practices on our timberlands. Forest practice laws and regulations that affect present or future harvest and forest management activities in certain states 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 and
- various related 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, human health, or achieve other public policy objectives.

In Canada, our forest operations are carried out on public timberlands under forest licenses with the provinces. 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.

In Canada, 21 member companies of the Forest Products Association of Canada (FPAC), including Weyerhaeuser's Canadian subsidiary, announced in May 2010 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, was expected to lead to the conservation of significant areas of Canada's boreal forest and protection of boreal species at risk, in particular, woodland caribou. While the CBFA mandate came to an end in 2017, CBFA signatories continue to work on management plans with provincial governments, and seek the participation of aboriginal and local communities in advancing the goals of the CBFA.

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, such as:

- 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, gopher frog, dusky gopher frog, American burying beetle and Northern long-eared bat 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. In addition, significant citizen litigation seeks to compel the federal agencies to designate "critical habitat" for ESA-listed species, and many cases have resulted in settlements under which designations will be implemented over time. Such designations may adversely affect some management activities and options. Restrictions on timber harvests can result from:

- federal and state requirements to protect habitat for threatened and endangered species;

regulatory actions by federal or state agencies to protect these species and their habitat; and
citizen suits under the ESA.

Such actions could increase our operating costs and affect timber supply and prices in general. To date, we do not believe that these measures have had, and we do not believe that in 2018 they will have, a significant effect on our harvesting operations. We anticipate that likely future actions will not disproportionately affect Weyerhaeuser as compared with comparable operations of U.S. competitors.

In Canada:

The federal Species at Risk Act (SARA) requires protective measures for species identified as being at risk and for critical habitat, pursuant to SARA, Environment Canada continues to identify and assess species deemed to be at risk and their critical habitat.

In October 2012, the Canadian Minister of the Environment released a strategy for the recovery of the boreal population of woodland caribou under the SARA. The population and distribution objectives for boreal caribou across Canada are to (1) maintain the current status of existing, self-sustaining local caribou populations and (2) stabilize and achieve self-sustaining status for non-self-sustaining local caribou populations. Critical habitat for boreal caribou is identified for all boreal caribou ranges, except for northern Saskatchewan's Boreal Shield range (SK1) where additional information is required for that population. Species assessment and recovery plans are developed in consultation with aboriginal communities and stakeholders.

In 2017, the Provinces were required to update the federal government on any progress associated with their draft caribou range plans. These draft plans will be further evaluated in 2018, and any additional information on potential impacts to forest harvest operations will be released.

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The identification and protection of habitat and the implementation of range plans and land use action plans may, over time, result in additional restrictions on timber harvests and other forest management practices that could increase operating costs for operators of timberlands in Canada. To date, we do not believe that these Canadian measures have had, and we do not believe that in 2018 they will have, a significant effect on our harvesting operations. We anticipate that likely future measures will not disproportionately affect Weyerhaeuser as compared with similar operations of Canadian competitors.

FOREST CERTIFICATION STANDARDS

We operate in North America under the Sustainable Forestry Initiative (SFI®). This is a certification standard designed to supplement government regulatory programs with voluntary landowner initiatives to further protect certain public resources and values. SFI® is an independent standard, overseen by a governing board consisting of:

- conservation organizations,
- academia,
- the forest industry and
- large and small forest landowners.

Ongoing compliance with SFI® may result in some increases in our operating costs and curtailment of our timber harvests in some areas. There also is competition from other private certification systems, primarily the Forest Stewardship Council (FSC), coupled with efforts by supporters to further those systems by persuading customers of forest products to require products certified to their preferred system. Certain features of the FSC system could impose additional operating costs on timberland management. Because of the considerable variation in FSC standards, and variability in how those standards are interpreted and applied, if sufficient marketplace demand develops for products made from raw materials sourced from other than SFI-certified forests, we could incur substantial additional costs for operations and be required to reduce harvest levels.

WHAT THESE REGULATIONS AND CERTIFICATION PROGRAMS MEAN TO US

The regulatory and non-regulatory forest management programs described above have:

- increased our operating costs;
- resulted in changes in the value of timber and logs from 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 use of, or substitution of other products for, lumber, oriented strand board, engineered wood products and plywood.

