

description of the business of the company

Weyerhaeuser Company (the company) was incorporated in the state of Washington in January 1900 as Weyerhaeuser Timber Company. It is principally engaged in the growing and harvesting of timber and the manufacture, distribution and sale of forest products, real estate development and construction, and other real estate related activities.

The company has 35,000 employees, of whom 34,000 are employed in its timber-based businesses, and of this number, approximately 18,000 are covered by collective bargaining agreements, which generally are negotiated on a multi-year basis.

Approximately 1,000 of the company's employees are involved in the activities of its real estate and related assets segment.

The major markets, both domestic and foreign, in which the company sells its products are highly competitive, with numerous strong sellers competing in each. Many of the

company's products also compete with substitutes for wood and wood fiber products. The company's subsidiaries in the real estate and related assets segment operate in highly competitive markets, competing with numerous regional and national firms in real estate development and construction and other real estate related activities.

In 1998, the company's sales to customers outside the United States totaled \$1.8 billion (including exports of \$1.1 billion from the United States and \$700 million of Canadian export and domestic sales), or 17 percent of total consolidated sales and revenues, compared with 20 percent in 1997. The company believes these sales contributed a higher proportion of aggregate operating profits. All sales to customers outside the United States are subject to risks related to international trade and to political, economic and other factors that vary from country to country.

BUSINESS SEGMENTS

TIMBERLANDS

The company is engaged in the management of 5.1 million acres of company-owned and .2 million acres of leased commercial forestland in the United States (3.3 million acres in the South and 2 million acres in the Pacific Northwest), most of it highly productive and located extremely well to serve both domestic and international markets. The standing timber inventory on these lands is approximately 94 million cunits (a cunit is 100 cubic feet of solid wood). The relationship between cubic measurement and the quantity of end products that may be produced from timber varies according to the species, size and quality of timber, and will change through time as the mix of these variables changes. To sustain the timber supply from its fee timberlands, the company is engaged in extensive planting, suppression of nonmerchantable species, precommercial and commercial thinning,

fertilization and operational pruning, all of which increase the yield from its fee timberland acreage.

The company, through its wholly owned subsidiary, Weyerhaeuser New Zealand Inc., is responsible for the management and marketing activities of a New Zealand joint venture located on the northern end of the South Island consisting of 151,000 acres of Crown Forest License cutting rights and approximately 42,000 acres of freehold land.

The company, through its wholly owned subsidiary, Weyerhaeuser Forestlands International, is a 50 percent owner in RII Weyerhaeuser World Timberfund, L.L.P., a joint-venture partnership, which makes investments outside the United States. This joint venture owns 97 percent of a Uruguayan venture, Colonvade, S.A., which has acquired over 234,000 acres of private grazing land that is currently being converted into plantation forests.

Dollar amounts in millions

Sales to unaffiliated customers:

Raw materials (logs, chips and timber)
Other products

	1998	1997	1996	1995	1994
\$	599	\$ 760	\$ 830	\$ 850	\$ 877
	37	37	37	32	25
\$	636	\$ 797	\$ 867	\$ 882	\$ 902

Intersegment sales

\$	488	\$ 520	\$ 513	\$ 574	\$ 502
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Approximate contributions to earnings

\$	487	\$ 535	\$ 503	\$ 560	\$ 565
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WOOD PRODUCTS

The company's wood products businesses produce and sell softwood lumber, plywood and veneer; oriented strand board, composite and other panels; hardwood lumber; doors and treated products. These products are sold primarily through the company's own sales organizations. Building materials are sold to wholesalers, retailers and industrial users. The raw materials required to produce these products are purchased from third parties, transferred at market price from the company's timberlands, or

obtained from long-term licensing arrangements covering approximately 27 million acres in Canada (of which 18.9 million acres are considered to be productive forestland).

During the 1998 fourth quarter, the company changed its British Columbia lumber operations by permanently closing the Lumby sawmill, converting the Merritt mill to a planer-only operation and reconfiguring its remaining four sawmills to achieve improved production.

Dollar amounts in millions

Sales to unaffiliated customers:

	1998	1997	1996	1995	1994
Softwood lumber	\$ 1,793	\$ 2,094	\$ 1,988	\$ 1,648	\$ 1,880
Softwood plywood and veneer	452	502	519	591	636
Oriented strand board, composite and other panels	765	594	667	752	750
Hardwood lumber	240	272	235	193	175
Engineered wood products	330	284	233	207	157
Raw materials (logs, chips and timber)	228	232	220	228	91
Other products	667	599	511	430	401
	<u>\$ 4,475</u>	<u>\$ 4,577</u>	<u>\$ 4,373</u>	<u>\$ 4,049</u>	<u>\$ 4,090</u>
	<u>\$ 183</u>	<u>\$ 172</u>	<u>\$ 302</u>	<u>\$ 248</u>	<u>\$ 469</u>

Approximate contributions to earnings⁽¹⁾⁽²⁾

⁽¹⁾After nonrecurring charges totaling \$25 million for changes to the British Columbia lumber operations in 1998.

⁽²⁾After nonrecurring charges totaling \$40 million associated with the closure of a lumber mill and two plywood facilities in 1997.

PULP, PAPER AND PACKAGING

The company's pulp, paper and packaging businesses include: Pulp, which manufactures chemical wood pulp for world markets; Paper, which manufactures and markets a range of both coated and uncoated fine papers through paper merchants and printers; Containerboard Packaging, which manufactures linerboard and corrugating medium, primarily used in the production of corrugated packaging, and manufactures and markets industrial and agricultural packaging; Paperboard, which manufactures and markets bleached paperboard, used for production of liquid containers, to West Coast and Pacific Rim customers; and Recycling, which operates an extensive wastepaper collection system and markets it to company mills and worldwide customers.

During the first quarter of 1998, the company completed the ownership restructure of its newsprint joint venture, North Pacific Paper Corporation (NORPAC). Through this restructuring, the ownership changed from 80 percent company ownership and 20 percent Nippon Paper Industries Co., Ltd., to 50 percent for each shareholder.

The company provides raw materials, management, marketing and support services to this joint venture.

The company took charges for the closure of the Longview, Washington, chlor-alkali facility and the streamlining of the pulp and paper operations in the 1998 fourth quarter.

In the fourth quarter of 1998, the company completed the purchase of the Dryden, Ontario, Canada, uncoated freesheet mill and related assets from Bowater Inc. This facility has the capacity to produce 380,000 short tons of fine paper per year and a small amount of bleached softwood market pulp. Two lumber mills, with 200 million board feet of capacity, and timber licenses comprising 4.35 million acres were also part of this purchase.

In 1998, the company's 50 percent owned joint venture, SCA Weyerhaeuser Packaging Holding Company Asia Ltd., opened a newly constructed containerboard packaging facility in Shanghai, China. Construction continues on another facility in Wuhan, China, which is expected to open in 1999.

In the 1998 fourth quarter, the company and Wilton Connor Packaging, Inc., formed a joint venture, Wilton Connor LLC, based in Charlotte, North Carolina. This joint venture, in which the company has a 50 percent

ownership interest, supplies full-service, value-added turn-key packaging solutions that assist product manufacturers in the areas of retail marketing and distribution.

<i>Dollar amounts in millions</i>	1998	1997	1996	1995	1994
Sales to unaffiliated customers:					
Pulp	\$ 935	\$ 986	\$ 954	\$ 1,616	\$ 1,012
Paper	869	842	803	1,001	664
Paperboard and containerboard	298	301	281	325	240
Packaging	1,894	1,781	1,921	1,863	1,495
Newsprint ⁽¹⁾	37	416	451	508	356
Recycling	191	189	140	266	121
Other products	88	94	98	103	178
	<u>\$ 4,312</u>	<u>\$ 4,609</u>	<u>\$ 4,648</u>	<u>\$ 5,682</u>	<u>\$ 4,066</u>
Approximate contributions to earnings⁽²⁾⁽³⁾	<u>\$ 150</u>	<u>\$ 164</u>	<u>\$ 307</u>	<u>\$ 1,181</u>	<u>\$ 211</u>

⁽¹⁾As of February 1998, the company's ownership in its newsprint subsidiary changed from 80 percent to 50 percent; therefore, these results reflect one month's sales.

⁽²⁾After nonrecurring charges of \$42 million associated with the closure of the Longview, Washington, chlor-alkali facility and streamlining pulp and paper operations in 1998.

⁽³⁾After the gain of \$21 million on the sale of Saskatoon Chemicals, Ltd., and charges totaling \$49 million for the closure of a corrugated medium machine and the restructuring of the recycling business in 1997.

REAL ESTATE AND RELATED ASSETS

The company, through its subsidiary, Weyerhaeuser Real Estate Company (WRECO), is engaged in developing single-family housing and residential lots for sale, including development of master-planned communities.

Operations are concentrated mainly in selected metropolitan areas in Southern California, Nevada, Washington, Texas, Maryland and Virginia.

<i>Dollar amounts in millions</i>	1998	1997	1996	1995	1994
Sales to and revenues from unaffiliated customers:					
Single-family units	\$ 834	\$ 688	\$ 573	\$ 563	\$ 686
Multi-family units	36	29	12	—	26
Residential lots	103	91	76	60	65
Commercial lots	23	57	50	29	7
Commercial buildings	100	68	43	4	35
Acreage	36	41	25	36	20
Interest ⁽¹⁾	18	35	70	76	84
Loan origination and servicing fees ⁽¹⁾	—	35	100	84	88
Other	42	49	60	67	106
	<u>\$ 1,192</u>	<u>\$ 1,093</u>	<u>\$ 1,009</u>	<u>\$ 919</u>	<u>\$ 1,117</u>
Approximate contributions to earnings⁽²⁾	<u>\$ 124</u>	<u>\$ 111</u>	<u>\$ 43</u>	<u>\$ (277)</u>	<u>\$ 18</u>

⁽¹⁾Interest and loan origination and servicing fees relate principally to the company's operations in financial services through its subsidiary, Weyerhaeuser Mortgage Company, which was sold in the second quarter of 1997.

⁽²⁾After a \$45 million gain on the sale of Weyerhaeuser Mortgage Company in 1997 and a charge of \$290 million to dispose of certain real estate assets in 1995.

CORPORATE AND OTHER

Corporate and other includes marine transportation and general corporate expense.

<i>Dollar amounts in millions</i>	1998	1997	1996	1995	1994
Sales to unaffiliated customers	\$ 151	\$ 134	\$ 217	\$ 256	\$ 223
Approximate contributions to earnings⁽¹⁾⁽²⁾	<u>\$ (225)</u>	<u>\$ (186)</u>	<u>\$ (183)</u>	<u>\$ (217)</u>	<u>\$ (142)</u>

⁽¹⁾After nonrecurring charges of \$4 million for streamlining corporate operations in 1998.

⁽²⁾After a \$10 million gain, which is the net effect of interest income from a favorable federal income tax decision and the loss incurred in the sale of Shemin Nurseries in 1997.

Since 1990, a number of fish and wildlife species that occur in streams and timberlands in the Pacific Northwest (Washington, Oregon, Idaho and northern California) have been listed as threatened or endangered in at least some portions of their ranges under the Endangered Species Act (ESA). These include the northern spotted owl, marbled murrelet, Umpqua River cutthroat trout, several Snake River salmon runs, coho salmon, bull trout and steelhead trout. Petitions have been filed to list other species and additional populations of some of those species as threatened or endangered under the ESA. A consequence of these listings has been, and a consequence of future listings may be, reductions in the sale and harvest of timber on federal timberlands in the Pacific Northwest. Federal and state requirements to protect habitat for threatened and endangered species have resulted in restrictions on timber harvest on some nonfederal timberlands in the Pacific Northwest, including some timberlands of the company. Additional regulatory actions taken by federal or state agencies to protect habitat for these species may, in the future, result in restrictions on timber harvests and other forest management practices in such states, including company timberlands in western Washington and western Oregon, could increase operating costs, and could affect timber supply and prices. The company believes that such restrictions will not have a significant effect on the company's total harvest of timber or production of forest products in 1999, although they may have such an effect in the future.

The listing of the red-cockaded woodpecker as an endangered species under the ESA had some effect on the harvest of public and private timber in the southeastern United States, but has had little effect on the company's operations. Other ESA-listed species (e.g., American burying beetle and gopher tortoise) occur on or near some of the company's southern timberlands, but have had little effect on the company's operations.

Other federal ESA listings, or designations of fish and wildlife species as endangered, threatened or otherwise sensitive under various state laws, could affect future timber harvests on some of the company's timberlands and could affect timber supply and prices in some regions. In addition, regulations protecting wetlands may affect future harvest and forest management practices on some of the company's timberlands, particularly in southeastern states.

In February 1995, the company obtained U.S. Fish and Wildlife Service approval of a Habitat Conservation Plan (HCP) and Incidental Take Permit with respect to northern spotted owls on approximately 209,000 acres of its Oregon coastal timberlands, which is expected to remain in effect

for at least 50 years. In December 1996, the company applied to the U.S. Fish and Wildlife Service and the National Marine Fisheries Service for a multiple-species HCP covering approximately 400,000 acres of company timberlands in western Oregon. If the HCP is approved and the related Incidental Take Permit is issued, the company would be authorized to "take" members of species currently listed or proposed for listing under the ESA and members of all or most species that may become listed in the future in the course of conducting forest management and other activities on those lands. Under both HCPs, there are limits on the amounts of covered lands that can be sold or exchanged unless the new owner agrees to be bound by the HCP and related documents or the agencies approve the change in ownership. The company also has obtained from the U.S. Fish and Wildlife Service an Incidental Take Permit for the American burying beetle covering approximately 25,000 acres of lands in Oklahoma and has entered into agreements with the U.S. Fish and Wildlife Service to reduce uncertainties under the ESA with respect to red-cockaded woodpeckers on some of its timberlands in North Carolina and northern spotted owls on some of its timberlands in Washington.

