

Environment, Health and Safety Report

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Message to Shareholders

Norbord's environment, health and safety activities are based on two fundamentally important beliefs: First we must provide a safe, injury-free workplace. Second, the management of environmental risk is an integral part of our business planning and success.

We apply these beliefs 24 hours a day, 365 days a year. It's a full-time, constant commitment and one that we are always working to improve upon.

Health and Safety Performance

During 2006 our safety performance improved. But we are still short of the world class performance we know we can achieve. Most tragically, a fatal incident occurred at our Joanna, South Carolina OSB mill in November 2006 reinforcing the need for vigilance and continued learning throughout the organization.

On a positive note, we made several achievements:

- We improved our OSHA recordable rate by more than 20% over 2005.
- We polled every employee to identify barriers to eliminating injuries in the workplace and to help define a strategy for further improvement.
- The Nacogdoches, Texas mill set a Norbord record with a 2006 OSHA recordable rate of zero – making it one of the safest OSB mills in the world. In addition, mills in Huguley, Alabama, Nacogdoches and Jefferson, Texas each celebrated more than one million hours worked without a lost time injury.

Management of Environmental Risk Shows Real Improvement

Core to our business and capital planning is the identification of risks and opportunities. Understanding these opportunities is essential to reducing the environmental impact of our operations while maintaining efficient manufacturing systems.

- We continue to use more residual wood for energy production. We have invested \$55 million to reduce dependence on fossil fuel and have reduced natural gas consumption and greenhouse gas emissions by 30%.
- We moved quickly toward compliance with new US environmental regulations – investing \$29 million in air emission controls and reducing emissions from our US plants by more than 1,000 metric tons per year.
- We achieved a 98% compliance rate as measured against our own leading indicators of environmental performance.

In this report we discuss the environment, health and safety risks that we feel have the greatest potential to impact the long-term sustainability of our business. For a more detailed review of our performance I invite you to explore the Compendium of Environment, Health and Safety Data available on our web site (www.norbord.com).



J. Barrie Shingleton
President and Chief Executive Officer

Environment Policy

Norbord recognizes that our environment is fundamental to our existence, and that our businesses and the communities where we operate depend on its health. We strive for excellence, leadership, sustainability and competitive advantage – with integrity – through continual improvement in our environmental performance and management of forest land. For Norbord, sustainable development means creating economic growth and caring for society and the environment, while taking into account the needs of future generations.

Norbord will integrate environmental protection into our business processes and decisions. Our belief in sustainable development means we are committed to:

Full Compliance: Comply fully with all applicable environmental legislation and regulations that affect our activities.

Forest Management: Manage forest resources in a manner consistent with the principles of sustainable forestry, this policy and applicable legislation.

Minimization of Environmental Impact: Improve our environmental performance as the expectations of society change. We shall do this by using forest, energy and other resources with increasing efficiency, and by reducing all forms of waste.

Risk Management: Continually identify, evaluate and control the environmental risks associated with our operations. We shall have procedures in place to prevent and respond to emergencies.

Environmental Management Systems: Implement systematic environmental management which supports this policy at every operation. We shall assign appropriate human and financial resources. Every year we shall establish measurable objectives and targets for environmental management and performance improvement.

Innovation: Support pollution prevention and environmental research, and implement findings consistent with this policy.

Performance Evaluation: Evaluate the environmental performance of our operations and personnel, and recognize achievements that support this policy. We shall provide our employees with information and training for them to fully integrate this policy into their responsibilities at work.

Communication with Stakeholders: Engage in constructive dialogue with the communities in which we operate and other key stakeholders, taking their needs into account when we make our decisions.

Open Government Relations: Work constructively with governments and regulators on the establishment of scientifically and economically sound requirements for our operations.

Audits: Conduct environmental audits at all our operations at a frequency appropriate to their risks.

Reports: Report regularly on our environmental performance to the management of the Corporation, the Board of Directors, our shareholders, employees and the communities in which we operate.

