



J. Barrie Shineton
President & Chief Executive Officer

July 25, 2008

Dear Norbord Shareholder,

Norbord's second quarter EBITDA of \$1 million was a \$25 million improvement over the prior quarter. This stronger operating result reflected a seasonal improvement in North American OSB pricing, a strong operating performance from our mills and a continued positive contribution from our European operations.

North American benchmark OSB prices were up 30% in the quarter. This improvement was welcome, however, prices are expected to moderate throughout the rest of this year as US housing starts for 2008 are now forecast to be less than 1.0 million. There are several market adjustments that must occur before we see a meaningful improvement in housing starts and stronger OSB prices: the high inventory of new and used homes needs to be absorbed; housing affordability must return to pre-bubble norms; and mortgage lenders have to put first time buyers back into the housing market. We continue to believe that all these things will happen, although not likely before 2010.

Our European operations delivered EBITDA of \$6 million in the second quarter. Economic conditions on the Continent and in the UK now mirror the challenges we face in North America. In the UK, mortgage lenders tightened credit terms, resulting in lower home sales and a drop in housing prices. To maintain our leadership position in this environment, Norbord is focused on containing costs and growing sales to both new and existing customers.

We continued to take steps during the quarter to protect Norbord's balance sheet and to ensure sufficient liquidity to manage through the cycle. At the end of the quarter, Norbord had \$187 million of liquidity consisting of cash, unused bank lines and term debt facilities. Shortly after quarter end, Norbord increased its accounts receivable securitization program by \$35 million, bringing Norbord's total committed liquidity to \$222 million. Our current liquidity position supported another dividend payment this quarter. However, we are in unusually difficult markets and we expect demand and pricing challenges will last for some time. Prudent management of our liquidity and cash position remains a key priority.

The next two years will be difficult for panel board producers in both North America and Europe. Norbord has the right strategy, good management and the necessary support from Brookfield Asset Management - our major shareholder - to emerge from this cycle a stronger company.

Thank you for your continuing support.

A handwritten signature in cursive script that reads "Barrie Shineton".

NEWS RELEASE

NORBORD REPORTS Q2 2008 RESULTS

Note: Financial references in US dollars unless otherwise indicated

Q2 2008 HIGHLIGHTS

- **Generated company-wide EBITDA of \$1 million; a \$25 million improvement vs. Q1 2008**
- **Recorded EBITDA of \$6 million from European operations**
- **Received tax refunds of \$85 million**
- **Improved OSHA safety rate 25% year-to-date**
- **Average North Central OSB benchmark price increased 30% quarter-over-quarter**

TORONTO, ON (July 25, 2008) – Norbord Inc. (TSX:NBD) today reported positive EBITDA of \$1 million in the second quarter, a \$25 million increase over an EBITDA loss of \$24 million in the prior quarter. The EBITDA improvement was largely due to North American OSB price increases experienced throughout the quarter.

Before a charge relating to industry-wide antitrust litigation, Norbord recorded a loss of \$15 million in Q2 2008 or \$0.10 per share compared to a loss of \$31 million or \$0.21 per share in the prior quarter and a loss of \$15 million or \$0.11 per share in Q2 2007. After the litigation settlement charge of \$32 million (pre-tax) or \$0.15 per share (after-tax), Norbord's Q2 2008 loss was \$37 million or \$0.25 per share.

"Our second quarter results reflect a temporary improvement in North American OSB pricing and the continued positive contributions from our European mills," said Barrie Shingleton, President and CEO. "The seasonal boost in North American OSB prices was welcome, however, we continue to believe that our industry will remain under considerable pressure throughout the remainder of the year."

Market Conditions

North Central (NC) benchmark OSB prices averaged \$179 in Q2 2008 versus \$137 in Q1 2008. In the South East region, where approximately 55% of Norbord's North American capacity is located, prices averaged \$155 in the quarter, up from \$121 in Q1 2008. The modest improvement in OSB prices (NC OSB prices reached \$210 in June) reflects the seasonal increase in construction demand. In addition, widespread curtailments were taken across the industry. According to APA – The Engineered Wood Association, approximately 40% of the industry's North American OSB production capacity was curtailed during Q2 2008.

In Europe, economic weakness intensified across the UK and the Continent during the second quarter. In the UK, mortgage lenders tightened credit terms, resulting in lower home sales and a drop in housing prices. Compared to the prior quarter, OSB prices were down 5%, and MDF and particleboard prices declined approximately 3%.



Developments

On May 5, 2008, Norbord announced that it had reached a \$32 million settlement agreement in the antitrust litigation against the OSB industry to limit the risks and costs associated with a prolonged trial. The Company expects to pay \$17 million in Q3 2008 and the remainder of the settlement amount in Q4 2008. Norbord vigorously contested the plaintiffs' allegations and vehemently denies that it violated US antitrust or any other laws. A copy of the related news release can be found at www.norbord.com or www.sedar.com.

Norbord received \$85 million in cash tax refunds during the quarter relating to the carryback of losses incurred in 2007. The Company expects to receive an additional tax refund of approximately \$5 million later in the year.

At the end of the quarter, Norbord had \$187 million of liquidity consisting of cash, unused bank lines and term debt facilities. Subsequent to quarter-end, Norbord concluded an additional \$35 million commitment under its accounts receivable securitization program, bringing Norbord's total committed liquidity to \$222 million. The Company is considering various alternatives to further strengthen its liquidity position and conserve cash.