We believe that these kinds of programs have not had, and in 2018 will not have, a significant effect on our 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 timberlands 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 have been largely unresolved. On June 26, 2014 the Supreme Court of Canada ruled that the Tsilhqot'in Nation holds aboriginal title to approximately 1,900 square kilometers in B.C. This was the first time that the court has declared title to exist based on historical occupation by aboriginal peoples. Many aboriginal groups continue to be engaged in treaty discussions with the governments of B.C., other provinces and Canada.

Final or interim resolution of claims brought by aboriginal groups can be expected to result in:

- additional restrictions on the sale or harvest of timber,

potential increase in operating costs and
impact to 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 2018, 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;

waste disposal;

remediation of contaminated sites; and

the chemical content of some of our products.

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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,
- facilitate raw material changes and handling requirements,
- increase the economic value of assets or products, and
- comply with regulatory standards.

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 U.S. 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 \$15 million in 2017 and expect to spend approximately \$14 million in 2018 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 \$48 million. Based on currently available information and analysis, remediation costs for all identified sites may exceed our existing reserves by up to \$150 million. 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) has promulgated regulations for air emissions from:

- 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.

Between 2011 and 2015, the EPA issued three related portions of new MACT standards for industrial boilers and process heaters. In July 2016, a court decision was issued that remains unsettled at this time, but which will cause certain of the emissions standards to be re-issued. Some of these re-issued emissions standards will be applicable to a small number of our wood products mills. Because the court decision remains unsettled and because we do not know how or when the EPA will implement the final court decision, we cannot predict whether or when the emission standard revisions may have a material impact on regulatory compliance costs at our mills. We do not expect any

material expenditures in 2017 to comply with MACT standards.

The EPA must still promulgate supplemental MACT standards for plywood, lumber and composite wood products facilities. The EPA is expected to collect information for these future rulemakings in 2017.

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

In 2010, the EPA issued a final greenhouse gas rule limiting the growth of emissions from new projects meeting certain thresholds. On June 23, 2014, the US Supreme Court issued a decision that removed potential applicability of the underlying 2010 regulations based solely on greenhouse gas emissions and limited application of the rule's technology requirements to larger emission sources as a result of new emissions from non-greenhouse gas pollutants. As a result of this Supreme Court ruling, EPA is expected to issue new regulations to set thresholds for when the greenhouse gas technology requirements apply if the non-greenhouse gas emissions trigger the rule in the first instance. The impact of the Supreme Court ruling is to end the potential applicability of the technology requirements for our smaller manufacturing operations and limit the applicability for our other operations.

In 2015, the EPA issued an extensive regulatory program for new and existing electric utility generating units to scale back emissions of greenhouse gas carbon dioxide (CO₂) arising from fossil fuel use to generate electricity. EPA also proposed additional regulations related to how states and federal agencies may implement the requirements finalized in 2015. This regulatory program potentially will have indirect impacts on our operations, such as from rising purchased electricity prices or from mandated energy demand reductions that could apply to our mills and other facilities that we operate. We are evaluating the regulations and additional proposals but are not able to predict whether the regulations, when complete and implemented, will have a material impact on our operations.

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We use significant biomass for energy production at our mills. EPA is currently working on rules regarding regulation of biomass emissions.

The impact of these greenhouse gas and biomass rules, as well as recent court decisions, on our operations remains uncertain.

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 25 percent considering changes in the asset portfolio according to 2014 data, compared to our 2000 baseline.

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

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

We believe these developments have not had, and in 2018 will not have, a significant effect on our operations.

Although these measures could have a material adverse effect on our operations in the future, we expect that we will not be disproportionately affected by these measures as compared with 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 addition to existing provincial air quality regulations, the Canadian federal government has proposed an air quality management system (AQMS) as a comprehensive national approach for improving air quality in Canada. The federal proposed AQMS includes:

- ambient air quality standards for outdoor air quality management across the country,
- a framework for air zone air management within provinces and territories that targets specific sources of air emissions,
- regional airsheds that facilitate coordinated action across borders,
- industrial sector based emission requirements that set a national base level of performance for major industries in Canada and
- improved intergovernmental collaboration to reduce emissions from the transportation sector.

In 2016, Environment Canada released the Pan-Canadian Framework on Clean Growth and Climate Change, a "Greenhouse Gas Emission Framework." The framework put in place a national, sector-based greenhouse gas reduction program applicable to a number of industries.