Norbord requires its operations to develop policies, systems, organizations, and competencies, and to embrace an environmental commitment consistent with these principles. Norbord requires all employees to take responsibility for environmental protection in their jobs.

Health and Safety Policy

We are committed to safeguarding the health and well-being of our employees, contractors and visitors by creating and maintaining a safe working environment.

Beliefs

- All injuries and occupational illnesses are preventable.
- Health and safety is a top priority and an integral part of our business and decision-making.
- Management is ultimately responsible for workplace health and safety.
- Safe operating practices are a shared responsibility among management, employees, contractors and visitors.
- Employees and contractors are accountable for their safety and that of fellow workers.
- Working safely is a condition of employment.
- Sharing best practices improves performance.

Practices

- Design safe facilities.
- Continually review and improve processes and procedures.
- Identify hazards and assess risks.
- Develop, implement and enforce safe work practices.
- Ensure all facilities comply with applicable laws and regulations.
- Provide employees with information and training to work safely.
- Require employees and contractors to execute their work in accordance with legislative requirements and Norbord policy.
- Establish and monitor health and safety objectives.
- Take action to prevent recurrence of incidents.
- Implement health and safety management systems to continually improve performance.
- Conduct health and safety audits.
- Report health and safety performance to senior management, the Board of Directors, shareholders, employees and the public.

2006 Report Card

	<i>2006 Target</i>	<i>2006 Performance</i>	<i>2007 Target</i>
<i>Health and Safety</i>	<ul style="list-style-type: none"> • OSHA recordable rate of less than 2.00, with an ultimate goal of zero. • Increase participation in personal health assessment program to 35% in the US. 	<ul style="list-style-type: none"> • OSHA recordable rate of 2.59. A 20% improvement over 2005. • Maintained health assessment participation rate at 20% in US mills. 	<ul style="list-style-type: none"> • 2007 OSHA recordable rate of less than 2.00, with an ultimate goal of zero. • Increase employee participation in safety activities.
<i>Full Compliance</i>	<ul style="list-style-type: none"> • Finalize implementation plans for Maximum Achievable Control Technology (MACT) compliance at US operations. • Complete implementation of Dangerous Substances and Explosive Atmospheres Regulations (DSEAR) at European operations. 	<ul style="list-style-type: none"> • Environmental compliance rate of 97.9%. • Completed MACT compliance planning and submitted Boiler MACT permit applications at all affected operations. • All areas identified with potentially high explosive risks mitigated to comply with DSEAR. 	<ul style="list-style-type: none"> • Full compliance with Boiler MACT requirements in the US. • Complete DSEAR initiatives at Genk, Belgium.
<i>Impact Minimization</i>	<ul style="list-style-type: none"> • Reduce fossil fuel dependence by 20%. • Further reduce volatile organic compound (VOC) emissions by 5%. 	<ul style="list-style-type: none"> • Reduced fossil fuel use by 26% over 2005. • Reduced direct greenhouse gas emissions by 23%. • Reduced US criteria pollutant emissions (particulate matter, nitrogen oxides, VOC and carbon monoxide) by 1,000 metric tons (9%), including a 5% reduction in VOC. 	<ul style="list-style-type: none"> • Reduce fossil fuel dependence by an additional 10%. • Start-up of Genk and Nacogdoches wood-fired heat energy systems.
<i>Environment, Health and Safety (EH&S) Audits</i>	<ul style="list-style-type: none"> • Complete EH&S audits at mills in: Genk; Nacogdoches; Cordele, Georgia; La Sarre and Val-d'Or, Quebec; and Guntown, Mississippi. • Achieve ISO 14001 Environmental Management Systems standard registration at Genk. 	<ul style="list-style-type: none"> • EH&S audits completed at: Genk, Nacogdoches, Cordele, La Sarre and Guntown. • ISO 14001 registration completed at Genk. • Completed FSC Chain of Custody certification for Cochrane, Ontario hardwood plywood mill. 	<ul style="list-style-type: none"> • Complete audits in Val-d'Or; Cowie, Scotland; Deposit, New York; and Cochrane. • Train 10 new EH&S auditors. • Focus 2007 audits on hazard assessment in routine tasks and root cause analysis. • ISO 14001 Environmental Management System Standard registration at Cowie.