Forest practice acts in some of the states in which the company has timber increasingly affect present or future harvest and forest management activities. For example, forest practice acts in Washington and Oregon limit the size of clearcuts; require that some timber be left unharvested in riparian areas and sometimes in other areas to protect water quality, fish habitat and wildlife; regulate construction of forest roads and conduct of other forest management activities; require reforestation following timber harvest; and contain procedures for state agencies to review and approve proposed forest practice activities. Other states and some local governments regulate certain forest practices through various permit programs. Each state in which the company owns timberlands has developed "best management practices" (BMPs) to reduce the effects of forest practices on water quality and aquatic habitats. Additional and more stringent regulations and regulatory programs may be adopted by various state and local governments to achieve water-quality standards under the Clean Water Act or to preserve aquatic habitats. These current or future forest practice acts, BMPs and other programs may reduce the volumes of timber that can be harvested, increase operating and administrative costs, and make it more difficult to respond to rapid changes in markets, extreme weather or other unexpected circumstances. However, the company does not anticipate that it will be disproportionately affected by these programs as

compared with typical owners of comparable timberlands or that these programs will significantly disrupt its planned operations over large areas or for extended periods.

In addition, the company participates in the Sustainable Forestry InitiativeSM sponsored by the American Forest & Paper Association, a code of conduct designed to supplement government regulatory programs with voluntary landowner initiatives to further protect certain public resources and values. Compliance with the Sustainable Forestry InitiativeSM may require some increases in operating costs.

The combination of the forest management and harvest restrictions and effects described in the preceding paragraphs has increased operating costs, resulted in changes in the value of timber and logs from the company's Pacific Northwest timberlands, and contributed to increases in the prices paid for wood products and wood chips during periods of high demand. One additional effect may be the continuation of some reduced usage of, and some substitution of other products for, lumber and plywood. The company does not believe that the restrictions and effects described in the above paragraphs have had, or in 1999 or 2000 will have, a significant effect on the company's total harvest of timber, although they may have such an effect in the future.

In addition to the foregoing, the company is subject to federal, state or provincial and local air, water and land pollution control, solid and hazardous waste management, disposal and remediation laws and regulations in all areas in which it has operations and to market demands with respect to chemical content of some products and use of recycled fiber. Compliance with these laws, regulations and demands usually involves capital expenditures as well as operating costs. The company cannot easily quantify future amounts of capital expenditures required to comply with these laws, regulations and demands, or the effects on operating costs, because in some instances compliance standards have not been developed or have not become final or definitive. In addition, compliance with standards frequently serves other purposes such as extension of facility life, increase in capacity, changes in raw material requirements, or increase in economic value of assets or products. While it is difficult to isolate the environmental component of most manufacturing capital projects, the company estimates that capital expenditures for environmental compliance were approximately \$108 million (18 percent of total capital expenditures excluding acquisitions) in 1998. Based on its understanding of current regulatory requirements, the company expects that average expenditures will range from \$100 million to \$110 million (13 to 14 percent of total capital expenditures) in 1999 and 2000.

The company is involved in the environmental investigation or remediation of numerous sites. Some of the sites are on property presently or formerly owned by the company where the company has the sole obligation to remediate the site or shares that obligation with one or more parties, others are third-party sites involving several parties who have a joint and several obligation to remediate the site, and some are superfund sites where the company has been named as a potentially responsible party. The company's liability with respect to these sites ranges from insignificant at some sites to substantial at others, depending on the quantity, toxicity and nature of materials deposited by the company at the site and, with respect to some sites, the number and economic viability of the other responsible parties.

The company spent approximately \$12 million in 1998 and expects to spend \$13 million in 1999 on environmental remediation of these sites. It is the company's policy to accrue for environmental remediation costs when it is determined that it is probable that such an obligation exists and the amount of the obligation can be reasonably estimated. Based on currently available information and analysis, the company believes that it is reasonably possible that costs associated with all identified sites may exceed current accruals by amounts that may prove insignificant or that could range, in the aggregate, up to approximately \$90 million over several years. This estimate of the upper end of the range of reasonably possible additional costs is much less certain than the estimates upon which accruals are currently based and utilizes assumptions less favorable to the company among the range of reasonably possible outcomes.

An Environmental Protection Agency (EPA) regulation under Title V of the Clean Air Act requires updated comprehensive operating permits at many of the company's manufacturing operations. The company will continue to prepare the permit applications in 1999 and anticipates that it will be able to obtain the necessary permits.

The EPA published proposed regulations on December 17, 1993, known as the "Cluster Rules," which would establish maximum achievable control technology standards for noncombustion sources under the Clean Air Act, and revised wastewater effluent limitations under the Clean Water Act. The original proposal has been modified on two occasions. The final rule was approved by the administrator of the EPA in November 1997 and went into effect in early 1998. The Cluster Rules will require the company to commit over the next several years approximately \$80 million of additional capital to further reduce air emissions and wastewater discharges.

RESULTS OF OPERATIONS

1998 COMPARED WITH 1997

Consolidated net sales and revenues for 1998 were \$10.8 billion, a decrease of 4 percent over the prior year's \$11.2 billion. Lower average prices in the major products were the principal factor in this unfavorable variance compared with 1997. In total, revenue changes as a result of volume variances were unchanged from the prior year.

1998 net earnings were \$294 million, or \$1.48 basic earnings per common share, a 14 percent decrease from \$342 million, or \$1.72 basic earnings per common share in 1997. The 1998 results reflect an after-tax charge of \$45 million, or 23 cents per common share, primarily associated with streamlining pulp and paper operations, the closure of the Longview chlor-alkali facility and changes to the British Columbia lumber operations. During the year, the company also incurred pretax charges of \$42 million on Year 2000 remediation work. 1997 earnings included an after-tax net charge of \$9 million, or 4 cents per common share, related to the closure of operating facilities, offset in part by the gain on sale of businesses. Diluted earnings per common share, which are based upon the inclusion of outstanding stock options in the weighted average number of shares outstanding, were \$1.47 and \$1.72 for 1998 and 1997, respectively.

The timberlands segment's operating earnings for 1998 were \$487 million compared with \$535 million in 1997. The current year's results were hurt by a soft export market early in the year that weakened prices for both domestic and export logs. Net sales for the year were \$636 million compared with \$797 million in 1997. Export log prices did improve throughout the year and were above 1997 fourth-quarter levels at year-end.

Operating earnings for the wood products segment were \$208 million before the \$25 million nonrecurring pretax charge associated with changes in the British Columbia lumber operations. This compares with the \$212 million earned before nonrecurring pretax charges of \$40 million for the closure of two plywood facilities and an export sawmill in 1997. This segment posted net sales of \$4.5 billion for the year, comparable to \$4.6 billion in the prior year. Oriented strand board enjoyed a strong year with both volumes and prices above 1997 levels. Lower prices for lumber, however, offset the effects of higher volume driven by domestic housing starts.

The pulp, paper and packaging segment had operating earnings of \$192 million in 1998 before the nonrecurring pretax \$42 million charge associated with streamlining pulp and paper operations and the closure of the Longview,

Washington, chlor-alkali facility. This is comparable to the \$192 million earned in 1997 before a pretax nonrecurring charge of \$28 million, which is the net of a \$49 million charge for facility closures, offset in part by a \$21 million gain on the sale of the Saskatoon, Saskatchewan, Canada, chemical business. Sales for the segment were \$4.3 billion for the year compared with \$4.6 billion in the prior year. Prices for most grades of pulp and paper were below 1997 levels. The ownership restructuring of the North Pacific Paper Corporation newsprint facility from a fully consolidated subsidiary to a 50 percent owned equity affiliate in February 1998 also unfavorably impacted segment sales for the year.

The real estate and related assets segment posted operating earnings of \$124 million in 1998, compared with 1997 earnings of \$66 million, before the gain of \$45 million on the sale of Weyerhaeuser Mortgage Company. Improved operating performance and the strong housing market contributed to stronger earnings. Net sales and revenues were \$1.2 billion in 1998 compared with \$1.1 billion in 1997. This increase was primarily from the sale of single-family units, offset in part by the elimination of loan origination and service fees generated in previous years by the mortgage banking business. The sale of commercial properties was essentially unchanged from year to year.

Weyerhaeuser's costs of products sold were \$398 million or 5 percent less in 1998 than 1997. This is consistent with the reduction in Weyerhaeuser net sales and maintains the costs of products sold as a percentage of sales at 78 percent, the same as 1997. Charges of \$71 million in 1998 and \$89 million in 1997 for the closure or disposition of facilities were included in costs and expenses. The product inventory turnover rate was 11.8 turns for the year, slightly less than the 12.1 turns in 1997.

The real estate and related assets segment costs and operating expenses rose in 1998 on par with the increase in sales and revenues. Selling, general and administrative expenses decreased by \$43 million for 1998 due principally to the sale of the mortgage banking business.

Other income (expense) is an aggregation of both recurring and occasional income and expense items and, as a result, can fluctuate from year to year. There were no significant individual items in 1998. Significant items in 1997 for Weyerhaeuser were interest income of \$18 million from a favorable federal income tax decision, a loss of \$8 million from the sale of the wholesale nursery business

and a gain of \$21 million from the sale of the Saskatoon chemical facility. The real estate and related assets segment had a gain of \$45 million from the sale of the mortgage banking business in 1997.

CHARGE FOR CLOSURE OR DISPOSITION OF FACILITIES

In 1998 and 1997, the company took pretax charges of \$71 million and \$89 million, respectively, for closure or disposition of facilities. The operating results of these facilities prior to these exit activities were not material to the company's results of operations. The company expects the principal portion of these exit activities to be completed by 1999 year-end. These charges were related to the following facilities or activities:

1998:

- \$25 million for changes in the British Columbia lumber operations — Due to increased costs, the market impact of U.S. lumber quotas and the effect of the size and location of the mills on the business' competitiveness, the company is repositioning its British Columbia lumber operations. This includes permanently closing a sawmill in Lumby, converting the Merritt mill to a planer-only operation, and reconfiguring the company's remaining four sawmills in the province to achieve improved production capacity. Approximately 200 jobs are affected by these changes.

- \$22 million for closure of the Longview, Washington, chlor-alkali facility — The company is closing this facility by the end of the first quarter of 1999 because of current market conditions and the need to invest significant capital to ensure continued safe operation of the plant. This closure completes the company's exit from chemical manufacturing. Approximately 100 jobs will be eliminated by this closure.

- \$20 million for pulp and paper operations reorganization — Streamlining efforts in these businesses will affect approximately 460 employees.

- \$4 million for corporate operations streamlining — The outsourcing of the company's employee benefits administration and the closure of the urban waste recovery business will result in the elimination of approximately 80 positions.

These costs are categorized in the aggregate as follows:

<i>Dollar amounts in millions</i>	1998
Termination and other employee-related costs	\$ 39
Dispositions of property and equipment at net book value	16
Write-off of inventories	1
Environmental cleanup	9
Other exit activities	6
	<u>\$ 71</u>

1997:

- \$34 million for the closure, consolidation or disposition of recycling facilities — The company is making

adjustments to the nationwide system to meet the needs of internal and external customers in an increasingly competitive marketplace. Approximately 330 jobs are affected by these changes.

- \$15 million for the permanent closure of the corrugated medium machine and administrative reorganization at the Longview, Washington, plant site — The company determined that the machine was not large enough to be a cost-competitive operation and after examining the limited options available decided to permanently close the operation. No employees were affected in 1997 by the machine closure; however, the administrative reorganization displaced 29 employees.

- \$25 million for the closures of the Plymouth, North Carolina, and Philadelphia, Mississippi, plywood facilities — These closures were a part of the company's long-term strategy to align its wood products manufacturing facilities with the changing future sources of raw materials.

The company closed the Plymouth facility rather than modernize it due to market conditions and high raw material values. In addition, this facility lacked an independent energy source, a problem that would have required a substantial investment. Approximately 240 jobs were eliminated by this closure.

The closure of the Philadelphia facility allowed the company to strengthen the production capability of a sawmill that operates on the same site. This was the company's oldest and smallest plywood operation and was located in a very competitive woodbasket in which raw material costs have risen significantly in recent years. The closure resulted in the elimination of approximately 165 plywood related jobs.

- \$15 million for the closure of the Coos Bay, Oregon, export sawmill and scaling back of related logging operations — Changing customer requirements, including declining demand for post-and-beam style housing and increased customer acceptance of substitute products in the Japanese market, eroded demand for products from this mill. Japanese homebuilders are using more dimension lumber, laminated beams and prefabricated panels, a trend that will further erode demand for post-and-beam lumber. This closure resulted in the loss of an estimated 200 positions at the mill.

These costs are categorized in the aggregate as follows:

<i>Dollar amounts in millions</i>	1997
Termination and other employee-related costs	\$ 20
Dispositions of property and equipment at net book value	45
Write-off of goodwill at net book value	14
Write-off of inventories	4
Environmental cleanup	2
Leasehold termination costs	1
Other exit activities	3
	<u>\$ 89</u>

During 1997, the company's consolidated net sales and revenues were \$11.2 billion compared with \$11.1 billion in the prior year. Sales were relatively even from year to year in all the operating segments, with increased volumes in most product lines offsetting unfavorable price variances. While the real estate and related assets segment included only four months of revenues from Weyerhaeuser Mortgage Company due to the sale of this business in May, the lost revenues were more than offset by increased revenues from real estate activity.