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.

In addition, British Columbia has adopted a carbon tax and Alberta has a mandatory greenhouse gas emission reduction regulation.

We believe these measures have not had, and in 2018 will not have, a significant effect on our operations. Although these measures could have a material adverse effect on our operations in the future, we expect that we will not be disproportionately affected by these measures as compared with 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 under the federal Clean Water Act, additional federal or state permits are now required in some states for the application of pesticides, including herbicides, on timberlands. Those permits have entailed payment of additional costs. In 2015, federal regulatory agencies adopted rules that potentially expand the definition of waters subject to federal Clean Water Act jurisdiction, which could increase the scope and number of permits required for forestry-related activities and entail additional costs for Weyerhaeuser and other forest landowners in the U.S. Those rules were challenged in various federal courts by numerous parties and states, and a nationwide injunction was issued against the rule by the Sixth Circuit Court of Appeals. The U.S. Supreme Court recently ruled that the circuit court does not have jurisdiction over the case, so the nationwide injunction will be dissolved in the immediate future, but one other injunction still blocks the rule in several states. On January 31, 2018, federal agencies took regulatory action to further delay the 2015 rules from going into effect until February 2020. That action will likely be challenged in litigation. If any such challenge is successful, other injunctive efforts will likely be pursued by the parties to one or more of the other pending cases challenging the 2015 rules, whose jurisdiction has now been confirmed by the Supreme Court. Meanwhile, the federal agencies will likely continue to pursue the repeal of the 2015 rules entirely and replacement of them with the pre-2015 rules. We are not able to predict the ultimate resolution of these pending legal and regulatory actions.

In 2016, Washington State Department of Ecology (WA DOE) adopted human health-based water quality criteria. The EPA subsequently promulgated its own water quality standards for Washington state for the protection of human health for certain pollutants. It is unclear what effect, if any, these rules will have on our manufacturing operations in Washington state.

In 2016, the EPA finalized new and revised federal Clean Water Act water quality standards and human health criteria that would apply to waters under the state of Maine's jurisdiction.

In addition, in 2013, amendments to the Canadian Federal Fisheries Act came into force. These amendments change the focus from habitat protection to fisheries protection and increase penalties. We expect further changes to these regulations subsequent to review and regulatory consultations that took place in 2016, but we cannot predict the scope or potential impact, if any, on our operations.

We believe the above developments have not had, and in 2018 will not have, a significant effect on our operations. Although these measures could have a material adverse effect on our operations in the future, we expect that we will not be disproportionately affected by these measures as compared with owners of comparable operations. We also expect that these measures will not significantly disrupt our planned operations.

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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.

In Canada, various levels of government have been working to address water issues including use, quality and management. Recent areas of focus include water allocation, regional watershed protection, protection of drinking water, water pricing and a national water quality index.

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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:

- are based on various assumptions we make and

- may not be accurate because of risks and uncertainties surrounding the assumptions we make.

These statements reflect our current views with respect to future events. Factors listed in this section, factors discussed under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report, and other factors not included, may cause our actual results to differ significantly 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, cash flows, or financial condition.

We undertake no obligation to update our forward-looking statements after the date of this report.

FORWARD-LOOKING TERMINOLOGY

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often use words such as expects, may, should, will, believes, anticipates, estimates, projects, intends, plans, targets or approximately, or similar words. They may use the positive, negative or another variation of those and similar words.

STATEMENTS

In this report we make forward-looking statements concerning our plans, strategies, intentions and expectations, including with respect to our strategic corporate initiatives; operational excellence initiatives, including costs and product development and production; estimated taxes and tax rates; future debt payments; future dividends; future restructuring charges; expected results of litigation and other legal proceedings and the sufficiency of litigation and other contingent liability reserves; expected uses of cash, including share repurchases; expected capital expenditures; expected economic conditions, including markets, pricing and demand for our products; laws and regulations relevant to our businesses; and our expectations relating to pension contributions and benefit payments.