Safety

Every Norbord employee has the right to work in a safe workplace where training, elimination of risk and individual and collective responsibilities for safety are central to management practices. In 2006 we made progress toward our goal of an injury-free workplace. Our 2006 OSHA recordable injury rate was 20% better than 2005 and 17% below our five-year average.

At the beginning of the year we polled every employee to identify the barriers to improved performance. More than 85% of employees participated, helping to define a strategy for improvement that will strengthen communication, increase opportunities for employee participation in safety activities, continually evaluate and reduce risk, and ensure that Norbord's equipment and practices are in keeping with world class safety standards.

Health and Safety Data	2006	2005 ⁽²⁾	2004	2003	2002
Hours worked (000's)	6,186	6,190	5,965	5,810	5,660
Lost time injuries and illnesses	24	37	15	34	48
Lost time frequency ⁽¹⁾	0.78	1.29	0.50	1.17	1.70
OSHA recordable injury rate ⁽¹⁾	2.59	3.23	2.62	3.03	4.18

(1) Per 200,000 hours worked.

(2) Genk mill acquired in 2004; figures included starting in 2005.

While progress has been made, we have yet to achieve world class performance. In November a process technician with seven years experience in the Joanna mill was performing a routine cleaning task when he was fatally injured. Internal and outside expertise was engaged to investigate the incident. We quickly communicated findings throughout the Company and have put in place corrective actions to respond to any issues that were identified.

On a more positive note, sustained vigilance and a motivated workforce have contributed to a 55% improvement in safety performance at the Genk operation. In addition, mills in Huguley, Nacogdoches and Jefferson have each surpassed one million hours worked without a lost time injury. The Nacogdoches mill recorded a perfect safety record during the year with zero recordable injuries, making it one of the safest OSB mills in the world.

Managing Environmental Risks

While industrial manufacturing activities do pose inherent risks, Norbord's manufacturing processes and the regulatory requirements imposed on our operations ensure that there are no significant risks to the environment or the communities in which we operate. For example:

- The majority of the wood fibre used in our products is from short rotation, sustainably managed forests or recycled sources.
- Norbord's manufacturing process uses residual wood fuel to provide heat and in some cases electrical energy consumed in manufacturing. More than 70% of the energy needed to make OSB is derived from residual wood fuel.
- Chemical use in the panelboard manufacturing process is restricted to the use of relatively small quantities of phenol and urea formaldehyde based and polymeric methylene diphenyl diisocyanate (PMDI) based resins. The use of these resins is tightly controlled and monitored at all times to safeguard employees, customers and the surrounding community from exposure.

- Air emissions from the manufacturing process primarily consist of:
 - water vapour, volatile organic compounds (VOCs), fine wood particulates and natural wood-based materials such as terpenes, alcohols, acetaldehyde and acrolein that are released when wood is heated for drying;
 - fine particulate wood ash, nitrogen oxides, carbon monoxide and trace amounts of manganese from the combustion of wood and natural gas for the production of heat and electrical energy; and
 - formaldehyde and methanol from both the wood drying and panel pressing processes.
- The panelboard manufacturing process uses and discharges very little water, most of which is a by-product of steam production, wood chip washing, air emission scrubbing systems and non-industrial sewage. All process discharges are treated on-site using appropriate water treatment systems or are sent to municipal effluent treatment systems.
- Wood ash, wood debris contaminated with soil and rocks and general trash are the primary wastes produced. Wherever possible, materials are reused or recycled including extensive use of wood ash as an approved agricultural supplement.
- Norbord generates in total less than 2,000 metric tons of hazardous waste per year, which is properly characterized and disposed of under tight regulatory standards. Most of this hazardous waste consists of general cleaning products, paints, batteries and waste resins.