Net earnings for the year were \$342 million, or \$1.72 basic earnings per common share, compared with \$463 million, or \$2.34 basic earnings per common share, in 1996. The 1997 earnings included an after-tax net charge of \$9 million, or 4 cents per common share, related to the charges incurred for closures of operating facilities, offset in part by the gain on sale of businesses. Diluted earnings per common share, which is based upon the weighted average number of shares outstanding plus shares the company may be obligated to issue to satisfy stock options, were \$1.72 and \$2.33 for 1997 and 1996, respectively.

1997 operating earnings in the timberlands segment were \$535 million compared with \$503 million in 1996. The wood products segment earned \$212 million, before nonrecurring charges totaling \$40 million for the closure of two plywood facilities and an export sawmill in 1997, compared with \$302 million in 1996. The combined decrease from year to year in these two segments was the combination of weak export demand for logs and lumber and lower domestic structural panel prices, offset somewhat by a stronger domestic lumber market.

The pulp, paper and packaging segment had operating earnings of \$192 million in 1997 before a net charge of \$28 million compared with \$307 million in the previous year. The net charge included a \$49 million charge for the consolidation, closure or disposition of certain recycling facilities, the closure of a corrugated medium machine, and a gain of \$21 million from the sale of a chemical facility in Saskatoon, Saskatchewan, Canada. Volume increases in all product lines were more than offset by weaker average

prices when compared with 1996, although pulp, paper and packaging markets improved each quarter in 1997. The paper and packaging markets continued this improvement through the fourth quarter; however, pulp markets began to weaken during the quarter due to a decline in demand in Asia.

The real estate and related assets segment earned \$66 million for the year before a \$45 million gain on the sale of the company's wholly owned subsidiary, Weyerhaeuser Mortgage Company, reflecting stronger real estate markets, an increased focus on the home building and land development businesses, and improved operating efficiencies.

The increase in Weyerhaeuser's costs of products sold, as a percentage of sales, to 78 percent in 1997 compared with the prior year's 75 percent can be attributed to the price weaknesses described above. Charges of \$89 million incurred for the closure of production facilities were a factor in the increase in costs and expenses for 1997 over the prior year. The product inventory turnover rate was 12.1 turns for the year compared with 10.3 turns in 1996.

The increase in costs and operating expenses in the real estate and related assets segment is consistent with the increased revenues from the strong real estate markets. Reduced selling, general and administrative expenses, compared with the prior year, are due primarily to the sale of the mortgage banking business.

Other income (expense) is an aggregation of both recurring and occasional income and expense items and, as a result, can fluctuate from year to year. Individual items significant in relation to net earnings in 1997 were: a gain of \$45 million from the sale of the mortgage banking business, interest income of \$18 million from the favorable federal income tax decision related to timber casualty losses incurred in the eruption of Mount St. Helens in 1980, a loss of \$8 million from the sale of the wholesale nursery business, and a gain of \$21 million from the sale of the Saskatoon chemical facility. There were no significant individual items in 1996.

Consolidated net sales and revenues were \$11.1 billion in 1996, a decrease of 6 percent from the record \$11.8 billion posted in 1995. This change is the net of decreases of \$1 billion in the pulp, paper and packaging segment and \$15 million in timberlands, offset in part by an increase of \$324 million in wood products. Pulp, paper, corrugated packaging and recycled products experienced material unfavorable price variances offset, in part, by favorable volume variances in the packaging business related to the acquisition of nine facilities in late 1995. Wood products benefited from favorable price and volume variances in lumber.

Net earnings for 1996 were \$463 million, or \$2.34 basic earnings per common share, compared with record earnings of \$799 million, or \$3.93 basic earnings per common share, in 1995. The 1995 earnings were net of an after-tax charge of \$184 million (\$290 million pretax), or 90 cents per common share, for the disposal of certain real estate assets in the real estate and related assets segment. Lower prices in the pulp, paper and packaging segment, which were in sharp contrast with the record 1995 levels, accounted for the decline in 1996 earnings.

The timberlands segment operating earnings were \$503 million, down from 1995 earnings of \$560 million.

Wood products segment earnings were \$302 million in 1996, up significantly from 1995 earnings of \$248 million. Tight supplies and disruptions related to countervailing duties on imports from Canada contributed to strong lumber results. The panel markets were negatively impacted by the excess capacity of oriented strand board as new facilities came on line in 1996.

The pulp, paper and packaging segment reported operating earnings of \$307 million in 1996 compared with a record performance of \$1.2 billion in 1995. The downturn in pulp and paper prices, which began in the fourth

quarter of 1995 as customers cut back on purchases in order to reduce excess inventories, continued as prices were significantly lower than the prior year.

The real estate and related assets segment earned \$43 million from operations in 1996 compared with \$13 million, before the charge for disposal of certain real estate assets, in 1995. Real estate benefited from several major commercial project closings and increased residential property sales along with reduced costs as the result of the disposition of certain impaired properties. Improved financial services results reflected the sale of capitalized servicing rights and increased loan originations in the company's mortgage banking business.

Weyerhaeuser's costs of products sold, as a percentage of sales, increased to 75 percent in 1996 compared with 69 percent in 1995, reflecting the significant decline in pulp, paper and packaging pricing. Additionally, inventory turnover rates were lower in 1996 compared with the higher rates experienced in the peak price periods of 1995.

The real estate and related assets segment costs and operating expenses in 1996 rose 7 percent over the 1995 level, consistent with the 10 percent increase in revenues from year to year. The decline in depreciation and amortization was directly related to the disposition of certain impaired assets and sale of substantially all of the capitalized servicing rights in the mortgage banking business. Selling, general and administrative expenses increased over 1995 primarily due to the opening of additional branch offices in 1996 by the mortgage banking business.

Other income (expense) is an aggregation of both recurring and occasional nonoperating income and expense items and, as a result, may fluctuate from period to period. No individual income or expense item in 1995 or 1996 was significant in relation to net earnings.

LIQUIDITY AND CAPITAL RESOURCES

GENERAL

The company is committed to the maintenance of a sound, conservative capital structure. This commitment is based upon two considerations: the obligation to protect the underlying interests of its shareholders and lenders, and the desire to have access, at all times, to major financial markets.

The important elements of the policy governing the company's capital structure are as follows:

- To view separately the capital structures of Weyerhaeuser Company, Weyerhaeuser Real Estate

Company and related assets, given the very different nature of their assets and business activities. The amount of debt and equity associated with the capital structure of each will reflect the basic earnings capacity, real value and unique liquidity characteristics of the assets dedicated to that business.

- The combination of maturing short-term debt and the structure of long-term debt will be managed judiciously to minimize liquidity risk. Long-term debt maturities are shown in Note 12 of Notes to Financial Statements.

OPERATIONS

Consolidated net cash provided by operations was \$1.1 billion in 1998, an increase of 8 percent over the prior year. \$1 billion of this amount was provided by cash flow from operations before changes in working capital, while decreases in working capital accounted for \$104 million. In 1997, cash flow from operations before changes in working capital provided \$1.1 billion with working capital increases using \$54 million.

Cash flow from operations before changes in working capital by segment was as follows:

<i>Dollar amounts in millions</i>	1998	1997	1996
Timberlands	\$ 533	\$ 606	\$ 584
Wood products	373	384	462
Pulp, paper and packaging	528	566	660
Real estate and related assets	22	9	68
Corporate and other	(438)	(473)	(527)
	<u>\$ 1,018</u>	<u>\$ 1,092</u>	<u>\$ 1,247</u>

Consolidated cash flow from operations before changes in working capital in 1998 was provided by net earnings of \$294 million along with noncash charges of \$616 million from depreciation, amortization and fee stumping, deferred taxes of \$160 million, and noncash charges of \$71 million for closure or disposition of facilities. This was offset in part by a noncash pension and other postretirement benefits net credit of \$39 million and equity in income of

INVESTING

Capital expenditures in 1998, excluding acquisitions, were \$615 million, down 6 percent from the \$656 million spent in 1997. They are currently expected to approximate \$785 million, excluding acquisitions, in 1999; however, these expenditures could be increased or decreased as a consequence of future economic conditions.

Capital spending by segment, excluding acquisitions, over the past three years was as follows:

<i>Dollar amounts in millions</i>	1998	1997	1996
Timberlands	\$ 87	\$ 75	\$ 72
Wood products	169	239	346
Pulp, paper and packaging	325	315	415
Corporate and other	34	27	46
	<u>\$ 615</u>	<u>\$ 656</u>	<u>\$ 879</u>

In 1998, the company acquired the Dryden, Ontario, Canada, paper mill and sawmills at a cost of \$494 million for property and equipment and \$49 million for working capital. Acquisitions of property in 1997 amounted to

affiliates, joint ventures and limited partnerships net credit of \$42 million. In 1997, net earnings of \$342 million and noncash charges from depreciation, amortization and fee stumping of \$628 million, deferred taxes of \$75 million and noncash charges of \$89 million for closure or disposition of facilities were the significant items in cash provided from operations before changes in working capital. Non-cash credits came from the gain on disposition of businesses, principally \$45 million from the sale of the mortgage banking business in the real estate and related assets segment.

Weyerhaeuser's 1998 working capital, net of the effects of the NORPAC equity restructuring from a fully consolidated subsidiary to an equity affiliate and the purchase of the Dryden paper mill and sawmills, decreased by \$86 million. Cash was provided by decreases in receivables, inventories and prepaid expenses. In 1997, increases in receivables along with decreases in accounts payable and accrued liabilities were the principal items in a cash use of \$44 million.

Net working capital in the real estate and related assets segment provided funds of \$18 million in 1998 compared with a \$10 million use of funds in 1997. The principal cause was the decrease in mortgage-related financial instruments in 1998 as a result of the company's exit from the mortgage banking business.

\$13 million, with an additional \$2 million for working capital. Also in 1997, the company expended \$190 million to acquire a 51 percent interest in a forestry joint venture in New Zealand.

The cash needed to meet capital and other Weyerhaeuser needs in 1998 was generated by internal cash flow, proceeds from the NORPAC equity restructuring and dividends from subsidiaries, which are eliminated upon consolidation. In the real estate and related assets segment, proceeds from the sale of mortgage-related financial instruments, reduction of holdings in equity affiliates and sale of property accounted for the cash provided by investing activities.

In 1997, the sale of the wholesale nursery business and the Saskatoon chemical facility provided \$76 million of cash to Weyerhaeuser, while the sale of the mortgage banking business provided \$192 million of cash to the real estate and related assets segment.

FINANCING

During the year, Weyerhaeuser reduced its interest-bearing debt by \$35 million. Debt payments of \$87 million were offset, in part, by the sale of \$48 million of industrial revenue bonds. The company's debt to total capital ratio was 39 percent at the end of the year compared with 38 percent at the prior year-end.

The real estate and related assets segment reduced its long-term debt by \$331 million during the year while increasing its short-term notes and commercial paper by a similar amount, leaving interest-bearing debt virtually unchanged from the end of 1997.

Cash dividends of \$319 million were paid during the year; comparable to the \$317 million paid in 1997. Although common share dividends have exceeded the company's target ratio in recent years, the intent, over time, is to pay dividends to common shareholders in the range

of 35 to 45 percent of common share earnings. Weyerhaeuser also received intercompany dividends of \$190 million and \$150 million from Weyerhaeuser Real Estate Company and Weyerhaeuser Financial Services, Inc., in 1998 and 1997, respectively. These dividends are eliminated on a consolidated basis.

During the 1998 first quarter, the company expended \$42 million to purchase 925,000 shares of its common stock. This completed the 11 million-share repurchase program that commenced in 1995.

To ensure its ability to meet future commitments, Weyerhaeuser Company and Weyerhaeuser Real Estate Company have established unused bank lines of credit in the maximum aggregate sum of \$1,050 million. Neither of the entities is a guarantor of the borrowings of the other under any of these credit facilities.

MARKET RISK OF FINANCIAL INSTRUMENTS

As part of the company's financing activity, derivative securities are sometimes used to achieve the desired mix of fixed versus floating rate debt and to manage the timing of finance opportunities. The company does not hold or issue derivative financial instruments for trading. The company's derivative instruments, which are matched directly against outstanding borrowings, are "pay fixed, receive variable" interest rate swaps with highly rated counterparties in which the interest payments are

calculated on a notional amount. The notional amounts do not represent amounts exchanged by the parties and, thus, are not a measure of exposure to the company through its use of derivatives. The company is exposed to credit-related gains or losses in the event of non-performance by counterparties to these financial instruments; however, the company does not expect any counterparties to fail to meet their obligations. Interest rate swaps are described as follows:

Dollar amounts in millions			Variable Rate at December 27, 1998			
Notional Amount	Maturity Date	Fixed Rate %	%	Based On	Fair Value of Swap ⁽¹⁾	
\$ 27	5/1/99	6.70	8.20	11.95% — Kenny index	\$.1	
75	12/6/99 ⁽²⁾	6.85	5.63	30 day LIBOR	(3.1)	
\$102					\$(3.0)	

⁽¹⁾The amount of the obligation under each swap is based on the assumption that such swap had terminated at the end of the fiscal period, and provides for the netting of amounts payable by and to the counterparty. In each case, the amount of such obligation is the net amount so determined.

⁽²⁾Includes the value of an option, by the counterparty, to extend for two years at maturity date.