RISKS, UNCERTAINTIES AND ASSUMPTIONS

Major risks and uncertainties, and assumptions that we make, that affect our business and may cause actual results to differ materially from the content of these forward-looking statements include, but are not limited to:

- the effect of general economic conditions, including employment rates, interest rate levels, housing starts, general availability of financing for home mortgages and the relative strength of the U.S. dollar;

- market demand for the company's products, including market demand for our timberland properties with higher and better uses, which is related to, among other factors, the strength of the various U.S. business segments and U.S. and international economic conditions;

- changes in currency exchange rates, particularly the relative value of the U.S. dollar to the yen and the Canadian dollar, and the relative value of the euro to the yen;

- restrictions on international trade, tariffs imposed on imports and the availability and cost of shipping and transportation; economic activity in Asia, especially Japan and China;

- performance of our manufacturing operations, including maintenance and capital requirements;

- potential disruptions in our manufacturing operations;

- the level of competition from domestic and foreign producers;

- the successful execution of our internal plans and strategic initiatives, including restructuring and cost reduction initiatives;

- the successful and timely execution and integration of our strategic acquisitions, including our ability to realize expected benefits and synergies, and the successful and timely execution of our strategic divestitures, each of which is subject to a number of risks and conditions beyond our control including, but not limited to, timing and required regulatory approvals;

- raw material availability and prices;

- the effect of weather;

- the risk of loss from fires, floods, windstorms, hurricanes, pest infestation and other natural disasters;

- energy prices;
- transportation and labor availability and costs;
- federal tax policies;
- the effect of forestry, land use, environmental and other governmental regulations;
- legal proceedings;
- performance of pension fund investments and related derivatives;
- the effect of timing of employee retirements and changes in the market price of our common stock on charges for share-based compensation;
- the accuracy of our estimates of costs and expenses related to contingent liabilities;
- changes in accounting principles; and
- other factors described in this report under Risk Factors.

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RISK FACTORS

We are subject to various risks and events that could adversely affect our business, our financial condition, our results of operations, our cash flows and the price of our common stock.

You should consider the following risk factors, in addition to the information presented elsewhere in this report, particularly in "Our Business - Who We Are", "Our Business - What We Do", "Our Business - Natural Resources and Environmental Matters", "Forward-Looking Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" as well as in the filings we make from time to time with the SEC, in evaluating us, our business and an investment in our securities.

The risks discussed 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 INDUSTRY

MACROECONOMIC CONDITIONS

The industries in which we operate are sensitive to macroeconomic conditions and consequently are highly cyclical. The overall levels of demand for the products we manufacture and distribute reflect fluctuations in levels of end-user demand, which consequently impact our sales and profitability. End-user demand depends in large part on general macroeconomic conditions, both in the U.S. and globally, as well as on local economic conditions. Current economic conditions in the United States reflect growth at or below historical trends. Global economic conditions reflect issues such as inflation and volatile and sporadic growth in emerging countries. The length and magnitude of industry cycles vary over time, both by market and by product, but generally reflect changes in macroeconomic conditions and levels of industry capacity. Any decline or stagnation in macroeconomic conditions could cause us to experience lower sales volume and reduced margins.

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. In addition, prices for our products are affected by many other factors outside of our control. As a result, we have little 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, labor (including contract labor) and energy costs, which represent significant components of our operating costs and can fluctuate based upon factors beyond our control. Both sales and profitability of our products are subject to volatility due to market forces beyond our control.

INDUSTRY SUPPLY OF LOGS AND WOOD PRODUCTS

Excess supply of logs and wood products may adversely affect prices and margins.

Our industry may increase harvest levels, which could lead to an oversupply of logs. Wood products producers may likewise expand manufacturing capacity, which could lead to an oversupply of manufactured wood products. Any increase of industry supply to our markets could adversely affect our prices and margins.

HOMEBUILDING MARKET AND ECONOMIC RISKS

High unemployment, low demand and low levels of consumer confidence can adversely affect our business and results of operations.

Our business is dependent upon the health of the U.S. housing market. 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. Other factors that could limit or adversely affect demand for new homes, and hence demand for our products, include factors such as limited wage growth, increases in non-mortgage consumer debt, any weakening in consumer confidence, and any increase in foreclosure rates and distress sales of houses.

Homebuyers' ability to qualify for and obtain affordable mortgages could be affected by changes in interest rates, changes in home loan underwriting standards and government sponsored entities and private mortgage insurance companies supporting the mortgage market.