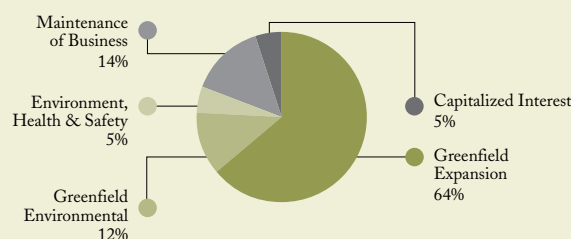
All production processes and emissions are subject to regulation and permit requirements imposed by jurisdictional government agencies. In the United States, strict environmental regulations are set federally and enforced through detailed state-issued permits. In Canada, provincial regulations require certificates of authorization defining the requirements of operation. And in Europe, federal, regional and local government bodies work together to develop detailed integrated operating permits for each plant. Compliance with these permits requires internal monitoring, routine reporting and annual government inspections.

Nonetheless, continual assessment and investment in risk reduction is integrated into Norbord's business planning process. While risks vary between regions, sites and by specific manufacturing process, there are four general categories of environmental risk that play an important part in Norbord's success in the near and long term:

- Energy security and the management of greenhouse gas emissions.
- New and proposed government regulations to limit air emissions.
- Management and control of formaldehyde as a by-product of the manufacturing process, as a contaminant in our workplaces and as a component in our products.
- Environmentally sound forestry practices and the sustainability of our fibre resources.

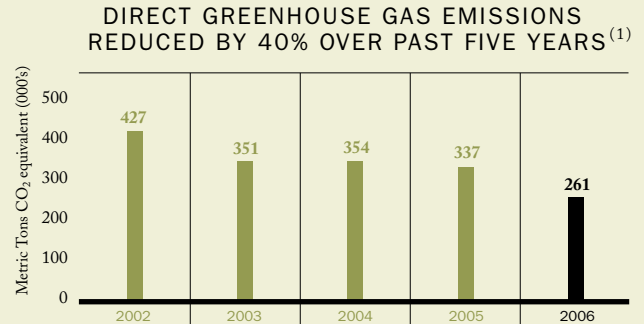
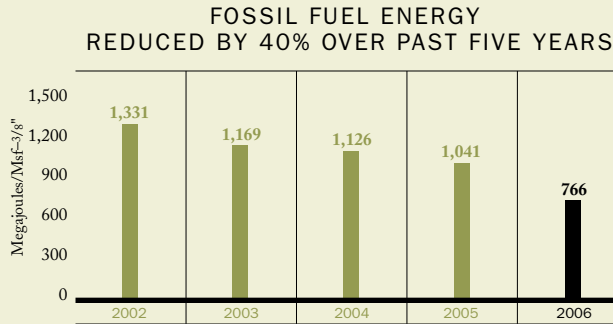
Norbord assesses where opportunities exist for reducing all existing and potential risks, gives careful consideration to risk reduction in the deployment of capital and measures progress regularly.

2006 CAPITAL INVESTMENT INCLUDES
\$21 MILLION FOR EH&S IMPROVEMENTS



Energy Use and Greenhouse Gases

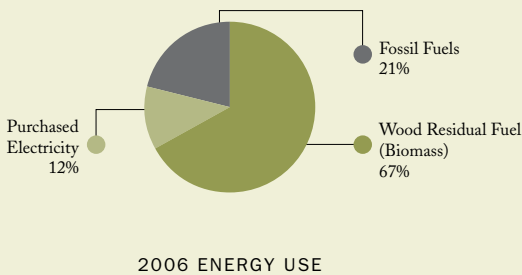
In 2006, Norbord reduced dependence on fossil fuels, increased overall energy efficiency and subsequently reduced the emission of greenhouse gases. These measures, while obviously beneficial to the environment, were also an effective means of cost control, further enhancing Norbord's industry-leading cost position.