CONTINGENCIES

The company is a party to legal proceedings and environmental matters generally incidental to its business. Although the final outcome of any legal proceeding or environmental matter is subject to a great many variables and cannot be predicted with any degree of certainty, the company presently believes that the ultimate outcome

resulting from these proceedings and matters would not have a material effect on the company's current financial position, liquidity or results of operations; however, in any given future reporting period, such proceedings or matters could have a material effect on results of operations. (See Note 14 of Notes to Financial Statements.)

YEAR 2000

Weyerhaeuser, like all other companies using computers and microprocessors, is faced with the task of addressing the Year 2000 problem before the end of 1999. The Year 2000 challenge arises from the nearly universal practice in the computer industry of using two digits rather than four

digits to designate the calendar year (e.g., DD/MM/YY). This can lead to incorrect results when computer software performs arithmetic operations, comparisons or data field sorting involving years later than 1999. The company has conducted a comprehensive inventory to identify where

this problem may occur in its information technology, manufacturing and facilities systems. The company is engaged in modifying or replacing its affected systems in a manner that will minimize any detrimental effects on operations and has substantially completed its goal of correcting affected systems that would have a critical effect on its business operations. While some significant components remain uncorrected, the company believes that all such systems have been identified and has plans in place to correct such systems by the end of second quarter of 1999. The company expects to complete the testing and verification of such systems during 1999.

While it is difficult at present to fully quantify the overall cost of this work, the company estimates that the overall cost of remediation could approach \$100 million. The company presently believes that such costs will not have a material effect on the company's current financial position or liquidity; however, in any given future reporting period, such costs could have a material effect on results of operations. Through the fourth quarter of 1998, the company has incurred \$54 million of remediation costs, of which \$1 million was incurred in 1997 and \$11 million has been capitalized for new hardware and software. The company expects substantial additional costs to be incurred in the first and second quarters of 1999.

Depending on whether suppliers, customers and other entities with which the company does business are able to successfully address the Year 2000 issue, the company's results of operations could be materially adversely affected in any given future reporting period during which such a

Year 2000 event occurred. As a result, the company is communicating with such entities to determine their state of readiness. The company is also developing contingency plans to allow primary operations of the company to continue if the company's significant systems or such entities are disrupted by the Year 2000 problem. The company currently expects that its contingency plans will be developed by the end of the second quarter of 1999. In addition, the company has initiated a process to develop joint contingency plans with its customers and suppliers. The company currently expects that it will be prepared in the event of systems failures to continue to do business, although such operations may be at a higher cost.

These estimates and conclusions contain forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially. The company's current estimates of the amount of time and the costs necessary to address the Year 2000 problem are based on the facts and circumstances existing at this time. The estimates were derived using multiple assumptions of future events, including the continued availability of certain resources, implementation success and other factors. New developments may occur that could affect the company's estimates, such as the amount of planning and modification needed to achieve full resolution of the Year 2000 problem; the availability and cost of resources; the company's ability to discover and correct all Year 2000 sensitive computer code and equipment; and the ability of suppliers, customers and other entities to bring their systems into compliance.

ACCOUNTING MATTERS

PROSPECTIVE PRONOUNCEMENTS

During the year, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is effective for all fiscal quarters of fiscal years beginning after June 15, 1999, which for the company is the fiscal year 2000.

Also in 1998, the American Institute of Certified Public Accountants Accounting Standards Executive Committee issued the following Statements of Position

(SOP) that are effective for fiscal years beginning after December 15, 1998:

- SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use."
- SOP 98-5, "Reporting on the Costs of Start-Up Activities."

These statements are described in "Note 1. Summary of Significant Accounting Policies" of Notes to Financial Statements.

ACCOUNTING AND REPORTING STANDARDS COMMITTEE

During the year, the Accounting and Reporting Standards Committee, comprised of four outside directors, reviewed with the company's management and with its independent public accountants the scope and results of the company's internal and external audit activities and the adequacy

of the company's internal accounting controls. The committee also reviewed current and emerging accounting and reporting requirements and practices affecting the company.

To the shareholders of Weyerhaeuser Company:

We have audited the accompanying consolidated balance sheets of Weyerhaeuser Company (a Washington corporation) and subsidiaries as of December 27, 1998, and December 28, 1997, and the related consolidated statements of earnings, cash flows and shareholders' interest for each of the three years in the period ended December 27, 1998. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Weyerhaeuser Company and subsidiaries as of December 27, 1998, and December 28, 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 27, 1998, in conformity with generally accepted accounting principles.

Seattle, Washington,
February 10, 1999

ARTHUR ANDERSEN LLP

consolidated statement of earnings

For the three-year period ended December 27, 1998
Dollar amounts in millions except per-share figures

	1998	1997	1996
Net sales and revenues:			
Weyerhaeuser	\$ 9,574	\$ 10,117	\$ 10,105
Real estate and related assets	1,192	1,093	1,009
Total net sales and revenues	10,766	11,210	11,114
Costs and expenses:			
Weyerhaeuser:			
Costs of products sold	7,468	7,866	7,610
Depreciation, amortization and fee stumpage	611	616	601
Selling, general and administrative expenses	649	646	702
Research and development expenses	57	56	54
Taxes other than payroll and income taxes	130	142	151
Charge for closure or disposition of facilities (Note 15)	71	89	—
Charge for Year 2000 remediation	42	1	—
	9,028	9,416	9,118
Real estate and related assets:			
Costs and operating expenses	1,016	909	726
Depreciation and amortization	5	12	16
Selling, general and administrative expenses	53	96	173
Taxes other than payroll and income taxes	8	8	11
	1,082	1,025	926
Total costs and expenses	10,110	10,441	10,044
Operating income	656	769	1,070
Interest expense and other:			
Weyerhaeuser:			
Interest expense incurred	264	271	273
Less interest capitalized	7	15	21
Equity in income (loss) of affiliates (Note 3)	28	(7)	5
Other income (expense), net (Note 4)	15	(10)	(63)
Real estate and related assets:			
Interest expense incurred	77	110	132
Less interest capitalized	61	69	65
Equity in income of joint ventures and limited partnerships (Note 3)	14	14	5
Other income, net (Note 4)	23	70	22
Earnings before income taxes	463	539	720
Income taxes (Note 5)	169	197	257
Net earnings	\$ 294	\$ 342	\$ 463
Per common share (Note 2):			
Basic net earnings	\$ 1.48	\$ 1.72	\$ 2.34
Diluted net earnings	\$ 1.47	\$ 1.72	\$ 2.33
Dividends paid	\$ 1.60	\$ 1.60	\$ 1.60

See notes on pages 57 through 73.

consolidated balance sheet

Dollar amounts in millions

December 27, 1998

December 28, 1997

ASSETS

Weyerhaeuser

Current assets:

Cash and short-term investments (Note 1) \$ 28 \$ 100

Receivables, less allowances of \$5 and \$6 886 913

Inventories (Note 7) 962 983

Prepaid expenses 294 298

Total current assets 2,170 2,294

Property and equipment (Note 8) 6,692 6,991

Construction in progress 315 354

Timber and timberlands at cost, less fee stumpage charged to disposals 1,013 996

Investments in and advances to equity affiliates (Note 3) 482 249

Other assets and deferred charges 262 187

10,934 11,071

Real estate and related assets

Cash and short-term investments, including restricted deposits of \$16 in 1997 7 22

Receivables, less discounts and allowances of \$6 and \$6 81 62

Mortgage-related financial instruments, less discounts and allowances
of \$9 and \$27 (Notes 1 and 13) 119 173

Real estate in process of development and for sale (Note 9) 584 593

Land being processed for development 854 845

Investments in and advances to joint ventures and limited partnerships,
less reserves of \$4 and \$6 (Note 3) 120 116

Other assets 135 193

1,900 2,004

Total assets \$ 12,834 \$ 13,075

See notes on pages 57 through 73.

LIABILITIES AND SHAREHOLDERS' INTEREST

Weyerhaeuser

Current liabilities:

Notes payable	\$ 5	\$ 25
Current maturities of long-term debt	88	17
Accounts payable (Note 1)	699	694
Accrued liabilities (Note 10)	707	648
Total current liabilities	1,499	1,384
Long-term debt (Notes 12 and 13)	3,397	3,483
Deferred income taxes (Note 5)	1,404	1,418
Deferred pension, other postretirement benefits and other liabilities (Note 6)	488	498
Minority interest in subsidiaries	—	121
Commitments and contingencies (Note 14)		
	6,788	6,904

Real estate and related assets

Notes payable and commercial paper (Note 11)	564	228
Long-term debt (Notes 12 and 13)	701	1,032
Other liabilities	255	262
Commitments and contingencies (Note 14)		
	1,520	1,522

Total liabilities

8,308 8,426

Shareholders' interest (Note 16):

Common shares: authorized 400,000,000 shares, issued 206,072,890 shares, \$1.25 par value	258	258
Other capital	416	407
Retained earnings	4,372	4,397
Cumulative other comprehensive expense	(208)	(123)
Treasury common shares, at cost: 7,063,917 and 6,586,939	(312)	(290)
Total shareholders' interest	4,526	4,649
Total liabilities and shareholders' interest	\$ 12,834	\$ 13,075

consolidated statement of cash flows

For the three-year period ended December 27, 1998
Dollar amounts in millions

	Consolidated		
	1998	1997	1996
Cash provided by (used for) operations:			
Net earnings	\$ 294	\$ 342	\$ 463
Noncash charges (credits) to income:			
Depreciation, amortization and fee stumpage	616	628	617
Deferred income taxes, net	160	75	181
Pension and other postretirement benefits	(39)	23	34
Charge for closure or disposition of facilities	71	89	—
Equity in (income) loss of affiliates, joint ventures and limited partnerships	(42)	(7)	(10)
Decrease (increase) in working capital:			
Accounts receivable	1	(9)	67
Inventories, real estate and land	56	(13)	56
Prepaid expenses	16	(10)	12
Mortgage-related financial instruments	28	(64)	19
Accounts payable and accrued liabilities	3	42	(113)
(Gain) loss on disposition of assets	(2)	5	1
(Gain) loss on disposition of a business	—	(58)	—
Other	(40)	(5)	(39)
Cash provided by operations	1,122	1,038	1,288
Cash provided by (used for) investing activities:			
Property and equipment	(562)	(610)	(829)
Timber and timberlands	(53)	(46)	(50)
Property and equipment and timber and timberlands from acquisitions	(494)	(13)	(448)
Working capital from acquisitions	(49)	(2)	(33)
Investments in and advances to equity affiliates	6	(182)	(2)
Proceeds from sale of:			
Property and equipment (Note 15)	66	85	74
Businesses	—	268	—
Mortgage-related financial instruments	66	55	106
Restructuring the ownership of a subsidiary	218	—	—
Intercompany advances	—	—	—
Other	(15)	(21)	28
Cash provided by (used for) investing activities	(817)	(466)	(1,154)
Cash provided by (used for) financing activities:			
Issuances of debt	165	632	142
Sale of industrial revenue bonds	48	38	33
Notes and commercial paper borrowings, net	328	(577)	534
Cash dividends	(319)	(317)	(317)
Intercompany cash dividends	—	—	—
Payments on debt	(577)	(359)	(513)
Purchase of treasury common shares	(42)	(22)	(45)
Exercise of stock options	19	61	20
Other	(14)	23	(1)
Cash provided by (used for) financing activities	(392)	(521)	(147)
Net increase (decrease) in cash and short-term investments	(87)	51	(13)
Cash and short-term investments at beginning of year	122	71	84
Cash and short-term investments at end of year	\$ 35	\$ 122	\$ 71
Cash paid (received) during the year for:			
Interest, net of amount capitalized	\$ 282	\$ 287	\$ 322
Income taxes	\$ 66	\$ 21	\$ 168

See notes on pages 57 through 73.