Performance

Norbord completed its previously announced press frame replacement and forming line re-build at Guntown, Mississippi during the quarter. The project was completed on-time and on-budget and the mill has resumed full production.

In the quarter, Norbord's North American per unit OSB cash production costs were 6% lower than the first quarter of 2008. This decrease is largely due to strong operating performance across the Company. Cash production costs will be challenged throughout the second half of the year by global resin and energy price increases.

In North America, Norbord curtailed 11% or 101 mill days of its OSB production during the second quarter. This compares to 170 mill days curtailed in the prior quarter. Norbord will continue its practice of monitoring the financial performance of each mill and will suspend operations when cash losses exceed shutdown costs.

Norbord curtailed 8% of its European OSB and particleboard capacity during the quarter to manage inventory levels.

Investments in property, plant and equipment totaled \$15 million year-to-date; \$10 million in the second quarter. Norbord's net debt was 33% on a market basis and 59% on a book basis.

Quarterly Dividend

The Board of Directors declared a quarterly dividend of CAD \$0.10 per common share, payable on September 21, 2008 to shareholders of record on September 1, 2008.



Conference Call

Norbord will hold a conference call for investors on Friday, July 25, 2008 at 11:00 a.m. ET. The call will be broadcast live over the Internet via www.norbord.com and www.newswire.ca. A replay number will be available approximately one hour after completion of the call and accessible until August 25, 2008, by dialing 647-436-0148 or 888-203-1112. The passcode is 8999340. Audio playback will be available on the Norbord website.

Norbord Profile

Norbord Inc. is an international producer of wood-based panels with assets of \$1.3 billion, employing approximately 2,700 people at 15 plant locations in the United States, Europe and Canada. Norbord is one of the world's largest producers of oriented strand board (OSB). In addition to OSB, Norbord manufactures particleboard, medium density fibreboard (MDF), hardwood plywood and related value-added products. Norbord is a publicly traded company listed on the Toronto Stock Exchange under the symbol NBD.

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Contact:

Anita Veel
Director, Corporate Affairs
(416) 643-8838
anita.veel@norbord.com

This news release and attached Shareholders Letter contain forward-looking statements, as defined in applicable legislation. Often, but not always, words such as "believe," "will," "expects," and other expressions which are predictions of or indicate future events, trends or prospects and which do not relate to historical matters identify forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Norbord to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

Although Norbord believes it has a reasonable basis for making these forward-looking statements, readers are cautioned not to place undue reliance on such forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predictions, forecasts and other forward-looking statements will not occur. Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include: general economic conditions; risks inherent with product concentration; effects of competition and product pricing pressures; risks inherent with customer dependence; effects of variations in the price and availability of manufacturing inputs; risks inherent with a capital intensive industry; and other risks and factors described from time to time in filings with Canadian securities regulatory authorities and the US Securities and Exchange Commission.

Except as required by applicable laws, Norbord does not undertake to update any forward-looking statements, whether as a result of new information, future events or otherwise, or to publicly update or revise the above list of factors affecting this information. See the "Caution Regarding Forward-Looking Information" statement in the March 1, 2008 Annual Information Form and the cautionary statement contained in the "Forward-Looking Statements" section of the 2007 Management's Discussion and Analysis dated January 31, 2008.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SECOND QUARTER 2008**

July 23, 2008

INTRODUCTION

The Management's Discussion and Analysis (MD&A) provides a review of the significant developments that impacted Norbord's performance during the period. The information in this section should be read in conjunction with the financial statements, which follow this MD&A. Norbord's significant accounting policies and other financial disclosures are contained in the audited annual financial statements and accompanying notes. Additional information on Norbord, including documents publicly filed by the Company, is available on the Company's website at www.norbord.com or the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. All financial references in the MD&A are stated in US dollars unless otherwise noted.

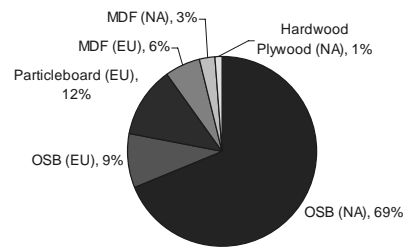
Some of the statements included or incorporated by reference in this MD&A constitute forward-looking statements within the meaning of applicable securities legislation. Forward-looking statements are based on various assumptions and are subject to various risks. See the cautionary statement contained in the Forward-Looking Statements section.

EBITDA, operating working capital, total working capital, capital employed, ROCE, ROE, net debt, net debt to capitalization, book basis and net debt to capitalization, market basis are non-GAAP financial measures described in the Non-GAAP Financial Measures section. Non-GAAP financial measures do not have any standardized meaning prescribed by Canadian Generally Accepted Accounting Principles (GAAP) and are therefore unlikely to be comparable to similar measures presented by other companies. Where appropriate, a quantitative reconciliation of the non-GAAP financial measure to the most directly comparable GAAP measure is also provided.

BUSINESS OVERVIEW AND STRATEGY

Norbord is an international producer of wood-based panels with 15 plant locations in the US, the UK, Canada and Belgium. It is one of the world's largest producers of oriented strand board (OSB) with annual capacity of 5.0 billion square feet (3/8-inch basis). The core of Norbord's OSB business is located in the South East region of the US. In addition, the Company is a significant producer of wood-based panels in Europe. The geographical breakdown of Norbord's panel production capacity is 73% North America and 27% Europe.