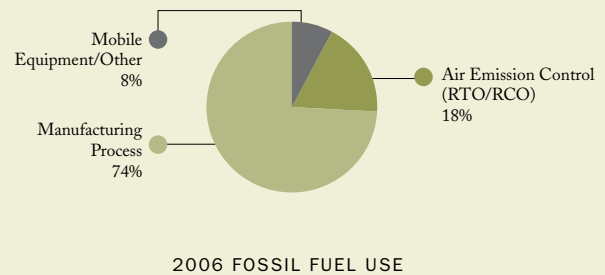
(1) Does not include emissions from the combustion of wood residual fuel.

All Norbord operations in the UK have entered into Kyoto climate change energy efficiency agreements which have, to-date, resulted in savings of more than £10 million through tax and energy efficiency cost savings. A "cap and trade" carbon trading scheme, rolled out across Europe in 2005, will create further potential for financial gains for Norbord's Genk and Cowie mills.

MAJORITY OF NORBORD'S ENERGY COMES FROM BIOMASS



AIR EMISSION CONTROL EQUIPMENT ACCOUNTS FOR 18% OF FOSSIL FUEL USE



While similar Kyoto-driven initiatives have been slower to develop in North America, Norbord has nonetheless aggressively pursued energy efficiency improvements. Norbord reduced natural gas usage by 30% in 2006 over 2005. Most of these gains are the result of a \$30 million investment in the Jefferson heat energy system completed in late 2005. In 2006, Norbord invested more than \$5 million in energy efficiency projects including:

- Installation of a 10MW wood-fired energy system in Cowie that will significantly reduce overall natural gas use when it is fully ramped up.

- At Cordele, conversion of a regenerative thermal oxidizer (RTO) to a regenerative catalytic oxidizer (RCO) that is already reducing natural gas use for press air emission control by approximately one-third and saving over \$700,000 per year.
- Installation of new process controls for the Deposit wood-fired boiler which will increase reliability and reduce dependence on the gas-fired back-up boiler.

The full operational and financial benefits of these projects will be reflected in 2007. However, Norbord is moving forward on additional initiatives that will drive another 10% reduction in fossil fuel use. These projects include:

- A \$20 million investment in residual wood-fired heat energy systems for OSB dryers in Genk and Nacogdoches. After completion, all of Norbord’s OSB process heat energy needs will be met using residual wood fuel.
- Installation of improved ash handling systems in Huguley and Joanna to increase the efficiency of their boilers.

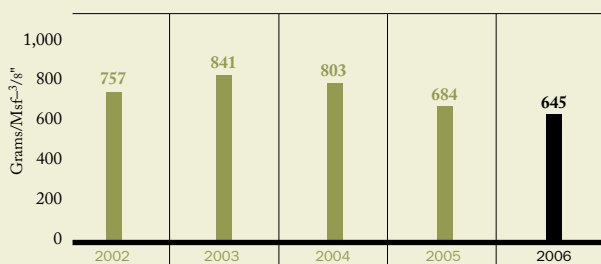
Many of these projects have required significant capital investment but Norbord has also been successful with an incremental approach to energy efficiency. For example, over the last five years, the Inverness, Scotland mill has reduced the amount of natural gas and electricity needed to make each unit of product by more than 50%. This was achieved without significant capital investment by involving employees, setting stretch targets and using available low-cost technology.

We will continue to reduce our overall dependence on fossil fuels and decrease greenhouse gas emissions. However, environmental regulations in the United States continue to increase the need for air emission control equipment that depends on natural gas. Today 18% of our annual natural gas use goes towards operating air emission control equipment – RTOs and RCOs. This is enough energy to run one of our plants for six months.