Access to affordable mortgage financing is critical to the health of the U.S. housing market. Generally, increases in interest rates make it more difficult for home buyers to obtain mortgage financing, which could negatively affect demand for housing and, in turn, negatively affect demand for our wood products. After an extended period during which the U.S. Federal Reserve kept its benchmark interest rate at historically low levels, it began raising rates again in 2016 and 2017. The number and extent of further rate increases is uncertain.

Credit requirements were severely tightened, and the number of mortgage loans available for financing home purchases were severely reduced, during the most recent recession and ensuing credit crisis. Although the availability of credit has improved since that time, the demand for new homes could be limited or adversely affected if credit requirements were to again tighten or become more restrictive for any reason.

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, has been critical to the housing market. Any political or other developments that would have the effect of limiting or restricting the availability of financing by these government sponsored entities could also adversely affect interest rates and the availability of mortgage financing. Whether resulting from direct increases in borrowing rates, tightened underwriting standards on mortgage loans or reduced federal support of the mortgage lending industry, a challenging mortgage financing environment could reduce demand for housing and, therefore, adversely affect demand for our products.

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Changes in regulations relating to tax deductions for mortgage interest expense and real estate taxes 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. Recent federal legislation reduced the amount of mortgage interest and real estate taxes that certain taxpayers may deduct. These and any similar changes to income tax laws by the federal government or by a state government to eliminate or substantially reduce these income tax deductions, or any increase in real property taxes by local governments, may increase the cost of homeownership and thus could adversely affect the demand for our products.

TRANSPORTATION

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

Our business depends heavily on the availability of third-party transportation service providers for the transportation of our manufactured wood products and wood fiber; we are therefore materially affected by the availability and cost of these services. Any significant increase in the operating costs to our service providers, including without limitation the cost of fuel or labor, could have a material negative impact on our financial results by increasing the cost of these services to us, as well as result in an overall reduction in the availability of these services altogether.

Our third-party transportation providers are also subject to several events outside of their control, such as disruption of transportation infrastructure, labor issues and natural disasters. Any failure of a third-party transportation provider to timely deliver our products, including delivery of our wood products to our customer and delivery of wood fiber to our mills, could harm our supply chain, negatively affect our customer relationships and have a material adverse effect on our financial condition, results of operations and our reputation.

RISKS RELATED TO OUR BUSINESS

MANAGING COMMERCIAL TIMBERLANDS RISKS

Our ability to harvest and deliver timber may be subject to limitations which could adversely affect our results of operations.

Our primary assets are our timberlands. Weather conditions, timber growth cycles, access limitations, and availability of contract loggers and haulers may adversely affect our ability to harvest our timberlands. Other factors that may adversely affect our timber harvest include damage to our standing timber by fire or by insect infestation, disease, prolonged drought, flooding, severe weather and other natural disasters. Changes in global climate conditions could intensify one or more of these factors. Although damage from such causes usually is localized and affects only a limited percentage of standing timber, there can be no assurance that any damage affecting our timberlands will in fact be limited. As is common in the forest products industry, we do not maintain insurance coverage for damage to our timberlands. Our revenues, net income and cash flow from operations are dependent to a significant extent on the pricing of our products and our continued ability to harvest timber at adequate levels. Therefore, if we were to be restricted from harvesting on a significant portion of our timberlands for a prolonged period of time, or if material damage to a significant portion of our standing timber were to occur, we could suffer a materially adverse impact to our results of operations.

Our timber harvest levels may be affected by acquisitions of additional timberlands, sales of existing timberlands and shifts in harvest from one region to another. Future timber harvest levels may also be affected by our ability to timely and effectively replant harvested areas, which depends on several factors including changes in estimates of long-term sustainable yield because of silvicultural advances, natural disasters, fires, pests, insects and other hazards, regulatory constraints and other factors beyond our control.

Timber harvest activities are also subject to a number of federal, state and local regulations pertaining to the protection of fish, wildlife, water and other resources. Regulations, re-interpretations and litigation can restrict timber harvest activities and increase costs. Examples include federal and state laws protecting threatened, endangered and "at-risk" species, harvesting and forestry road building activities that may be restricted under the U.S. Federal Clean Water Act, state forestry practices laws, laws protecting aboriginal rights, and other similar regulations.