OSB Accounts for Almost 80% of Norbord's Business



Production Capacity by Product
NA = North America
EU = Europe

Norbord's business strategy is focused entirely on the wood panels sector – in particular OSB – in North America and Europe.

Norbord's financial goal is to achieve top quartile return on equity (ROE) and cash return on capital employed (ROCE) among North American forest products companies. As Norbord operates in a cyclical commodity business, Norbord interprets its financial goal over the cycle. Norbord believes that it has met this target in four of the past five years.

Protecting the balance sheet is an important element of Norbord's financing strategy. Norbord believes that its record of superior operational performance and prudent balance sheet management should enable it to access public and private capital markets. At the end of the quarter, the Company had a net debt to capitalization of 33% on a market basis and 59% on a book basis. The Company is considering various alternatives to further strengthen its liquidity position and conserve cash.

SUMMARY

Results of operations are most affected by the volatility in North American OSB prices. The relative strength of European panel markets also affects results, although to a lesser degree. European market pricing remained relatively strong in the quarter after pricing moderated from the exceptionally robust levels experienced in 2007. While North American markets experienced a rise in OSB pricing in the quarter, this price improvement is expected to moderate through the remainder of the year. North American markets remain under pressure principally due to the sharp decline in US housing starts.

Management continues to believe that OSB will remain one of the best growth products in the forest products industry. Demand and pricing for North American OSB is expected to remain weak in the near term. The long term fundamentals supporting North American housing and OSB demand are forecast to be strong. Norbord's European business is exposed to different market dynamics than the North American business. Management believes that this provides meaningful earnings diversification, while capitalizing on Norbord's strength as a panel producer.

Norbord recorded EBITDA of positive \$1 million in the quarter, versus negative \$24 million in the previous quarter and positive \$17 million in the second quarter of 2007. North America OSB mills ran well in the quarter and achieved break-even EBITDA results. The higher EBITDA in the second quarter relative to the prior quarter is principally due to higher OSB prices in North America. European markets have declined in 2008 from exceptional levels in 2007. Rising global energy and resin prices continue to impact the business because Norbord's European products are more energy and resin intensive.

The Company recorded a loss of \$37 million (\$0.25 per share) in the second quarter of 2008 compared to a loss of \$31 million (\$0.21 per share) and \$15 million (\$0.11 per share) in the first quarter of 2008 and second quarter of 2007, respectively. Norbord's second quarter results include a \$32 million pre-tax antitrust litigation settlement charge (\$0.15 earnings per share) detailed below, to limit the risks and costs associated with a prolonged trial. Norbord vehemently denies that it violated US antitrust or any other laws. In the first quarter of 2008, results include a \$4 million pre-tax charge (\$0.02 earnings per share) relating to severance for the permanent closure of a particleboard line at the Genk, Belgium site.

LITIGATION SETTLEMENT

Norbord and eight other North American OSB producers have been named as defendants in several lawsuits filed in the US District Court for the Eastern District of Pennsylvania. The lawsuits allege that these nine North American OSB producers violated US and various state antitrust and other laws by allegedly agreeing to fix prices and reduce the supply of OSB from June 1, 2002 through the present.

The Court has certified the following classes: A nationwide class of persons and entities that purchased OSB in the US directly from any of the defendant North American OSB producers between June 1, 2002 and February 24, 2006; a nationwide class of persons who, as end users, indirectly purchased in the US for their own use, and not for resale, new OSB manufactured and sold by one or more of the defendant North American OSB producers between June 1, 2002 and February 24, 2006 (other than persons who purchased OSB only as part of a house or other structure); and a multi-state class of residents of seventeen States who, as end users, indirectly purchased in the US for their own use, and not for resale, new OSB manufactured and sold by one or more of the defendant North American OSB producers between June 1, 2002 and February 24, 2006 (other than persons who purchased OSB only as part of a house or other structure). All three classes seek damages or injunctive or other relief under applicable laws.

Norbord has entered into a settlement agreement with the certified class of direct purchasers of OSB to limit the risks and costs associated with a prolonged trial. Norbord has vigorously contested the plaintiffs' allegations and continues to deny that it violated US antitrust or any other laws. Under the terms of the settlement agreement, which is subject to Court approval, Norbord will pay \$30 million into an escrow account for the benefit of members of the direct purchaser class. A first payment of \$15 million is due on or before July 25, 2008 and the remainder is due on or before October 24, 2008.



As allowed by Court order, a small number of class members have chosen to opt out of the direct purchaser class. Norbord estimates that the purchases by these entities represents between 10% and 15% of defendants' sales to direct purchasers of OSB during the class period. Each of these entities is entitled to pursue its own individual "opt-out" claims against Norbord and the other defendants. If any of them do so, Norbord will be entitled to a partial refund of the \$30 million settlement amount paid to the direct purchaser class.

Norbord has also reached an agreement in principle to pay \$2 million in settlement of the claims asserted on behalf of the certified classes of indirect purchasers of OSB. The final settlement agreement with the indirect purchasers will also be subject to Court approval. The Court has not yet set a deadline by which members of the certified classes of indirect purchasers of OSB must exercise, if they choose to do so, their right to opt out of the classes.