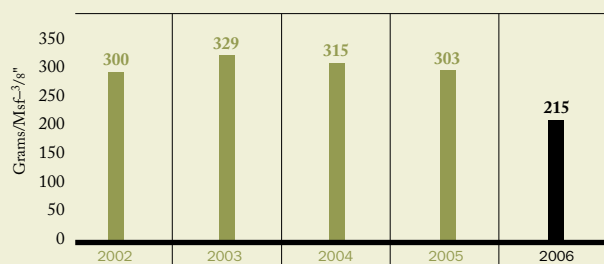
Air Emissions and Regulatory Compliance

In 2006, Norbord continued to deliberately invest in early compliance with a changing regulatory landscape, specifically with respect to two Maximum Achievable Control Technology (MACT) standards that impact most of Norbord’s US operations. To date, the Company has spent \$29 million on improved air emission control equipment to meet these standards. All of the affected US operations have completed the necessary assessments and submitted permit applications to comply with the Boiler MACT standards by the September 2007 compliance deadline. No additional capital will be required to meet the new boiler standards.

VOC EMISSIONS
REDUCED BY 5% OVER PREVIOUS YEAR



PARTICULATE EMISSIONS
REDUCED BY 29% OVER PREVIOUS YEAR



Compliance with the more complex and more rigorous Plywood and Composite Wood Products (PCWP) MACT is not required until October 2008. Mills in Joanna, Deposit, Jefferson and Nacogdoches are currently in compliance with all MACT requirements. Additional capital investment to comply with PCWP MACT is not expected to exceed \$8 million.

Norbord's actions to comply with these regulations ahead of the compliance deadline have significantly reduced emissions while enhancing operational flexibility. This has allowed Norbord's mills to increase production without restrictive production caps. In 2006, Norbord made significant progress in reducing US air emissions in every category. Annual emissions of criteria air pollutants in the US (including VOC, particulate, NO_x and CO) were reduced by more than 1,000 metric tons last year, a reduction of 20% over 2004.

Norbord manages compliance by recording any deviation from a permit-required monitoring parameter. Most of these deviations are only minutes in duration and do not result in permit violations or harmful releases to the environment. Continuous monitoring allows us to react to emission control equipment malfunctions before there is a risk to the environment.

Environmental Compliance	2006⁽¹⁾	2005 ⁽²⁾	2004	2003	2002
Deviations from permit-required monitoring parameters	529	169	230	409	164
Percent compliance	97.9	99.2	98.9	98.0	98.1
Environmental penalties (US \$ 000's)	14	0	5	477	11
Environment, Health and Safety capital (US \$ 000's) ⁽³⁾	21,000	28,000	11,000	6,000	1,000

(1) Of the 529 deviations reported in 2006, 70% were from Nacogdoches where new air emission control equipment and associated permit requirements have required operators to adjust to new monitoring procedures. The new equipment is functioning well and has accounted for a 600 metric ton per year reduction in VOC and formaldehyde emissions. The mill is in compliance with all permit emission limits.

(2) Genk mill acquired in 2004; figures included starting in 2005.

(3) 2006 environmental capital investment includes approximately \$15 million for environmental equipment for the expansion of the Cordele OSB mill.

Additional permit requirements and increasingly sophisticated abatement equipment mean that the number of parameters controlled by Norbord operators is always increasing. In 2006, Norbord took over 26,000 compliance measurements. Of these, 529 did not meet our operating criteria accounting for an overall environmental compliance rate of 97.9%. Seventy percent of the deviations reported in 2006 are from the Nacogdoches mill where new air emission control equipment and associated permit requirements have required operators to adjust to new monitoring procedures. The new equipment is functioning well and has accounted for a 600 metric ton per year reduction in VOC and formaldehyde emissions.

Formaldehyde

Formaldehyde exists naturally in wood, the human body and the atmosphere. It is present in very low concentrations in the adhesive used in our panel products and is released from wood in the drying process.