Weyerhaeuser Company			Real Estate and Related Assets		
1998	1997	1996	1998	1997	1996
\$ 214	\$ 271	\$ 434	\$ 80	\$ 71	\$ 29
611	616	601	5	12	16
149	88	121	11	(13)	60
(37)	22	33	(2)	1	1
71	89	—	—	—	—
(28)	7	(5)	(14)	(14)	(5)
30	(17)	75	(29)	8	(8)
40	15	(42)	16	(28)	98
16	(10)	12	—	—	—
—	—	—	28	(64)	19
—	(32)	(86)	3	74	(27)
8	13	8	(10)	(8)	(7)
—	(13)	—	—	(45)	—
8	(10)	(13)	(48)	5	(26)
1,082	1,039	1,138	40	(1)	150
(560)	(607)	(820)	(2)	(3)	(9)
(53)	(46)	(50)	—	—	—
(494)	(13)	(448)	—	—	—
(49)	(2)	(33)	—	—	—
(41)	(221)	(3)	47	39	1
42	39	61	24	46	13
—	76	—	—	192	—
—	—	—	66	55	106
218	—	—	—	—	—
(3)	42	(26)	3	(42)	26
(13)	(18)	15	(2)	(3)	13
(953)	(750)	(1,304)	136	284	150
6	618	12	159	14	130
48	38	33	—	—	—
(2)	(695)	637	330	118	(103)
(319)	(317)	(317)	—	—	—
190	150	—	(190)	(150)	—
(87)	(78)	(174)	(490)	(281)	(339)
(42)	(22)	(45)	—	—	—
19	61	20	—	—	—
(14)	23	(1)	—	—	—
(201)	(222)	165	(191)	(299)	(312)
(72)	67	(1)	(15)	(16)	(12)
100	33	34	22	38	50
\$ 28	\$ 100	\$ 33	\$ 7	\$ 22	\$ 38
\$ 261	\$ 244	\$ 255	\$ 21	\$ 43	\$ 67
\$ (4)	\$ 54	\$ 188	\$ 70	\$ (33)	\$ (20)

consolidated statement of shareholders' interest

For the three-year period ended December 27, 1998
Dollar amounts in millions

	1998		1997		1996	
	Total	Comprehensive Income	Total	Comprehensive Income	Total	Comprehensive Income
Common stock issued:						
Balance at end of year	\$ 258		\$ 258		\$ 258	
Other capital:						
Balance at beginning of year	407		407		415	
Stock options exercised	(1)		(11)		(8)	
Other transactions (net)	10		11		—	
Balance at end of year	416		407		407	
Retained earnings:						
Balance at beginning of year	4,397		4,372		4,226	
Net earnings	294	\$ 294	342	\$ 342	463	\$ 463
Cash dividends on common shares	(319)		(317)		(317)	
Balance at end of year	4,372		4,397		4,372	
Cumulative other comprehensive expense:						
Balance at beginning of year	(123)		(93)		(90)	
Other comprehensive expense:						
Foreign currency translation adjustments		(90)		(44)		(4)
Income tax benefit on foreign currency translation adjustments		13		14		1
Excess additional pension liability		(13)		—		—
Income tax benefit on excess additional pension liability		5		—		—
Net other comprehensive expense	(85)	(85)	(30)	(30)	(3)	(3)
Comprehensive income		209		312		460
Balance at end of year	(208)		(123)		(93)	
Common stock held in treasury:						
Balance at beginning of year	(290)		(340)		(323)	
Purchase of treasury common shares	(42)		(22)		(45)	
Stock options exercised	20		72		28	
Balance at end of year	(312)		(290)		(340)	
Total shareholders' interest:						
Balance at end of year	\$ 4,526		\$ 4,649		\$ 4,604	

	1998	1997	1996
Shares of common stock (in thousands):			
Issued at end of year	206,073	206,073	206,073
In treasury:			
Balance at beginning of year	6,587	7,737	7,303
Purchase of treasury common shares	925	496	1,086
Stock options exercised	(448)	(1,646)	(642)
Used in acquisition of capital assets	—	—	(10)
Balance at end of year	7,064	6,587	7,737
Outstanding at end of year	199,009	199,486	198,336

See notes on pages 57 through 73.

For the three-year period ended December 27, 1998

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION

The consolidated financial statements include the accounts of Weyerhaeuser Company and all of its majority-owned domestic and foreign subsidiaries. Significant intercompany transactions and accounts are eliminated. Investments in and advances to equity affiliates that are not majority owned or controlled are accounted for using the equity method.

Certain of the consolidated financial statements and notes to financial statements are presented in two groupings: (1) Weyerhaeuser (the company), principally engaged in the growing and harvesting of timber and the manufacture, distribution and sale of forest products, and (2) Real estate and related assets, principally engaged in real estate development and construction and other real estate related activities.

NATURE OF OPERATIONS

The company's principal business segments, which account for the majority of sales, earnings and the asset base, are:

- Timberlands, which is engaged in the management of 5.1 million acres of company-owned and .2 million acres of leased commercial forestland in the United States (3.3 million acres in the South and 2 million acres in the Pacific Northwest).

- Wood products, which produces a full line of solid wood products that are sold primarily through the company's own sales organizations to wholesalers, retailers and industrial users in North America, the Pacific Rim and Europe. It is also engaged in the management of 27 million acres of forestland in Canada under long-term licensing arrangements (of which 18.9 million acres are considered to be productive forestland).

- Pulp, paper and packaging, which manufactures and sells pulp, paper, paperboard and containerboard in North American, Pacific Rim and European markets and packaging products for the domestic markets, and which operates an extensive wastepaper recycling system that serves company mills and worldwide markets.

FISCAL YEAR-END

The company's fiscal year ends on the last Sunday of the year. Fiscal years 1996 through 1998 each had 52 weeks.

ACCOUNTING PRONOUNCEMENTS IMPLEMENTED

In 1998, the company implemented the following pronouncements of the Financial Accounting Standards Board (FASB):

- Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of financial statements.

- SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," which requires companies to determine segments based on how management makes decisions about allocating resources to segments and measuring their performance. Disclosures for each segment are similar to those required under current standards, with the addition of certain quarterly requirements. This statement also requires entity-wide disclosure about products and services, the countries in which the company holds material assets and reports material revenues, and its significant customers. Previously reported segment information has been restated to conform to the requirements of this new pronouncement.

- SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106," which revises employers' disclosures about pensions and other postretirement benefit plans. It does not change the measurement or recognition of those plans. It standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable, requires additional information on changes in benefit obligations and fair values of plan assets that will facilitate financial analysis, and eliminates certain disclosures that are no longer considered useful.

PROSPECTIVE ACCOUNTING PRONOUNCEMENTS

In 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments, including certain derivatives embedded in other contracts, and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. This

statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999, which for the company is the fiscal year 2000. Assuming that the company's current minimal involvement in derivatives and hedging activities continues after the implementation date of this statement, the company believes that the future adoption of this statement will not have a material impact on its results of operations or financial position.

Also during 1998, the American Institute of Certified Public Accountants Accounting Standards Executive Committee issued the following Statements of Position (SOP):

- SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which provides guidelines on the accounting for internally developed computer software. This SOP is effective for fiscal years beginning after December 15, 1998. The company believes that the future adoption of this SOP will not have a significant impact on its results of operations or financial position.

- SOP 98-5, "Reporting on the Costs of Start-Up Activities," which requires the costs of start-up activities be expensed as incurred. This SOP must be adopted in fiscal years beginning after December 15, 1998. When this SOP is adopted, the company must record a cumulative effect of a change in accounting principle to write off any unamortized start-up costs that remain on the balance sheet at the date the new SOP is adopted. The company estimates that the pretax impact of this pronouncement, when implemented in the first quarter of 1999, will be from \$135 million to \$145 million (\$85 million to \$92 million after-tax, or \$.43 to \$.46 basic earnings per common share).

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FINANCIAL INSTRUMENTS

The company has, where appropriate, estimated the fair value of financial instruments. These fair value amounts may be significantly affected by the assumptions used, including the discount rate and estimates of cash flow. Accordingly, the estimates presented are not necessarily indicative of the amounts that could be realized in a current market exchange. Where these estimates

approximate carrying value, no separate disclosure of fair value is shown.

Financial instruments that potentially subject the company to concentrations of credit risk consist of real estate and related assets receivables and mortgage-related financial instruments, of which \$68 million and \$119 million are in the western geographical region of the United States at December 27, 1998, and December 28, 1997, respectively.

DERIVATIVES

The company has only limited involvement with derivative financial instruments and does not use them for trading purposes. They are used to manage well-defined interest rate and foreign exchange risks. These include:

- Foreign exchange contracts, which are hedges for foreign denominated accounts receivable and accounts payable. These contracts generate gains or losses that are recognized at the contracts' respective settlement dates.

- Interest rate swaps entered into with major banks or financial institutions in which the company pays a fixed rate and receives a floating rate with the interest payments being calculated on a notional amount. The premiums received by the company on the sale of these swaps are treated as deferred income and amortized against interest expense over the term of the agreements.

The company is exposed to credit-related gains or losses in the event of nonperformance by counterparties to financial instruments but does not expect any counterparties to fail to meet their obligations. The company deals only with highly rated counterparties.

The notional amounts of these derivative financial instruments are \$102 million and \$492 million at December 27, 1998, and December 28, 1997, respectively. These notional amounts do not represent amounts exchanged by the parties and, thus, are not a measure of exposure to the company through its use of derivatives. The exposure in a derivative contract is the net difference between what each party is required to pay based on the contractual terms against the notional amount of the contract, such as interest rates or exchange rates. The company's use of derivatives does not have a significant effect on the company's results of operations or its financial position.

CASH AND SHORT-TERM INVESTMENTS

For purposes of cash flow and fair value reporting, short-term investments with original maturities of 90 days or less are considered as cash equivalents. Short-term investments are stated at cost, which approximates market.

INVENTORIES

Inventories are stated at the lower of cost or market. Cost includes labor, materials and production overhead. The last-in, first-out (LIFO) method is used to cost approximately half of domestic raw materials, in process and finished goods inventories. LIFO inventories were \$253 million and \$246 million at December 27, 1998, and December 28, 1997, respectively. The balance of domestic raw material and product inventories, all materials and supplies inventories, and all foreign inventories is costed at either the first-in, first-out (FIFO) or moving average cost methods. Had the FIFO method been used to cost all inventories, the amounts at which product inventories are stated would have been \$228 million and \$237 million greater at December 27, 1998, and December 28, 1997, respectively.

PROPERTY AND EQUIPMENT

The company's property accounts are maintained on an individual asset basis. Betterments and replacements of major units are capitalized. Maintenance, repairs and minor replacements are expensed. Depreciation is provided generally on the straight-line or unit-of-production method at rates based on estimated service lives. Amortization of logging railroads and truck roads is provided generally as timber is harvested and is based upon rates determined with reference to the volume of timber estimated to be removed over such facilities.

The cost and related depreciation of property sold or retired is removed from the property and allowance for depreciation accounts and the gain or loss is included in earnings.

TIMBER AND TIMBERLANDS

Timber and timberlands are carried at cost less fee stumpage charged to disposals. Fee stumpage is the cost of standing timber and is charged to fee timber disposals as fee timber is harvested, lost as the result of casualty or sold. Depletion rates used to relieve timber inventory are determined with reference to the net carrying value of timber and the related volume of timber estimated to be available over the growth cycle. Timber carrying costs are expensed as incurred. The cost of timber harvested is included in the carrying values of raw material and product inventories, and in the cost of products sold as these inventories are disposed of.

ACCOUNTS PAYABLE

The company's banking system provides for the daily replenishment of major bank accounts as checks are presented for payment. Accordingly, there were negative

book cash balances of \$139 million and \$185 million at December 27, 1998, and December 28, 1997, respectively. Such balances result from outstanding checks that had not yet been paid by the bank and are reflected in accounts payable in the consolidated balance sheets.

INCOME TAXES

Deferred income taxes are provided to reflect temporary differences between the financial and tax bases of assets and liabilities using presently enacted tax rates and laws.

PENSION PLANS

The company has pension plans covering most of its employees. The U.S. plan covering salaried employees provides pension benefits based on the employee's highest monthly earnings for five consecutive years during the final 10 years before retirement. Plans covering hourly employees generally provide benefits of stated amounts for each year of service. Contributions to U.S. plans are based on funding standards established by the Employee Retirement Income Security Act of 1974 (ERISA).

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

In addition to providing pension benefits, the company provides certain health care and life insurance benefits for some retired employees and accrues the expected future cost of these benefits for its current eligible retirees and some employees. All of the company's salaried employees and some hourly employees may become eligible for these benefits when they retire.

RECLASSIFICATIONS

Certain reclassifications have been made to conform prior years' data to the current format.

REAL ESTATE AND RELATED ASSETS

With the sale of the mortgage banking business in 1997, the financial services segment was no longer material to the results of the company. Therefore, the remaining activities in financial services that are principally real estate related were combined with real estate into one segment entitled real estate and related assets in 1997.

Real estate held for sale is stated at the lower of cost or fair value, less costs to sell. The determination of fair value is based on appraisals and market pricing of comparable assets, when available, or the discounted value of estimated future cash flows from these assets. Real estate held for development is stated at cost to the extent it does not exceed the estimated undiscounted future net cash flows, in which case, it is carried at fair value.

Mortgage-related financial instruments include mortgage loans receivable, mortgage-backed certificates and other financial instruments. Mortgage-backed certificates (see Note 13) are carried at par value, adjusted for any unamortized discount or premium. These certificates and other financial instruments are pledged as collateral for the collateralized mortgage obligation

(CMO) bonds and are held by banks as trustees. Principal and interest collections are used to meet the interest payments and reduce the outstanding principal balance of the bonds. Related CMO bonds are the obligation of the issuer, and neither the company nor any affiliated company has guaranteed or is otherwise obligated with respect to the bonds.

NOTE 2. NET EARNINGS PER COMMON SHARE

Basic net earnings per common share are based on the weighted average number of common shares outstanding during the respective periods. Diluted net earnings per common share are based on the weighted average number

of common shares outstanding and stock options outstanding at the beginning of or granted during the respective periods.

Dollar amounts in millions except per-share figures

	Net Earnings	Weighted Average Shares (000)	Per-Share Amount
1998:			
Basic	\$ 294	198,914	\$ 1.48
Stock options granted	—	336	
Diluted	\$ 294	199,250	\$ 1.47
1997:			
Basic	\$ 342	198,967	\$ 1.72
Stock options granted	—	573	
Diluted	\$ 342	199,540	\$ 1.72
1996:			
Basic	\$ 463	198,318	\$ 2.34
Stock options granted	—	486	
Diluted	\$ 463	198,804	\$ 2.33

Options for which the exercise price was greater than the average market price of common shares for the period were not included in the computation of diluted earnings per share. These options to purchase shares were as follows:

Year	Options to Purchase	Exercise Price
1998	1,332,080	\$51.09
	586,539	\$56.78
	150,000	\$53.06
1997	150,000	\$53.06
1996	1,216,400	\$45.94
	4,700	\$47.13
	1,178,400	\$48.13

NOTE 3. EQUITY AFFILIATES

WEYERHAEUSER

The company's investments in affiliated companies that are not majority owned or controlled are accounted for using the equity method. Investments carried at equity are:

- Cedar River Paper Company — A 50 percent owned joint venture in Cedar Rapids, Iowa, that manufactures liner and medium containerboard from recycled fiber.
- Nelson Forests Joint Venture — An investment in which the company owns a 51 percent financial interest and has a 50 percent voting interest, which holds Crown Forest License cutting rights and freehold land on the South Island of New Zealand.
- SCA Weyerhaeuser Packaging Holding Company Asia Ltd. — A 50 percent owned joint venture formed to build or buy containerboard packaging facilities to serve

manufacturers of consumer and industrial products in Asia. Currently, one facility is in operation and another is under construction in China.