RESULTS OF OPERATIONS

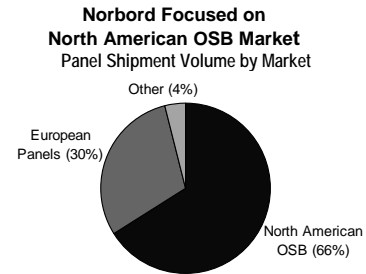
| (US\$ millions, except per share information, unless otherwise noted) | 2 nd Qtr 2008 | 1 st Qtr 2008 | 2 nd Qtr 2007 | 6 mos 2008 | 6 mos 2007 |
|---|-----------------------------|-----------------------------|-----------------------------|---------------|---------------|
| Return on capital employed (ROCE) | 0% | (9)% | 6% | (5)% | 4% |
| Return on equity (ROE) | (50)% | (37)% | (15)% | (44)% | (15)% |
| Earnings per share – diluted | \$ (0.25) | \$ (0.21) | \$ (0.11) | \$ (0.46) | \$ (0.22) |
| Net sales | \$ 262 | \$ 234 | \$ 288 | \$ 496 | \$ 549 |
| EBITDA | 1 | (24) | 17 | (23) | 21 |
| Depreciation | 18 | 19 | 27 | 37 | 51 |
| Investment in property, plant and equipment | 10 | 5 | 12 | 15 | 21 |
| Shipments (MMsf 3/8") | | | | | |
| OSB | 1,114 | 959 | 1,161 | 2,073 | 2,273 |
| Particleboard ⁽¹⁾ | 102 | 131 | 172 | 233 | 341 |
| MDF | 117 | 111 | 131 | 228 | 257 |
| Hardwood plywood | 15 | 15 | 19 | 30 | 39 |
| Indicative OSB Prices | | | | | |
| Average OSB price – North Central (\$/Msf 7/16") | 179 | 137 | 156 | 159 | 152 |
| Average OSB price – South East (\$/Msf 7/16") | 155 | 121 | 153 | 139 | 150 |
| Average OSB price – Europe (€/m ³) | 210 | 220 | 249 | 215 | 241 |

(1) Excludes particleboard consumed internally (30 MMsf, 35 MMsf, 36 MMsf, 65 MMsf, 70 MMsf for each period, respectively).

Net sales in the quarter were \$262 million, compared to \$234 million and \$288 million in the first quarter of 2008 and the second quarter of 2007, respectively. Year-to-date net sales were \$496 million versus \$549 million in the same prior year period. OSB shipment volume and changes in North American OSB benchmark pricing principally drives the fluctuation in net sales.

Markets

North American OSB comprises 66% of Norbord's panel shipments by volume, therefore, results from operations are most affected by volatility in the North American OSB prices. European panel markets comprise 30% of shipments and also affect Norbord's results, although to a lesser degree.



In the quarter, North American North Central benchmark OSB prices averaged \$179, an improvement of \$42 and \$23 from the first quarter of 2008 and the second quarter of 2007, respectively. In the South East region, where approximately 55% of Norbord's North American capacity is located, prices averaged \$155 in the second quarter versus \$121 last quarter and \$153 in the same period last year. The second quarter traditionally reflects a seasonal increase in housing construction demand. In addition, there were widespread curtailments taken across the industry. The price improvement is expected to moderate through the remainder of the year.

New home construction is the principal end use for OSB, accounting for about 65% of demand in 2007. The steep decline in US housing starts began in the second quarter of 2006 and is not expected to show near-term signs of improvement. North American OSB prices have also been impacted by an increase in capacity as a number of new mills have come on stream since OSB prices peaked in 2004. Weak OSB pricing is expected to persist through 2008.

In Europe, economic weakness intensified across the UK and the Continent during the second quarter. In the UK, mortgage lenders tightened credit terms, resulting in lower home sales and a drop in housing prices. Many European panel producers took downtime to balance inventory levels. At Norbord, approximately 8% of European capacity was curtailed. OSB prices were down 5% and MDF and particleboard prices declined approximately 3% compared to the first quarter of 2008.

Operating Results

In total, Norbord generated EBITDA of \$1 million in the second quarter and negative \$23 million year-to-date versus \$17 million and \$21 million in the comparable prior year periods, respectively.

Norbord's North American operations generated an EBITDA loss of \$1 million in the second quarter, and \$30 million year-to-date versus \$2 million and \$10 million in the comparable prior year periods, respectively. North American OSB operations achieved break-even EBITDA in the quarter driven by a modest rise in North American benchmark OSB prices. Norbord expects the rebound in OSB prices to moderate. In addition to higher prices, Norbord's North American OSB mills ran notably well in the quarter which further benefited financial performance. The North American OSB oversupply situation continued in the early part of the second quarter and most producers, Norbord included, continued taking downtime. Norbord's North American OSB mills operated at approximately 90% of capacity in the quarter, compared to approximately 80% in the first quarter of 2008 and 99% in the second quarter of 2007.

The break-even result from North America OSB operations is a positive achievement in light of continued pressure from rising global energy and resin prices. In the quarter, Norbord's North American per unit OSB cash production costs, including employee profit share, decreased by 6% over the first quarter of 2008 but increased 4% over the second quarter of 2007. The decrease in cash costs as compared to the first quarter is principally due to the benefit of higher production volumes and lower key input usages partially offset by higher resin and energy prices. The increase in cash costs as compared to the second quarter of 2007 is due to higher key input prices and the impact of lower production volumes. This is partially offset by lower usages and reduction in other costs such as labour, supplies and maintenance.