Our estimates of timber inventories and growth rates may be inaccurate and include risks inherent in calculating such estimates, which may impair our ability to realize expected revenues.

Whether in connection with managing our existing timberland portfolio or assessing potential timberland acquisitions, we make and rely on important estimates of merchantable timber inventories. These include estimates of timber inventories that may be lawfully and economically harvested, timber growth rates and end-product yields. Timber growth rates and yield estimates are developed by forest biometricians and other experts using statistical measurements of tree samples on given property. These estimates are central to forecasting our anticipated timber harvests, revenues and expected cash flows. While the company has confidence in its timber inventory processes and the professionals in the field who administer it, growth and yield estimates are inherently inexact and uncertain. If these estimates are inaccurate, our ability to manage our timberlands in a sustainable or profitable manner may be compromised, which may cause our results of operations and our stock price to be adversely affected.

Our operating results and cash flows will be materially affected by supply and demand for timber.

A variety of factors affect prices for timber, including available supply, changes in economic conditions that impact demand, the level of domestic new construction and remodeling activity, interest rates, credit availability, population growth, weather conditions and pest infestation, and other factors. These factors vary by region, by timber type (i.e., sawlogs or pulpwood logs) and by species.

Timber prices are affected by changes in demand on a local, national and international level. The closure of a mill in a region where we own timber could have a material adverse effect on demand in that region, and therefore pricing. For example, as the demand for paper continues to decline, closures of pulp mills in some of our operating regions have adversely affected the regional demand for pulpwood and wood chips. Another example involves our export of logs to Asia. While recent demand from Asian markets has remained steady, some Asian markets, particularly in China, have a history of significant volatility. A decrease in demand for logs from one or more Asian markets could have a negative impact on log and lumber prices.

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Timber prices are also affected by changes in timber availability at the local, national and international level. Our timberland ownership is concentrated in Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Oklahoma, Oregon and Washington. In some of these states, much of the timberland is privately owned. Increases in timber prices often result in substantial increases in harvesting on private timberlands, including lands not previously made available for commercial timber operations, causing a short-term increase in supply that moderates such price increases. In western states such as Oregon and Washington, where a greater proportion of timberland is government-owned, any substantial increase in timber harvesting from government-owned land could significantly reduce timber prices. Any decrease in the demand from our log export markets could also result in significant downward pressure on timber prices, particularly in the western region. On a local level, timber supplies can fluctuate depending on factors such as changes in weather conditions and harvest strategies of local timberland owners, as well as occasionally high timber salvage efforts due to events such as pest infestations, fires or other natural disasters.

Timberlands make up a significant portion of our business portfolio.

Our real property holdings are primarily timberlands and we may make additional timberlands acquisitions in the future. As the owner and manager of approximately 12.4 million acres of timberlands, we are subject to the risks that are inherent in concentrated real estate investments. A downturn in the real estate industry generally, or the timber or forest products industries specifically, could reduce the value of our properties and adversely affect our results of operations. Such a downturn could also adversely affect our customers and reduce the demand for our products, as well as our ability to realize upon our strategy of selling nonstrategic timberlands and timberland properties that have higher and better uses at attractive prices. These risks may be more pronounced than if we diversified our investments outside of real property holdings.

MANUFACTURING AND SELLING WOOD PRODUCTS RISKS

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;
- fires, floods, windstorms, earthquakes, hurricanes or other severe weather conditions or catastrophes, affecting the production of goods or the supply of raw materials (including fiber);
- the effect of drought or reduced rainfall on water supply;
- labor difficulties;
- disruptions in transportation infrastructure, including roads, bridges, rail, tunnels, shipping and port facilities;
- 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 our facilities or machines 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. Although some risks are not insurable and some coverage is limited, we purchase insurance protecting our manufacturing facilities from fires, floods, windstorms, earthquakes, equipment failures and boiler explosions.

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

Our products may compete with non-fiber 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. If use of these alternative products grows, demand for and pricing of our products could be adversely affected.

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

Our results may be materially adversely affected by a change in our product mix or pricing. If we are not successful in implementing previously announced or future price increases, or in our plans to increase sales of higher-priced, higher-value products, or if there are delays in acceptance of price increases or if customers do not accept higher-priced products, our results of operations and financial condition could be materially and adversely affected. Price discounting, if required to maintain our competitive position in one or more markets, could result in lower than anticipated price realizations and margins.