- RII Weyerhaeuser World Timberfund, L.L.P. — A 50 percent owned joint venture with institutional investors to make investments in timberlands and related assets outside the United States. The primary focus of this partnership is in pine forests in the Southern Hemisphere.
- North Pacific Paper Corporation — A 50 percent owned joint venture that has a newsprint manufacturing facility in Longview, Washington. This venture was formed in February 1998 through a restructuring of the company's 80 percent ownership, which was fully consolidated, to 50-50 ownership with Nippon Paper Industries Co., Ltd.

- Wilton Connor LLC — A 50 percent owned joint venture in Charlotte, North Carolina, formed in October 1998. This venture supplies full-service, value-added turnkey packaging solutions that assist product

manufacturers in the areas of retail marketing and distribution. Unconsolidated financial information for affiliated companies that are accounted for by the equity method is as follows:

<i>Dollar amounts in millions</i>	December 27, 1998	December 28, 1997
Current assets	\$ 165	\$ 94
Noncurrent assets	1,325	678
Current liabilities	77	56
Noncurrent liabilities	702	420
	1998	1997
Net sales and revenues	\$ 696	\$ 214
Operating income	110	14
Net income (loss)	52	(14)

The company provides goods and services to these affiliates, which vary by entity, in the form of raw materials, management and marketing fees, support services and shipping services. Additionally, the company purchases

finished product from certain of these entities. The aggregate total of these transactions is not material to the results of operations of the company.

REAL ESTATE AND RELATED ASSETS

Investments in and advances to joint ventures and limited partnerships that are not majority owned or controlled are accounted for using the equity method with taxes provided on undistributed earnings as

appropriate. Unconsolidated financial information for joint ventures and limited partnerships that are accounted for by the equity method is as follows:

<i>Dollar amounts in millions</i>	December 27, 1998	December 28, 1997
Current assets	\$ 1,755	\$ 1,689
Noncurrent assets	230	284
Current liabilities	1,241	1,306
Noncurrent liabilities	136	145
	1998	1997
Net sales and revenues	\$ 244	\$ 242
Operating income	133	136
Net income	103	108

The company may charge management and/or development fees to the joint ventures or limited

partnerships. The aggregate total of these transactions is not material to the results of operations of the company.

NOTE 4. OTHER INCOME (EXPENSE), NET

Other income (expense) is an aggregation of both recurring and occasional income and expense items and, as a result, can fluctuate from year to year. Individual income (expense) items significant in 1997 in relation to net earnings were:

Weyerhaeuser:

- The interest income of \$18 million from the favorable federal income tax decision related to timber casualty losses incurred in the eruption of Mount St. Helens in 1980.

- The loss of \$8 million from the sale of the wholesale nursery business.

- The gain of \$21 million from the sale of the Saskatoon chemical facility.

Real estate and related assets:

- The gain of \$45 million from the sale of the mortgage banking business.

There were no significant individual items in 1998 or 1996.

NOTE 5. INCOME TAXES

Earnings before income taxes are comprised of the following:

<i>Dollar amounts in millions</i>	1998	1997	1996
Domestic earnings	\$413	\$432	\$614
Foreign earnings	50	107	106
	<u>\$463</u>	<u>\$539</u>	<u>\$720</u>

Provisions for income taxes include the following:

<i>Dollar amounts in millions</i>	1998	1997	1996
Federal:			
Current	\$ (7)	\$ 65	\$ 41
Deferred	138	86	166
	<u>131</u>	<u>151</u>	<u>207</u>
State:			
Current	8	6	2
Deferred	10	3	16
	<u>18</u>	<u>9</u>	<u>18</u>
Foreign:			
Current	8	45	33
Deferred	12	(8)	(1)
	<u>20</u>	<u>37</u>	<u>32</u>
	<u>\$169</u>	<u>\$197</u>	<u>\$257</u>

A reconciliation between the federal statutory tax rate and the company's effective tax rate follows:

	1998	1997	1996
Statutory tax on income	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	2.8	1.3	2.4
All other, net	(1.3)	.2	(1.7)
Effective income tax rate	<u>36.5%</u>	<u>36.5%</u>	<u>35.7%</u>

The net deferred income tax (liabilities) assets include the following components:

<i>Dollar amounts in millions</i>	December 27, 1998	December 28, 1997
Current (included in prepaid expenses)	\$ 98	\$ 90
Noncurrent	(1,404)	(1,418)
Real estate and related assets (included in other assets)	16	28
Total	<u>\$ (1,290)</u>	<u>\$ (1,300)</u>

The deferred tax (liabilities) assets are comprised of the following:

<i>Dollar amounts in millions</i>	December 27, 1998	December 28, 1997
Depreciation	\$ (1,260)	\$ (1,352)
Depletion	(207)	(176)
Capitalized interest and taxes — real estate development	(68)	(71)
Other	(240)	(189)
Total deferred tax (liabilities)	<u>(1,775)</u>	<u>(1,788)</u>
Pension and other postretirement benefits	100	128
Charges for impairment of long-lived assets	39	43
Alternative minimum tax credit carryforward	69	63
Other	277	254
Total deferred tax assets	<u>485</u>	<u>488</u>
	<u>\$ (1,290)</u>	<u>\$ (1,300)</u>

As of December 27, 1998, the company has available approximately \$69 million of alternative minimum tax credit carryforward, which does not expire, and foreign tax credit carryforwards of \$1 million, \$1 million and \$1 million expiring in 2001, 2002 and 2003, respectively.

The company intends to reinvest undistributed earnings of certain foreign subsidiaries; therefore, no U.S. taxes have been provided. These earnings totaled approximately \$789 million at the end of 1998. While it is not practicable to determine the income tax liability that would result from repatriation, it is estimated that withholding taxes payable upon repatriation would approximate \$40 million.

NOTE 6. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The company sponsors several qualified and nonqualified pension and other postretirement benefit plans for its employees. The following table provides a reconciliation of the changes in the plans' benefit obligations and fair value of plan assets over the two-year period ending December 27, 1998:

<i>Dollar amounts in millions</i>	Pension		Other Postretirement Benefits	
	1998	1997	1998	1997
Reconciliation of benefit obligation:				
Benefit obligation at beginning of year	\$ 1,736	\$ 1,594	\$ 213	\$ 232
Service cost	54	57	4	5
Interest cost	134	128	19	16
Plan participants' contributions	—	—	3	2
Actuarial (gain)/loss	97	57	53	(27)
Foreign currency exchange rate changes	(15)	(6)	(1)	(1)
Benefits paid	(143)	(129)	(15)	(14)
Plan curtailments, settlements and special termination benefits	3	1	—	—
Plan amendments	62	36	(2)	—
Business combinations and divestitures	94	(2)	3	—
Benefit obligation at end of year	\$ 2,022	\$ 1,736	\$ 277	\$ 213
Reconciliation of fair value of plan assets:				
Fair value of plan assets at beginning of year (actual)	\$ 2,420	\$ 1,959	\$ 2	\$ 2
Actual return on plan assets	481	584	—	—
Foreign currency exchange rate changes	(13)	(5)	—	—
Employer contributions	7	6	—	—
Plan participants' contributions	—	—	—	—
Benefits paid	(138)	(124)	—	—
Plan settlements	—	(2)	—	—
Business combinations and divestitures	92	—	—	—
Fair value of plan assets at end of year (estimated)	\$ 2,849	\$ 2,418	\$ 2	\$ 2

The company funds its qualified pension plans and accrues postretirement benefits. The funded status of these plans for nonqualified pension benefits and health and life at December 27, 1998, and December 28, 1997, is as follows:

<i>Dollar amounts in millions</i>	Pension		Other Postretirement Benefits	
	December 27, 1998	December 28, 1997	December 27, 1998	December 28, 1997
Funded status	\$ 827	\$ 683	\$ (260)	\$ (200)
Unrecognized net liability/(asset)	1	2	—	—
Unrecognized prior service cost	142	97	(2)	—
Unrecognized net (gain)/loss	(991)	(867)	(2)	(55)
Unrecognized net transition (asset)/obligation	(15)	(19)	—	—
Prepaid/(accrued) benefit cost	\$ (36)	\$ (104)	\$ (264)	\$ (255)
Amounts recognized in balance sheet consist of:				
Prepaid benefit cost	\$ 21			
Accrued benefit liability	(75)			
Intangible asset	10			
Cumulative other comprehensive expense	8			
Net amount recognized	\$ (36)			

The assets of the U.S. and Canadian pension plans, as of December 27, 1998, and December 28, 1997, consist of a highly diversified mix of equity, fixed income and real estate securities.

Approximately 1,500 employees are covered by union-administered multi-employer pension plans to which the company makes negotiated contributions based generally

on fixed amounts per hour per employee. Contributions to these plans were \$5 million in 1998, \$7 million in 1997 and \$5 million in 1996.

The company sponsors multiple defined benefit postretirement plans for its U.S. employees. Medical plans have various levels of coverage and plan participant contributions. Life insurance plans are noncontributory. Canadian employees are covered under multiple defined

benefit postretirement plans that provide medical and life insurance benefits.

Weyerhaeuser sponsors various defined contribution plans for U.S. salaried and hourly employees. The basis for determining plan contribution varies by plan. The amounts charged to operations and contributed to the plans for participating employees were \$37 million, \$34 million and \$32 million in 1998, 1997 and 1996, respectively.

The assumptions used in the measurement of the company's benefit obligations are as follows:

	Pension			Other Postretirement Benefits		
	1998	1997	1996	1998	1997	1996
Discount rate	7.25%	7.75%	7.75%	7.25%	7.75%	7.75%
Expected return on plan assets	11.50%	11.50%	11.50%	5.75%	5.75%	5.75%
Rate of compensation increase:						
Salaried	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Hourly	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

For measurement purposes, a 7.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 1998. Beginning in 1999, the rate

is assumed to decrease by 0.5 percent annually to a level of 4.5 percent for the year 2004 and all years thereafter.

The components of net periodic benefit costs are:

<i>Dollar amounts in millions</i>	Pension			Other Postretirement Benefits		
	1998	1997	1996	1998	1997	1996
Service cost	\$ 54	\$ 56	\$ 51	\$ 4	\$ 5	\$ 5
Interest cost	134	128	115	18	15	16
Expected return on plan assets	(236)	(194)	(171)	—	—	—
Amortization of (gain)/loss	(23)	8	14	(1)	(2)	(1)
Amortization of prior service cost	14	10	7	—	—	—
Amortization of unrecognized transition (asset)/obligation	(4)	(4)	(4)	—	—	—
(Gain)/loss due to closure, sale and other	1	1	2	—	—	—
	\$ (60)	\$ 5	\$ 14	\$ 21	\$ 18	\$ 20

The accrued (prepaid) pension costs for the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plan(s) with accumulated benefit obligations in excess of plan assets were \$178 million, \$203 million and \$102 million, respectively, as of

December 27, 1998, and \$54 million, \$81 million and \$4 million, respectively, as of December 28, 1997.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percent change in assumed health care cost trend rates would have the following effects:

<i>As of December 27, 1998</i> <i>Dollar amounts in millions</i>	1% Increase	1% Decrease
Effect on total of service and interest cost components	\$ 1	\$ (1)
Effect on accumulated postretirement benefit obligation	12	(11)

NOTE 7. INVENTORIES

<i>Dollar amounts in millions</i>	December 27, 1998	December 28, 1997
Logs and chips	\$ 108	\$ 103
Lumber, plywood and panels	143	154
Pulp, newsprint and paper	190	185
Containerboard, paperboard and packaging	96	107
Other products	150	152
Materials and supplies	275	282
	\$ 962	\$ 983

NOTE 8. PROPERTY AND EQUIPMENT

Dollar amounts in millions

	December 27, 1998	December 28, 1997
Property and equipment, at cost:		
Land	\$ 157	\$ 158
Buildings and improvements	1,667	1,721
Machinery and equipment	9,732	9,954
Rail and truck roads	555	550
Other	111	97
	12,222	12,480
Less allowance for depreciation and amortization	5,530	5,489
	\$ 6,692	\$ 6,991

NOTE 9. REAL ESTATE IN PROCESS OF DEVELOPMENT AND FOR SALE

Properties held by the company's real estate and related assets segment include:

Dollar amounts in millions

	December 27, 1998	December 28, 1997
Dwelling units	\$ 180	\$ 207
Residential lots	237	223
Commercial lots	120	79
Commercial projects	27	56
Acreage	19	27
Other inventories	1	1
	\$ 584	\$ 593

NOTE 10. ACCRUED LIABILITIES

Dollar amounts in millions

	December 27, 1998	December 28, 1997
Payroll — wages and salaries, incentive awards, retirement and vacation pay	\$ 305	\$ 268
Taxes — Social Security and real and personal property	46	53
Interest	87	91
Income taxes	16	42
Other	253	194
	\$ 707	\$ 648

NOTE 11. SHORT-TERM DEBT

BORROWINGS

Real estate and related assets segment short-term borrowings were \$564 million with a weighted average interest rate of 5.5 percent at December 27, 1998, and \$228 million with a weighted average interest rate of 5.7 percent at December 28, 1997.