European results continue to provide a positive financial contribution in spite of continued cost pressure on key input pricing and the current European market conditions. Norbord's European operations generated EBITDA of \$6 million in the second quarter and \$13 million year-to-date versus \$26 million and \$44 million in the comparable prior year periods, respectively. European pricing and markets have retreated in 2008 from the exceptional levels of 2007. The European business was disproportionately impacted by rising global energy prices because Norbord's European products are more energy and resin intensive. A number of initiatives have been undertaken to address these cost pressures including the permanent closure of a particleboard line at the Genk site during the first quarter and the installation of biomass heat energy systems at Genk OSB and Cowie, Scotland MDF in 2007. Norbord expects that these initiatives will result in relatively higher overall margin contribution from the European mills.

Throughout the cycle, Norbord took steps to prepare itself for this cyclical downturn by focusing on cost containment and a higher margin product mix. The Margin Improvement Program (MIP) has helped Norbord to improve its competitive position, generating over \$165 million of savings in the past five years. These gains have helped to offset the impact of industry-wide rising input costs and management believes its relative competitive position has improved over this time. MIP gains from prior years have been maintained and MIP gains resulting from key input usage improvements and from marketing and sales initiatives were successful in offsetting the impact of the production curtailments year-to-date.

The major components of the change in EBITDA versus comparative periods are summarized in the following variance table.

| EBITDA Variance (US\$ millions) | 2 nd Qtr 2008 vs. 1 st Qtr 2008 | 2 nd Qtr 2008 vs. 2 nd Qtr 2007 | 6 mos 2008 vs. 6 mos 2007 |
|------------------------------------|---|---|---------------------------------|
| EBITDA – current period | \$ 1 | \$ 1 | \$ (23) |
| EBITDA – comparative period | (24) | 17 | 21 |
| Variance | \$ 25 | \$ (16) | \$ (44) |
| Mill nets ⁽¹⁾ | \$ 18 | \$ 13 | \$ 17 |
| Volume ⁽²⁾ | 7 | (12) | (26) |
| Key input prices ⁽³⁾ | - | (24) | (38) |
| Key input usage ⁽³⁾ | 3 | 4 | 5 |
| Other ⁽⁴⁾ | (3) | 3 | (2) |
| | \$ 25 | \$ (16) | \$ (44) |

(1) The mill net variance represents the change in realized pricing across all products. Mill net is calculated as net sales divided by shipment volume.

(2) The volume variance represents the impact of shipment volume changes across all products.

(3) Key inputs include fibre, resin and energy.

(4) Other category covers all remaining variances including, supplies and maintenance, labour and benefits, and the impact of foreign exchange.

INTEREST, DEPRECIATION AND INCOME TAX

| (US\$ millions) | 2 nd Qtr 2008 | 1 st Qtr 2008 | 2 nd Qtr 2007 | 6 mos 2008 | 6 mos 2007 |
|-------------------------------|-----------------------------|-----------------------------|-----------------------------|---------------|---------------|
| Interest and other income | \$ 2 | \$ 1 | \$ 3 | \$ 3 | \$ 4 |
| Interest expense | (11) | (15) | (14) | (26) | (23) |
| Depreciation | (18) | (19) | (27) | (37) | (51) |
| Income tax recovery (expense) | 21 | 30 | 6 | 51 | 18 |

Interest and other income was relatively consistent with prior periods. Interest expense decreased as compared to the first quarter of 2008 primarily due to the repurchase of the 8 1/8% debentures in the latter part of the first quarter which was partially replaced with drawings under the Company's committed unsecured revolving bank lines at lower interest rates.



Depreciation in the first and second quarter of 2008 was lower relative to 2007 as management's estimate of the useful life for its OSB assets was changed from 15 years to 25 years effective July 1, 2007. The impact of this change in estimate on depreciation was a reduction of \$9 million per quarter.

A tax recovery of \$21 million was recorded in the quarter on a pre-tax loss of \$58 million. The effective tax rate differs from the statutory rate principally due to rate differences on foreign activities and fluctuations in relative currency values.

In 2005 and 2006, Norbord paid \$163 million in income and income-related taxes, principally in North America. Losses incurred in 2007 can be carried back for a cash refund in 2008. Losses incurred in 2007 will result in a cash refund of approximately \$90 million in 2008, of which \$85 million was received in the second quarter.

LIQUIDITY AND CAPITAL RESOURCES

| (US\$ millions, except per share information, unless otherwise noted) | 2nd Qtr 2008 | 1st Qtr 2008 | 2nd Qtr 2007 | 6 mos 2008 | 6 mos 2007 |
|---|-----------------|-----------------|-----------------|---------------|---------------|
| Cash provided by (used for) operating activities | \$ 88 | \$ (81) | \$ 11 | \$ 7 | \$ (39) |
| Cash provided by (used for) operating activities per share | 0.60 | (0.55) | 0.07 | 0.05 | (0.27) |
| Operating working capital | 13 | 58 | 79 | 13 | 79 |
| Total working capital | 112 | 179 | 162 | 112 | 162 |
| Investment in property, plant and equipment | 10 | 5 | 12 | 15 | 21 |
| Net debt to capitalization, market basis | 33% | 35% | 32% | 33% | 32% |
| Net debt to capitalization, book basis | 59% | 61% | 59% | 59% | 59% |

The Company is considering various alternatives to further strengthen its liquidity position and conserve cash.

Subsequent to period end, Norbord concluded an additional \$35 million commitment on its accounts receivable securitization facility increasing the program limit from \$50 million to \$85 million.