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

We compete with North American producers and, for some of our product lines, global producers, some of which may have greater financial resources and lower production costs than do we. The principal basis for competition for many of our products 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 successful with respect to any key competitive factor, our ability to attract and retain customers could be materially adversely affected. Any failure to compete effectively could have a material adverse effect on our business, financial condition and results of operations.

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Another emerging form of competition is between brands of sustainably produced products; customer demand for certain brands could reduce competition among buyers for our products or cause other adverse effects.

In North America, our forests are third party-certified to the Sustainable Forestry Initiative (SFI®) standard. Some of our customers have expressed a preference in certain of our product lines for products made from raw materials sourced from forests certified to different standards, including standards of the Forest Stewardship Council (FSC). If and to the extent that preference for a standard other than SFI® becomes a customer requirement, there may be reduced demand and lower prices for our products relative to competitors who can supply products sourced from forests certified to competing certification standards. If we seek to comply with such other standards, we could incur materially increased costs for our operations or be required to modify our operations, such as reducing harvest levels. FSC, in particular, employs standards that are geographically variable and could cause a material reduction in the harvest levels of some of our timberlands, most notably in the Pacific Northwest.

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 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 price increases, productivity improvements, cost-reduction programs or hedging arrangements.

RISKS RELATED TO CAPITAL MARKETS

CAPITAL MARKETS

Deterioration in economic conditions and capital markets could adversely affect our access to capital.

Challenging market conditions could impair the company's ability to raise debt or equity capital or otherwise access capital markets on terms acceptable to us, which may, among other impacts, reduce our ability to take advantage of growth and expansion opportunities. Likewise, our customers and suppliers may be unable to raise capital to fund their operations, which could, in turn, adversely affect their ability to purchase products or sell products to us.

CREDIT RATINGS

Changes in credit ratings issued by nationally recognized 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 and balance sheet, actions that we take, their view of the general outlook for our industry and their view of the general outlook for the economy. Ratings decisions by these agencies include maintaining, upgrading or downgrading our current rating, as well as placing the company on a "watch list" for possible future ratings actions. Any downgrade of our credit rating, or decision by a rating agency to place us on a "watch list" for possible future downgrading could have an adverse impact on our ability to access credit markets, increase our cost of financing, and have an adverse effect on the market price of our securities.

CAPITAL REQUIREMENTS AND ACCESS TO CAPITAL

Our operations require substantial capital.

Our businesses require substantial capital for expansion and for 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 significant impact on our financial condition, results of operations and cash flows.

While 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 acceptable economic terms, we could experience a material adverse

effect on our business, financial condition, results of operations and cash flows.

FOREIGN CURRENCY

We will be affected by changes in currency exchange rates.

We have manufacturing operations in Canada. We are also an exporter and compete with global producers of products very similar to ours. Therefore, we are affected by changes in the strength of the U.S. dollar, particularly relative to the Canadian dollar, euro and yen, and the strength of the euro relative to the yen. Changes in exchange rates could materially and adversely affect our sales volume, margins and results of operations.

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RISKS RELATED TO LEGAL, REGULATORY AND TAX

ENVIRONMENTAL 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 and other silvicultural activities,
- forestry operations and endangered species habitat protection,
- surface water management,
- the storage, management and disposal of hazardous substances and wastes,
- the cleanup of contaminated sites,
- landfill operation and closure obligations,
- building codes, and
- health and safety matters.

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

As the owner and operator of real estate, we may be liable under environmental laws for cleanup, closure and other damages resulting from the presence and release of hazardous substances on or from our properties or operations. In addition, surface water management regulations may present liabilities and are subject to change. 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.

We also lease some of our properties to third-party operators for the purpose of exploring, extracting, developing and producing oil, gas, rock and other minerals in exchange for fees and royalty payments. These activities are also subject to federal, state and local laws and regulations. These operations may create risk of environmental liabilities for any unlawful discharge of oil, gas or other chemicals into the air, soil or water. Generally, these third-party operators indemnify us against any such liability, and we require that they maintain liability insurance during the term of our lease with them. However, if for any reason our third-party operators are not able to honor their indemnity obligation, or if the required liability insurance were not in effect, then it is possible that we could be deemed responsible for costs associated with environmental liability caused by such third-party operators.