LINES OF CREDIT

The company has short-term bank credit lines that provide for borrowings of up to the total amount of \$650 million and \$425 million, all of which could be availed of by the company and Weyerhaeuser Real Estate Company (WRECO) at December 27, 1998, and December 28, 1997, respectively. No portions of these lines have been availed of by the company or WRECO at December 27, 1998, or December 28, 1997. None of the entities referred to herein is a guarantor of the borrowings of the others.

NOTE 12. LONG-TERM DEBT

DEBT

Weyerhaeuser long-term debt, including the current portion, is as follows:

<i>Dollar amounts in millions</i>	December 27, 1998	December 28, 1997
8¾% debentures due 2007	\$ 150	\$ 150
7.50% debentures due 2013	250	250
7.25% debentures due 2013	250	250
7¼% debentures due 2023	250	250
9.05% notes due 2003	200	200
8½% debentures due 2025	300	300
7.95% debentures due 2025	250	250
6.95% debentures due 2017	300	300
6.95% debentures due 2027	300	300
Industrial revenue bonds, rates from 2.5% (variable) to 9.85% (fixed), due 1999–2028	779	784
Medium-term notes, rates from 6.43% to 8.91%, due 1999–2005	246	246
Commercial paper/credit agreements	192	194
Other	18	26
	<u>\$ 3,485</u>	<u>\$ 3,500</u>
Portion due within one year	\$ 88	\$ 17

Long-term debt maturities are (millions):

1999	\$ 88
2000	100
2001	81
2002	199
2003	210
Thereafter	2,807

Real estate and related assets segment long-term debt, including the current portion, is as follows:

<i>Dollar amounts in millions</i>	December 27, 1998	December 28, 1997
Notes payable, unsecured; weighted average interest rates are approximately 6.9% and 7%	\$ 531	\$ 652
Bank and other borrowings, unsecured; weighted average interest rates are approximately 5.5% and 5.9%	100	250
Notes payable, secured; weighted average interest rates are approximately 8.4% and 8.2%	13	30
Collateralized mortgage obligation bonds	57	100
	<u>\$ 701</u>	<u>\$ 1,032</u>
Portion due within one year	\$ 121	\$ 350

Long-term debt maturities are (millions):

1999	\$ 121
2000	127
2001	262
2002	80
2003	78
Thereafter	33

LINES OF CREDIT

The company's lines of credit include a five-year revolving credit facility agreement entered into in 1997 with a group of banks that provides for borrowings of up to the total amount of \$400 million, all of which is available to the company. Borrowings are at LIBOR plus a spread or other

such interest rates mutually agreed to between the borrower and lending banks.

Weyerhaeuser Financial Services, Inc. (WFS), a wholly owned subsidiary, paid down a revolving credit facility agreement effective June 1998. \$75 million was outstanding under this facility at December 28, 1997. WFS has

negotiated a new set of term credit facility agreements with a group of banks that provide for borrowings of up to \$175 million. At December 27, 1998, \$100 million had been drawn and is outstanding.

To the extent that these credit commitments expire more than one year after the balance sheet date and are unused, an equal amount of commercial paper is classifiable as

long-term debt. Amounts so classified are shown in the tables in this note.

No portion of these lines has been availed of by the company, WRECO or WFS at December 27, 1998, or December 28, 1997, except as noted above.

The company's compensating balance agreements were not significant.

NOTE 13. FAIR VALUE OF FINANCIAL INSTRUMENTS

<i>Dollar amounts in millions</i>	December 27, 1998		December 28, 1997	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Weyerhaeuser:				
Financial liabilities:				
Long-term debt (including current maturities)	\$ 3,485	\$ 3,820	\$ 3,500	\$ 3,859
Real estate and related assets:				
Financial assets:				
Mortgage loans receivable	53	58	64	74
Mortgage-backed certificates and other pledged financial instruments	66	69	109	117
Total financial assets	119	127	173	191
Financial liabilities:				
Long-term debt (including current maturities)	701	718	1,032	1,044

The methods and assumptions used to estimate fair value of each class of financial instruments for which it is practicable to estimate that value are as follows:

- Long-term debt, including the real estate and related assets segment, is estimated based on quoted market prices for the same issues or on the discounted value of the future cash flows expected to be paid using incremental rates of borrowing for similar liabilities.

- Mortgage loans receivable are estimated based on the discounted value of estimated future cash flows using current rates for loans with similar terms and risks.

- Mortgage-backed certificates and other pledged financial instruments (pledged to secure collateralized mortgage obligations) are estimated using the quoted market prices for securities backed by similar loans and restricted deposits held at cost.

NOTE 14. LEGAL PROCEEDINGS, COMMITMENTS AND CONTINGENCIES

LEGAL PROCEEDINGS

In June 1998, a lawsuit was filed against the company in Superior Court, San Francisco County, California, on behalf of a purported class of individuals and entities that own property in the United States on which exterior hardboard siding manufactured by the company has been installed since 1981. The action alleges the company manufactured and distributed defective hardboard siding, breached express warranties and consumer protection statutes, and failed to disclose to consumers the alleged defective nature of its hardboard siding. The action seeks compensatory and punitive damages, costs and reasonable attorney fees. In December 1998, the complaint was amended, narrowing the purported class to individuals and entities in the state of California. On February 4, 1999, the court entered an order certifying the class. The company intends to seek a review of that order. In September 1998, a lawsuit purporting to be a class action involving hardboard siding was filed against the company in Superior

Court, King County, Washington. The complaint was amended in January 1999 to allege a class consisting of individuals and entities that own homes or other structures in the United States on which exterior hardboard siding manufactured by the company at its former Klamath Falls, Oregon facility, had been installed from January 1981. The amended complaint alleges the company manufactured defective hardboard siding, engaged in unfair trade practices and failed to disclose to customers the alleged defective nature of its hardboard siding. The amended complaint seeks compensatory damages, punitive or treble damages, restitution, attorney fees, costs of the suit and such other relief as may be appropriate. The company is a defendant in approximately twenty-four other hardboard siding cases, one of which purports to be a state-wide class action on behalf of purchasers of single or multi-family residences in Iowa that contain the company's hardboard siding.

ENVIRONMENTAL

It is the company's policy to accrue for environmental remediation costs when it is determined that it is probable that such an obligation exists and the amount of the obligation can be reasonably estimated. Based on currently available information and analysis, the company believes that it is reasonably possible that costs associated with all identified sites may exceed current accruals by amounts that may prove insignificant or that could range, in the aggregate, up to approximately \$90 million over several years. This estimate of the upper end of the range of reasonably possible additional costs is much less certain than the estimates upon which accruals are currently based, and utilizes assumptions less favorable to the company among the range of reasonably possible outcomes. In estimating both its current accruals for environmental remediation and the possible range of additional future costs, the company has assumed that it will not bear the entire cost of remediation of every site to the exclusion of other known potentially responsible parties who may be jointly and severally liable. The ability of other potentially responsible parties to participate has been taken into account, based generally on each party's financial condition and probable contribution on a per-site basis. No amounts have been recorded for potential recoveries from insurance carriers.

The company is a party to legal proceedings and environmental matters generally incidental to its business.

Although the final outcome of any legal proceeding or environmental matter is subject to a great many variables and cannot be predicted with any degree of certainty, the company presently believes that the ultimate outcome resulting from these proceedings and matters, including those described in this note, would not have a material effect on the company's current financial position, liquidity or results of operations; however, in any given future reporting period, such proceedings or matters could have a material effect on results of operations.

OTHER ITEMS

The company's 1998 capital expenditures, excluding acquisitions, were \$615 million and are expected to approximate \$785 million in 1999; however, the 1999 expenditure level could be increased or decreased as a consequence of future economic conditions.

During the normal course of business, the company's subsidiaries included in its real estate and related assets segment have entered into certain financial commitments comprised primarily of guarantees made on \$40 million of partnership borrowings and limited recourse obligations associated with \$98 million of sold mortgage loans. The fair value of the recourse on these loans is estimated to be \$4 million, which is based upon market spreads for sales of similar loans without recourse or estimates of the credit risk of the associated recourse obligation.

NOTE 15. CLOSURE, DISPOSITION OR SALE OF FACILITIES

In 1998 and 1997, the company took pretax charges of \$71 million and \$89 million, respectively, for the closure or disposition of facilities. (See "Charge for Closure or Disposition of Facilities" in the company's Financial Review, page 44.)

In 1996, the company sold its Klamath Falls, Oregon, hardboard, particleboard and plywood manufacturing operations; 600,000 acres of predominantly pine timberlands; and its nursery and seed orchard facilities.

Proceeds from the sale of the property and equipment in this transaction amounted to \$33 million. The resulting gain on this transaction was not material to the company's pretax income. The timberlands portion of this transaction involved a like-kind exchange for other timberlands, primarily private commercial timberlands in southeastern Louisiana and southern Mississippi previously owned by Cavenham Forest Industries.

NOTE 16. SHAREHOLDERS' INTEREST

PREFERRED AND PREFERENCE SHARES

The company is authorized to issue:

- 7,000,000 preferred shares having a par value of \$1.00 per share, of which none were issued and outstanding at December 27, 1998, and December 28, 1997; and
- 40,000,000 preference shares having a par value of \$1.00 per share, of which none were issued and outstanding at December 27, 1998, and December 28, 1997.

The preferred and preference shares may be issued in one or more series with varying rights and preferences including dividend rates, redemption rights, conversion terms, sinking fund provisions, values in liquidation and voting rights. When issued, the outstanding preferred and preference shares rank senior to outstanding common shares as to dividends and assets available on liquidation.

NOTE 17. STOCK-BASED COMPENSATION PLAN

The company's Long-Term Incentive Compensation Plan (the "Plan") was approved at the 1992 Annual Meeting of Shareholders. The Plan provides for the purchase of the company's common stock at its market price on the date of grant by certain key officers and other employees of the company and its subsidiaries who are selected from time to time by the Compensation Committee of the Board of Directors. No more than 10 million shares may be issued under the Plan. The term of options granted under the Plan may not exceed 10 years from the grant date. Grantees are 25 percent vested after one year, 50 percent after two years, 75 percent after three years, and 100 percent after four years.

The company accounts for all options under APB Opinion No. 25 and related interpretations, under which no compensation has been recognized. Had compensation costs for the Plan been determined consistent with SFAS No. 123, "Accounting for Stock-Based Compensation," net income and earnings per share would have been reduced to the following pro forma amounts:

	1998	1997	1996
Net income (in millions):			
As reported	\$ 294	\$ 342	\$ 463
Pro forma	279	332	454
Basic earnings per common share:			
As reported	\$ 1.48	\$ 1.72	\$ 2.34
Pro forma	1.40	1.67	2.29
Diluted earnings per common share:			
As reported	\$ 1.47	\$ 1.72	\$ 2.33
Pro forma	1.40	1.66	2.28

Because the SFAS No. 123 method of accounting has not been applied to options granted prior to fiscal year 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants:

	1998	1997	1996
Risk-free interest rate	5.60%	6.42%	5.81%
Expected life	4.3 years	4.9 years	6.4 years
Expected volatility	27.08%	26.21%	25.61%
Expected dividend yield	3.03%	3.44%	3.48%

Changes in the number of shares subject to option are summarized as follows:

	1998	1997	1996
Shares (in thousands):			
Outstanding, beginning of year	5,848	6,243	5,972
Granted	1,981	1,563	1,222
Exercised	512	1,864	925
Forfeited	95	91	26
Expired	—	3	—
Outstanding, end of year	7,222	5,848	6,243
Exercisable, end of year	5,304	4,309	5,022
Weighted average exercise price:			
Outstanding, beginning of year	\$43.32	\$40.56	\$38.17
Granted	52.85	46.54	45.94
Exercised	38.98	36.70	32.11
Forfeited	50.37	44.68	43.46
Expired	—	37.75	—
Outstanding, end of year	46.15	43.32	40.56
Weighted average grant date fair value of options	12.31	11.26	11.40

The following table summarizes information about stock options outstanding at December 27, 1998:

Price Range	Options Outstanding	Options Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
\$20-\$35	228	228	\$25.34	1.77 years
\$35-\$46	4,012	4,012	\$43.44	6.55 years
\$47-\$57	2,982	1,064	\$51.38	8.01 years
	7,222	5,304		

NOTE 18. BUSINESS SEGMENTS

The company is principally engaged in the growing and harvesting of timber and the manufacture, distribution and sale of forest products. The business segments are timberlands (including logs, chips and timber); wood products (including softwood lumber, plywood and veneer; composite panels; oriented strand board; hardwood lumber; treated products; doors; raw materials; and building materials distribution); pulp, paper and packaging (including pulp, paper, containerboard, packaging, paperboard and recycling); and real estate and related assets.

The timber-based businesses involve a high degree of integration among timber operations; building materials conversion facilities; and pulp, paper, containerboard and paperboard primary manufacturing and secondary

conversion facilities. This integration includes extensive transfers of raw materials, semi-finished materials and end products between and among these groups. The company's accounting policies for segments are the same as those described in "Note 1. Summary of Significant Accounting Policies." Management evaluates segment performance based on the contributions to earnings of the respective segments. Accounting for segment profitability in integrated manufacturing sites involves allocation of joint conversion and common facility costs based upon the extent of usage by the respective product lines at that facility. Transfer of products between segments is accounted for at current market values.