In the first quarter, the Company concluded a \$100 million unsecured term debt facility with its major shareholder at an interest rate equal to the greater of 8% and US base rate plus ½%. The facility matures in 2010 and is subordinated to the Company's committed unsecured revolving bank lines. Any drawings under the facility are treated as equity and included in the determination of tangible net worth for bank line covenant purposes. At June 28, 2008, \$25 million was unutilized under this facility with \$75 million drawn.

In addition to the term debt facility, the Company has cash and cash equivalents of \$83 million, and \$235 million of committed unsecured revolving bank lines to support short-term liquidity requirements. At June 28, 2008, \$79 million of the revolving bank lines was unutilized and \$156 million was utilized – \$152 million drawn as cash and \$4 million utilized for letters of credit. These committed bank lines mature in 2010, bear interest at money market rates plus a margin that varies with the Company's credit rating, and contain the following financial covenants which the Company must comply with on a quarterly basis: minimum tangible net worth of \$300 million; and maximum net debt to total capitalization, book basis of 65%. At quarter-end, the Company's tangible net worth was \$349 million versus the minimum \$300 million covenant; and net debt to total capitalization, book basis was 59% versus the maximum 65% covenant.

Operating activities generated \$88 million of cash in the quarter, the majority of this relates to the collection of \$85 million in income tax refunds. Relative to the first quarter of 2008, cash generated by operations is higher principally due to receipt of the income tax refunds, a seasonal reduction in working capital and lower earnings in the comparable period. Year-to-date operating activities generated \$7 million compared to consuming \$39 million due to the income tax refunds received and higher earnings in 2007. Cash generated in the quarter is higher as compared to the comparable period in 2007 due primarily to the income tax refunds.

Dividends of \$15 million were declared in the quarter of which \$8 million was paid in cash and \$7 million was distributed under the Company's Dividend Reinvestment Program (DRIP). The DRIP permits Canadian shareholders to elect to receive their dividends in the form of common shares. The Company realized a loss of \$15 million in the first quarter on its matured net investment hedges. The realized loss was offset by an unrealized gain on the net investments being hedged.

Operating working capital, consisting of accounts receivable and inventory less accounts payable and accrued liabilities was \$13 million at period end compared to \$58 million at March 31, 2008 and \$79 million at the end of the second quarter of 2007. The decreased operating working capital relative to the prior quarter is principally due to the \$32 million accrual for the litigation settlement. The second quarter 2007 balance is higher as \$50 million of accounts receivable were sold under a securitization facility established in the fourth quarter of 2007.

Total working capital at June 28, 2008 was \$112 million which includes \$83 million in cash and cash equivalents and \$16 million of tax receivable.

Norbord's net debt stood at \$509 million at period end, representing 33% of capitalization on a market basis and 59% of capitalization on a book basis. Norbord believes its record of superior operational performance and prudent balance sheet management should enable it to retain access to public and private capital markets.

INVESTMENTS AND DIVESTITURES

Investment in Property, Plant and Equipment

Investment in property, plant and equipment was \$15 million year-to-date (second quarter - \$10 million). Norbord's 2008 investment in property, plant and equipment has been limited to \$30 million to reflect market conditions. The 2008 capital investments will be funded with cash on hand, cash generated from operations, and if necessary, drawings under the Company's committed bank lines.

Provision for Non-Core Operation

In the first quarter of 2008, the Company recorded a \$4 million provision relating to severance arising on the permanent closure of a particleboard line at the Genk site. Operations at the Genk OSB line were not impacted. The particleboard line comprises older technology and was considered non-core at the time the site was acquired in 2004. The Genk mill was acquired to expand Norbord's OSB presence in Europe and accordingly the majority of the purchase price was allocated to the OSB line.

CAPITALIZATION

Common Shares

At July 23, 2008, there were 149.4 million common shares outstanding. In addition, 3.3 million stock options were outstanding, of which approximately 34% were fully vested.



Long-Term Debt Repurchase

In March 2008, the 8 1/8% debentures with a principal value of \$197 million were repurchased. The repurchase was pre-funded by the February 2007 issuance of \$200 million of senior notes due in 2017 which was completed one year early to mitigate potential refinancing risk.

Credit Ratings

In the second quarter, Dominion Bond Rating Service (DBRS) downgraded Norbord's senior unsecured credit ratings from BBB(low) to BB(high) reflecting the negative market outlook. This has no impact on borrowing costs and Norbord believes its record of superior operational performance and prudent balance sheet management should enable it to retain access to public and private capital markets.

As at July 23, 2008, ratings on Norbord's senior unsecured debentures were:

| | Dominion Bond Rating Service | Standard & Poor's Ratings Services | Moody's Investors Service |
|---------|---------------------------------|---------------------------------------|------------------------------|
| Rating | BB(high) | BB | Ba2 |
| Outlook | Negative | Negative | Negative |