Any material liability we incur as a result of activities conducted on our properties by us or by others with whom we have a business relationship could adversely affect our financial condition.

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 monetization of carbon. Compliance with regulations that implement new public policy in these areas might require significant expenditures. These developments may also include mandated changes to energy use and building codes which could affect our homebuilding practices.

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 and a number of other areas that could require significant expenditures.

Changes in global or regional climate conditions and governmental response to such changes at the international, U.S. federal and state levels may affect our operations or our planned or future growth activities.

There continue to be numerous international, U.S. federal and state-level initiatives and proposals to address domestic and global climate issues. Within the U.S. and Canada, some of these proposals would (and have in some Canadian provinces) regulate and/or tax the production of carbon dioxide and other greenhouse gases to facilitate the reduction of carbon compound emissions into the atmosphere and provide tax and other incentives to produce and use cleaner energy. Climate change impacts, if they occur, and governmental initiatives, laws and regulations to address potential climate concerns, could increase our costs and have a long-term adverse impact on our businesses and results of operations. Future legislation or regulatory activity in this area remains uncertain, and its impact on our operations is unclear at this time. However, it is possible that legislation or government mandates, standards or regulations intended to mitigate or reduce carbon compound or greenhouse gas emissions or other climate change impacts could adversely affect our operations. For example, such activities could limit harvest levels or result in significantly higher costs for energy and other raw materials. Because our manufacturing operations depend upon significant amounts of energy and raw materials, these initiatives could have an adverse impact on our results of operations and profitability.

LEGAL MATTERS

We are involved in various environmental, regulatory, product liability and other legal matters, disputes and proceedings that, if determined or concluded in a manner adverse to our interests, could have a material adverse effect on our financial condition.

We are, from time to time, involved in a number of legal matters, disputes and proceedings (“legal matters”), some of which involve on-going litigation. These include, without limitation, legal matters involving environmental clean-up and remediation, warranty and non-warranty product liability claims, regulatory issues, contractual and personal injury claims and other legal matters. In some cases, all or a portion of any loss we experience in connection with any such legal matters will be covered by insurance; in other cases, any such losses will not be covered.

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The outcome, costs and other effects of current legal matters in which we are involved, and any related insurance recoveries, cannot be determined with certainty. Although the disclosures in Note 14: Legal Proceedings, Commitments and Contingencies and Note 20: Income Taxes of Notes to Consolidated Financial Statements contain management's current views of the effect such legal matters could have on our financial results, there can be no assurance that the outcome of such legal matters will be as currently expected. It is possible that there could be adverse judgments against us in some or all major litigation matters against us, and that we could be required to take a charge and make cash payments for all or a portion of any related awards of damages. Any one or more of such charges or cash payment could materially and adversely affect our results of operations or cash flows for the quarter or year in which we record or pay it.

REIT STATUS AND TAX IMPLICATIONS

If we fail to remain qualified as a REIT, our taxable income would be subject to tax at corporate rates and we would not be able to deduct dividends to shareholders.

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 not be allowed to deduct dividends to shareholders in computing our taxable income.

- We would be subject to federal and state income tax on our taxable income at applicable corporate rates.

- We also would be disqualified from treatment as a REIT for the four taxable years following the year during which we lost qualification.

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. Certain of our business activities are subject to corporate-level income tax and potentially subject to prohibited transactions 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 harvesting and sale of logs, the development or sale of certain timberlands and other real estate, and the manufacture and sale of wood products 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. The net income of our TRSs is subject to corporate-level income tax.

The extent of our use of our TRSs 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. The 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 the development and sale of certain higher and better use (HBU) property. Our TRSs are subject to corporate-level income tax. Under the Code, no more than 20 percent of the value of the gross assets of a REIT may be represented by securities of one or more TRSs. 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 TRSs.

The ability of the REIT to receive dividends from our TRSs 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 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 TRSs 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. The net income of our TRSs is not required to be distributed, and TRS income that is not distributed to the REIT 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 corporate 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.

Changes in tax laws or their interpretation could adversely affect our shareholders and our results of operations.

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 tax laws could adversely affect our shareholders or increase our effective tax rates. 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.