While formaldehyde emissions from OSB are similar to the emissions from natural wood, products are nonetheless tested to ensure that they comply with agreed standards for formaldehyde content and emissions. Standards for all our products are well below the levels associated with any observed health effects and Norbord works with industry associations and resin suppliers in North America and Europe to set more demanding product quality targets.

Employee exposure to formaldehyde is assessed regularly and compared to our own rigid standards. In addition, we conduct periodic health evaluations to ensure that employees are not experiencing any adverse health effects.

Prior to the start-up of a new mill or a new production line, we develop models to predict formaldehyde emissions and ensure that local communities will not be at risk. Pollution control equipment prevents most of the formaldehyde from ever reaching the atmosphere. The small amount released is closely monitored and publicly reported to the regulators. Improved controls have reduced formaldehyde emissions by 20% since 2002 or over 50 metric tons a year on a like-for-like basis.

FORMALDEHYDE EMISSIONS TO AIR REDUCED BY 20% OVER PAST FIVE YEARS



Sustainable Wood Procurement

Norbord does not own forest land. Wood fibre is supplied through contracts with private or industrial landowners, other forest products companies with long-term leases on public lands or directly from public forest management agencies. In Quebec and Ontario, Norbord holds long-term licences that permit the annual harvesting of approximately 880,000 cubic metres of poplar and birch.

At all Norbord operations, wood is delivered to our mills under specific contracts with qualified, professional loggers. Norbord sets strict standards for wood quality and regularly monitors contractors to ensure they meet environmental standards.

We continue to increase the use of recycled wood in the manufacture of particleboard and MDF. Substitution of virgin fibre with recycled fibre conserves natural forest and reduces the amount of waste going to landfill. In addition, recycled material is drier than wood chipped from trees; therefore, the amount of energy needed to prepare the fibre for pressing can be reduced. In 2006, Norbord used approximately 400,000 metric tons of post-consumer wood fibre – material that was reclaimed after being used in crating, pallets, window and door frames and other building materials.

USE OF POST-CONSUMER RECYCLED FIBRE INCREASED 48% SINCE 2003



Norbord continues to support initiatives to monitor and certify the sustainability of forest management in our procurement areas. Third parties are engaged to certify that our wood procurement and forest management practices meet internationally recognized standards endorsed by the Sustainable Forestry Initiative® (SFI), Forest Stewardship Council (FSC) or the International Organization for Standardization (ISO), depending on the location of the mill.

Nine of Norbord’s North American wood procurement operations are third-party certified to be in compliance with the SFI requirements and the Canadian forestry operations are also registered under the ISO 14001 Environmental Management System standard. The four European mills meet the FSC Chain of Custody standards. The Cochrane mill is third-party certified under all three systems.

Certification to these standards ensures that harvesting conforms to recognized best management practices including the protection of water quality and wildlife. Compliance also requires that sustainable forest practices are furthered through education, training and research.

Environment, Health and Safety Audits

Since the early 1990s, Norbord has conducted internal environment, health and safety audits to track and improve performance across all operations. Each Norbord mill is audited at least once every three years by an experienced team. Corrective action plans are closely tracked and progress is reported on a quarterly basis.

During 2006, audits were completed at Nacogdoches, La Sarre, Guntown and Genk. Members of Norbord's senior management team participate in these audits. In addition, internal EH&S auditors visited the Cordele expansion project twice to review contractor safety practices and to ensure a safe start-up.

The audit process covers a wide range of EH&S risks. In 2006, Norbord introduced revised environmental compliance auditing tools and increased attention to environmental permit requirements. In 2007, additional employees will be trained as auditors to expand the scope of expertise involved in the program. In addition to the ongoing review and assessment of known and potential EH&S risks, emphasis will be placed on monitoring progress towards a safety culture that identifies and eliminates hazards and further involves employees in all aspects of the EH&S process.