SELECTED QUARTERLY INFORMATION

| | 2008 | | 2007 | | | | 2006 | |
|---|------------|------------|------------|------------|------------|------------|------------|------------|
| | 2nd Qtr | 1st Qtr | 4th Qtr | 3rd Qtr | 2nd Qtr | 1st Qtr | 4th Qtr | 3rd Qtr |
| (US\$ millions, except per share information, unless otherwise noted) | | | | | | | | |
| Cash provided by (used for) operating activities | 88 | (81) | 72 | (18) | 11 | (50) | 54 | 37 |
| Cash provided by (used for) operating activities per share | 0.60 | (0.55) | 0.49 | (0.12) | 0.07 | (0.34) | 0.37 | 0.26 |
| Return on capital employed (ROCE) | 0% | (9)% | (3)% | 11% | 6% | 2% | 8% | 15% |
| Return on equity (ROE) | (50)% | (37)% | (14)% | (1)% | (15)% | (15)% | (1)% | 6% |
| Net Sales | 262 | 234 | 263 | 292 | 288 | 261 | 259 | 291 |
| EBITDA | 1 | (24) | (9) | 30 | 17 | 4 | 22 | 35 |
| Earnings | (37) | (31) | (13) | (1) | (15) | (16) | (1) | 7 |
| Earnings per share | | | | | | | | |
| Basic | (0.25) | (0.21) | (0.09) | 0.00 | (0.11) | (0.11) | 0.00 | 0.05 |
| Diluted | (0.25) | (0.21) | (0.09) | 0.00 | (0.11) | (0.11) | (0.01) | 0.05 |
| OSB shipments (MMsf 3/8") | 1,114 | 959 | 1,130 | 1,060 | 1,161 | 1,112 | 1,083 | 1,076 |
| Average OSB price – North Central (\$/Msf 7/16") | 179 | 137 | 165 | 177 | 156 | 145 | 166 | 181 |
| Average OSB price – South East (\$/Msf 7/16") | 155 | 121 | 132 | 149 | 153 | 138 | 141 | 181 |
| Average OSB price – Europe (€/m ³) | 210 | 220 | 234 | 246 | 249 | 234 | 219 | 213 |

The price of OSB is the primary variable affecting the comparability of Norbord's results over the past eight quarters. Fluctuations in earnings during that time mirror fluctuations in the price of OSB in North America. The Company estimates the annualized impact of a \$10 per Msf (7/16-inch basis) change in the North American OSB price on EBITDA based on total North American capacity is approximately \$36 million or approximately \$0.15 per share. Regional pricing variations, particularly in the US South, make the North Central benchmark price a useful, albeit imperfect, proxy for overall North American OSB pricing. Further, premiums obtained on value added products, the pricing lag effect of maintaining an order file, and volume and trade discounts cause realized prices to differ from the benchmark.

Norbord has a relatively low exposure to the Canadian dollar due to a comparatively small manufacturing base in Canada, comprising 12% of panel production capacity. The Company estimates the unfavourable impact of a US one cent increase in the Canadian dollar to negatively impact annual EBITDA by approximately \$1 million.

Quarterly results are also impacted by seasonal factors such as weather and building activity. Market demand varies seasonally, as home building activity and repair and renovation work, the principal end use for Norbord's products, are generally stronger in the spring and summer months. Adverse weather can also limit access to logging areas, which can affect the supply of fibre to Norbord's operations. Shipment volumes and commodity prices are affected by these factors as well as by global supply and demand conditions.

Items not related to ongoing business operations that had a significant impact on quarterly results include the \$32 million pre-tax expense (\$0.15 earnings per share) related to the litigation settlement in the second quarter of 2008, and, in the first quarter of 2008, the \$4 million pre-tax expense (\$0.02 earnings per share) related to the severance for the permanent closure of a particleboard line at the Genk site. In addition, the rate of depreciation has not been constant over the past eight quarters as management changed its estimate of the useful life of its OSB assets from 15 years to 25 years effective in the third quarter of 2007. The impact of this change in estimate on depreciation expense was approximately a \$9 million reduction per quarter.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008, the Company adopted new accounting recommendations from the Canadian Institute of Chartered Accountants (CICA), Handbook Section 1535, Capital Disclosures, Section 3031, Inventories, Section 3862, Financial Instruments – Disclosure, and Section 3863, Financial Instruments – Presentation.

Section 1535 specifies the requirements for the disclosure of both qualitative and quantitative information that enable users of financial statements to evaluate the Company's objectives, policies and processes for managing capital. This disclosure is contained in note 11 to the interim consolidated financial statements.

Section 3031 relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories. The impact of adopting this new standard was a \$1 million adjustment to opening retained earnings and a \$3 million reclassification of certain capital spare parts from operating and maintenance supplies inventory to property, plant and equipment. The opening retained earnings adjustment arises due to prior years' depreciation on the reclassified capital spare parts and a lower opening carrying value of certain finished goods and raw material inventory. Inventories of raw materials and operating maintenance supplies are valued at the lower of cost and net realizable value, with cost determined on an average cost basis. Previously, the Company valued these inventories at the lower of cost and replacement cost. The capital spare parts reclassified to property, plant and equipment from operating and maintenance supplies inventory are recorded as production equipment at cost and are depreciated on a straight line basis. The rates of depreciation are intended to fully depreciate the assets over two to five years, which approximate their useful lives.

Section 3862 and Section 3863 replace Section 3861, Financial Instruments – Disclosure and Presentation, and revise and enhance the disclosure requirements and carry forward the presentation requirements. This disclosure is contained in note 12 to the interim consolidated financial statements.

In February 2008, the CICA issued a new accounting standard, Section 3064, Goodwill and Intangible Assets, which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company will adopt this new standard in the first quarter 2009 and is currently assessing the impact of adoption on its consolidated financial statements.



In February 2008, the CICA's Accounting Standard Board (AcSB) announced that Canadian public companies will adopt International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) effective January 1, 2011. Early adoption is permissible. The Company is currently assessing the impact and date of adoption on its consolidated financial statements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and compliance with Canadian GAAP. There have been no changes in Norbord's internal controls over financial reporting during the interim period ended June 28, 2008 that have materially affected or are reasonably likely to materially affect its internal controls over financial reporting.