An analysis and reconciliation of the company's business segment information to the respective information in the consolidated financial statements is as follows:

For the three-year period ended December 27, 1998
Dollar amounts in millions

	1998	1997	1996
Sales to and revenues from unaffiliated customers:			
Timberlands	\$ 636	\$ 797	\$ 867
Wood products	4,475	4,577	4,373
Pulp, paper and packaging	4,312	4,609	4,648
Real estate and related assets	1,192	1,093	1,009
Corporate and other	151	134	217
	<u>\$ 10,766</u>	<u>\$ 11,210</u>	<u>\$ 11,114</u>
Intersegment sales:			
Timberlands	\$ 488	\$ 520	\$ 513
Wood products	184	190	246
Pulp, paper and packaging	74	95	88
Corporate and other	13	35	35
	<u>759</u>	<u>840</u>	<u>882</u>
Total sales and revenues	11,525	12,050	11,996
Intersegment eliminations	(759)	(840)	(882)
	<u>\$ 10,766</u>	<u>\$ 11,210</u>	<u>\$ 11,114</u>
Approximate contribution (charge) to earnings:⁽¹⁾			
Timberlands	\$ 487	\$ 535	\$ 503
Wood products	183	172	302
Pulp, paper and packaging	150	164	307
Real estate and related assets	124	111	43
Corporate and other	(225)	(186)	(183)
	<u>719</u>	<u>796</u>	<u>972</u>
Interest expense⁽¹⁾	(324)	(341)	(338)
Less capitalized interest	68	84	86
Earnings before income taxes	463	539	720
Income taxes	(169)	(197)	(257)
	<u>\$ 294</u>	<u>\$ 342</u>	<u>\$ 463</u>
Depreciation, amortization and fee stumpage:			
Timberlands	\$ 55	\$ 72	\$ 79
Wood products	188	171	148
Pulp, paper and packaging	348	353	355
Real estate and related assets	5	12	16
Corporate and other	20	20	19
	<u>\$ 616</u>	<u>\$ 628</u>	<u>\$ 617</u>
Noncash charges for closure or disposition of facilities:			
Wood products	\$ 25	\$ 40	\$ —
Pulp, paper and packaging	42	49	—
Corporate and other	4	—	—
	<u>\$ 71</u>	<u>\$ 89</u>	<u>\$ —</u>
Equity in income/(loss) from equity affiliates, joint ventures and limited partnerships:			
Timberlands	\$ 1	\$ 3	\$ —
Pulp, paper and packaging	27	(10)	5
Real estate and related assets	14	14	5
	<u>\$ 42</u>	<u>\$ 7</u>	<u>\$ 10</u>
Capital expenditures (including acquisitions):			
Timberlands	\$ 87	\$ 75	\$ 505
Wood products	212	240	361
Pulp, paper and packaging	776	327	415
Real estate and related assets	2	3	9
Corporate and other	32	24	37
	<u>\$ 1,109</u>	<u>\$ 669</u>	<u>\$ 1,327</u>
Investments in and advances to equity affiliates, joint ventures and limited partnerships:			
Timberlands	\$ 218	\$ 216	\$ —
Pulp, paper and packaging	264	33	35
Real estate and related assets (less reserves)	120	116	115
	<u>\$ 602</u>	<u>\$ 365</u>	<u>\$ 150</u>
Assets:			
Timberlands	\$ 1,675	\$ 1,676	\$ 1,578
Wood products	2,129	2,128	2,080
Pulp, paper and packaging	6,346	6,589	6,721
Real estate and related assets	1,900	2,004	2,628
Corporate and other	1,164	1,160	1,184
	<u>13,214</u>	<u>13,557</u>	<u>14,191</u>
Less: Intersegment eliminations	(380)	(482)	(595)
	<u>\$ 12,834</u>	<u>\$ 13,075</u>	<u>\$ 13,596</u>

Certain reclassifications have been made to conform prior years' data to the current format.

⁽¹⁾Interest expense of \$17 million, \$40 million and \$67 million in 1998, 1997 and 1996, respectively, is included in the determination of "approximate contribution to earnings" and excluded from "interest expense" for financial services businesses.

NOTE 19. GEOGRAPHICAL AREAS

The company attributes sales to and revenues from unaffiliated customers in different geographical areas on the basis of the location of the customer.

Export sales from the United States consist principally of pulp, paperboard, logs, lumber and wood chips to Japan; containerboard, pulp, lumber and recycling

material to other Pacific Rim countries; and pulp and hardwood lumber to Europe.

Long-lived assets consist of timber and timberlands and property and equipment used in the generation of revenues in the different geographical areas.

Selected information related to the company's operations by geographical area is as follows:

For the three-year period ended December 27, 1998
Dollar amounts in millions

	1998	1997	1996
Sales to and revenues from unaffiliated customers:			
United States	\$ 8,999	\$ 8,985	\$ 8,676
Japan ⁽¹⁾	604	1,032	1,320
Canada	514	510	473
Europe	338	354	323
Other foreign countries	311	329	322
	<u>\$ 10,766</u>	<u>\$ 11,210</u>	<u>\$ 11,114</u>
Export sales from the United States:			
Japan ⁽¹⁾	\$ 501	\$ 893	\$ 1,185
Other	588	634	573
	<u>\$ 1,089</u>	<u>\$ 1,527</u>	<u>\$ 1,758</u>
Earnings before income taxes:			
United States	\$ 413	\$ 432	\$ 614
Foreign entities	50	107	106
	<u>\$ 463</u>	<u>\$ 539</u>	<u>\$ 720</u>
Long-lived assets:			
United States	\$ 6,649	\$ 7,426	\$ 7,562
Canada	1,345	903	930
Other foreign countries	26	12	5
	<u>\$ 8,020</u>	<u>\$ 8,341</u>	<u>\$ 8,497</u>

⁽¹⁾1998 export sales to Japan include only one month's sales of newsprint due to the company's change in ownership of its newsprint subsidiary from 80 percent to 50 percent in February.

NOTE 20. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Dollar amounts in millions except per-share figures

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Net sales:					
1998	\$ 2,603	\$ 2,676	\$ 2,736	\$ 2,751	\$10,766
1997	2,608	2,909	2,823	2,870	11,210
Operating income:					
1998	188	161	225	82	656
1997	104	212	233	220	769
Earnings before income taxes:					
1998	135	109	175	44	463
1997	33	172	180	154	539
Net earnings:					
1998	85	69	110	30	294
1997	21	109	114	98	342
Net earnings per common share:					
Basic					
1998	.43	.34	.56	.15	1.48
1997	.10	.56	.57	.49	1.72
Diluted					
1998	.43	.34	.55	.15	1.47
1997	.10	.55	.57	.49	1.72
Dividends per common share:					
1998	.40	.40	.40	.40	1.60
1997	.40	.40	.40	.40	1.60
Market prices — high/low:					
1998	57 ¹⁵ / ₁₆ –44 ¹⁵ / ₁₆	61 ⁷ / ₁₆ –44 ⁹ / ₁₆	47 ⁷ / ₁₆ –36 ³ / ₄	51 ¹ / ₁₆ –41 ³ / ₄	61 ⁷ / ₁₆ –36 ³ / ₄
1997	50 ⁸ / ₁₆ –44 ¹ / ₂	55 ¹ / ₄ –42 ⁵ / ₁₆	63 ¹⁵ / ₁₆ –51 ⁵ / ₁₆	60 ³ / ₄ –46 ¹ / ₁₆	63 ¹⁵ / ₁₆ –42 ⁵ / ₁₆

NOTE 21. HISTORICAL SUMMARY

Dollar amounts in millions except per-share figures

	1998	1997	1996	1995	1994
PER COMMON SHARE:					
Basic net earnings (loss) from continuing operations, before extraordinary item and effect of accounting changes	\$ 1.48	1.72	2.34	3.93	2.86
Extraordinary item ⁽⁴⁾	\$ —	—	—	—	—
Effect of accounting changes	\$ —	—	—	—	—
Basic net earnings (loss)	\$ 1.48	1.72	2.34	3.93	2.86
Diluted net earnings (loss) from continuing operations, before extraordinary item and effect of accounting changes	\$ 1.47	1.72	2.33	3.92	2.86
Extraordinary item ⁽⁴⁾	\$ —	—	—	—	—
Effect of accounting changes	\$ —	—	—	—	—
Diluted net earnings (loss)	\$ 1.47	1.72	2.33	3.92	2.86
Dividends paid	\$ 1.60	1.60	1.60	1.50	1.20
Shareholders' interest (end of year)	\$ 22.74	23.30	23.21	22.57	20.86
FINANCIAL POSITION:					
Total assets:					
Weyerhaeuser	\$ 10,934	11,071	10,968	10,359	9,750
Real estate and related assets	\$ 1,900	2,004	2,628	2,894	3,408
	\$ 12,834	13,075	13,596	13,253	13,158
Long-term debt (net of current portion):					
Weyerhaeuser:					
Long-term debt	\$ 3,397	3,483	3,546	2,983	2,713
Capital lease obligations	\$ 2	2	2	2	—
Convertible subordinated debentures	\$ —	—	—	—	—
Limited recourse income debenture	\$ —	—	—	—	—
	\$ 3,399	3,485	3,548	2,985	2,713
Real estate and related assets:					
Long-term debt	\$ 580	682	814	1,608	1,873
Shareholders' interest	\$ 4,526	4,649	4,604	4,486	4,290
Percent earned on shareholders' interest	6.4%	7.4%	10.2%	18.2%	14.3%
OPERATING RESULTS:					
Net sales and revenues:					
Weyerhaeuser	\$ 9,574	10,117	10,105	10,869	9,281
Real estate and related assets	\$ 1,192	1,093	1,009	919	1,117
	\$ 10,766	11,210	11,114	11,788	10,398
Net earnings (loss) from continuing operations before extraordinary item and effect of accounting changes:					
Weyerhaeuser	\$ 214	271	434	981	576
Real estate and related assets	\$ 80	71	29	(182) ⁽³⁾	13
	\$ 294 ⁽¹⁾	342 ⁽²⁾	463	799	589
Extraordinary item ⁽⁴⁾	\$ —	—	—	—	—
Effect of accounting changes	\$ —	—	—	—	—
Net earnings (loss)	\$ 294	342	463	799	589
STATISTICS (UNAUDITED):					
Number of employees	35,032	35,778	39,020	39,558	36,665
Salaries and wages	\$ 1,645	1,706	1,781	1,779	1,610
Employee benefits	\$ 347	355	370	408	357
Total taxes	\$ 437	478	557	736	618
Timberlands (thousands of acres):					
U.S. fee ownership	5,099	5,171	5,326	5,302	5,587
Long-term license arrangements	27,002	23,715	22,863	22,866	17,849
Number of shareholder accounts at year-end:					
Common	19,559	20,981	22,528	23,446	24,131
Preferred	—	—	—	—	—
Preference	—	—	—	—	—
Average common and common equivalent shares outstanding (thousands)	198,914	198,967	198,318	203,525	205,543

1993	1992	1991	1990	1989	1988
2.58	1.83	(.50)	1.87	1.56	2.68
.25	—	—	—	—	—
—	—	(.30)	—	—	—
2.83	1.83	(.80)	1.87	1.56	2.68
2.56	1.82	(.50)	1.87	1.56	2.68
.25	—	—	—	—	—
—	—	(.30)	—	—	—
2.81	1.82	(.80)	1.87	1.56	2.68
1.20	1.20	1.20	1.20	1.20	1.15
19.34	17.85	17.25	19.21	18.55	18.14
9,087	8,566	7,551	7,556	7,371	6,983
3,670	9,720	9,435	8,800	8,605	8,401
12,757	18,286	16,986	16,356	15,976	15,384
2,998	2,659	2,195	2,168	1,502	1,644
—	—	—	7	23	37
—	193	193	193	—	—
—	188	204	204	204	198
2,998	3,040	2,592	2,572	1,729	1,879
2,086	2,411	2,421	2,637	2,006	2,318
3,966	3,646	3,489	3,864	4,148	4,044
15.2%	10.4%	(4.4)%	9.8%	8.3%	14.6%
8,315	7,744	7,167	7,447	8,355	7,861
1,230	1,522	1,606	1,619	1,826	1,467
9,545	9,266	8,773	9,066	10,181	9,328
459	332	(25)	340	377	516
68	40	(76)	54	(36)	50
527	372	(101) ⁽⁵⁾	394	341 ⁽⁶⁾	566
52	—	—	—	—	—
—	—	(61)	—	—	—
579	372	(162)	394	341	566
36,748	39,022	38,669	40,621	45,214	46,976
1,585	1,580	1,476	1,531	1,563	1,423
347	323	321	318	325	292
577	443	173	446	403	511
5,512	5,592	5,488	5,592	5,664	5,775
17,845	18,828	13,491	13,491	13,324	13,324
25,282	26,334	26,937	28,187	29,847	30,379
—	—	—	—	12	25
—	—	—	—	443	351
204,866	203,373	201,578	203,673	204,331	207,785

⁽¹⁾1998 results reflect nonrecurring charges of \$71 million less related tax effect of \$26 million, or \$45 million.

⁽²⁾1997 results reflect net nonrecurring charges of \$13 million less related tax effect of \$4 million, or \$9 million.

⁽³⁾1995 results reflect a charge for disposal of certain real estate assets of \$290 million less related tax effect of \$106 million, or \$184 million.

⁽⁴⁾1993 results reflect an extraordinary net gain as a result of extinguishing certain debt obligations of \$86 million less related tax effect of \$34 million, or \$52 million.

⁽⁵⁾1991 results reflect restructuring and other charges of \$445 million less related tax effect of \$162 million, or \$283 million.

⁽⁶⁾1989 results reflect net nonrecurring items of \$401 million less related tax effect of \$141 million, or \$260 million.