NON-GAAP FINANCIAL MEASURES

The following non-GAAP financial measures have been used in this MD&A. Non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. Each non-GAAP financial measure is defined below. Where appropriate, a quantitative reconciliation of the non-GAAP financial measure to the most directly comparable GAAP measure is provided.

EBITDA is calculated as earnings determined in accordance with GAAP before interest, provision for non-core operation, income tax, depreciation and amortization. As Norbord operates in a cyclical commodity business, Norbord interprets EBITDA over the cycle as a useful indicator of the company's ability to incur and service debt and meet capital expenditure requirements. In addition, Norbord views EBITDA as a measure of gross profit and interprets EBITDA trends as an indicator of relative operating performance. The following table reconciles EBITDA to the most directly comparable GAAP measure:

| (US\$ millions) | 2 nd Qtr 2008 | 1 st Qtr 2008 | 2 nd Qtr 2007 | 6 mos 2008 | 6 mos 2007 |
|---------------------------------------|-----------------------------|-----------------------------|-----------------------------|----------------|---------------|
| Earnings | \$ (37) | \$ (31) | \$ (15) | \$ (68) | \$ (31) |
| Add: Provision for non-core operation | - | 4 | - | 4 | - |
| Add: Litigation settlement | 32 | - | - | 32 | - |
| Add: Interest expense | 11 | 15 | 14 | 26 | 23 |
| Less: Interest and other income | (2) | (1) | (3) | (3) | (4) |
| Add: Income tax | (21) | (30) | (6) | (51) | (18) |
| Add: Depreciation | 18 | 19 | 27 | 37 | 51 |
| EBITDA | \$ 1 | \$ (24) | \$ 17 | \$ (23) | \$ 21 |

Operating working capital is accounts receivable plus inventory less accounts payable and accrued liabilities. Operating working capital is a measure of the investment in accounts receivable, inventory and accounts payable required to support operations. The Company aims to minimize its investment in operating working capital, however, the amount will vary with seasonality, and sales expansions and contractions.

Total working capital is operating working capital plus cash and cash equivalents and tax receivable less bank advances.



Capital employed is the sum of property, plant and equipment, operating working capital and other assets less any unrealized net investment hedge loss included in other liabilities. Capital employed is a measure of the total investment in a business in terms of property, plant, equipment, operating working capital and other assets. The following table details the composition of capital employed:

| (US\$ millions) | Jun 28 2008 | Mar 29 2008 | Dec 31 2007 |
|---|----------------|-----------------|-----------------|
| Property, plant and equipment | \$ 956 | \$ 965 | \$ 968 |
| Accounts receivable | 101 | 97 | 83 |
| Tax receivable | 16 | 96 | 89 |
| Inventory | 133 | 140 | 131 |
| Accounts payable and accrued liabilities | (221) | (179) | (191) |
| Other assets | 5 | 6 | 5 |
| Unrealized net investment hedge loss ⁽¹⁾ | (9) | (6) | (8) |
| Capital employed | \$ 981 | \$ 1,119 | \$ 1,077 |

(1) Included in other liabilities

ROCE (return on capital employed) is EBITDA divided by average capital employed. ROCE is a measurement of financial performance, focusing on cash generation and the efficient use of capital. As Norbord operates in a cyclical commodity business, Norbord interprets ROCE over the cycle as a useful means of comparing businesses in terms of efficiency of management and viability of products. Norbord targets top quartile ROCE among North American forest products companies over the cycle.

ROE (return on common equity) is earnings available to common shareholders (earnings less preferred share dividends) divided by common shareholders' equity. ROE is a measure for common shareholders to determine how effectively their invested capital is being employed. As Norbord operates in a cyclical commodity business, Norbord looks at ROE over the cycle and targets top quartile performance among North American forest products companies.

Net debt consists of the principal value of long-term debt including the current portion and bank advances less cash and cash equivalents and drawings under the term debt facility. Consistent with the treatment under the Company's bank line financial covenants, drawings under the term debt facility are excluded from net debt and treated as a component of tangible net worth. Net debt is a useful indicator of a company's debt position. Net debt comprises:

| (US\$ millions) | Jun 28 2008 | Mar 29 2008 | Dec 31 2007 |
|--|----------------|----------------|----------------|
| Long-term debt | \$ 667 | \$ 679 | \$ 478 |
| Less: Drawings under term debt facility ⁽¹⁾ | (75) | (55) | - |
| Current portion of long-term debt | - | - | 197 |
| Cash and cash equivalents | (83) | (25) | (128) |
| Net debt | \$ 509 | \$ 599 | \$ 547 |

(1) Drawings under the Company's term debt facility are treated as equity for bank line financial covenant purposes.



Tangible net worth consists of shareholders' equity and drawings under the term debt facility. A minimum tangible net worth of \$300 million is one of the two financial covenants contained in the Company's committed bank lines. At period end the Company's tangible net worth was \$349 million.

| (US\$ millions) | Jun 28 2008 | Dec 31 2007 |
|--|----------------|----------------|
| Shareholders equity | \$ 274 | \$ 360 |
| Plus: Drawings under term debt facility ⁽¹⁾ | 75 | - |
| Tangible net worth | \$ 349 | \$ 360 |

(1) Drawings under the Company's term debt facility are treated as equity for bank line financial covenant purposes.

Net debt to capitalization, book basis is net debt divided by the sum of net debt and tangible net worth. Net debt to capitalization, book basis is a measure of a company's relative debt position. Norbord interprets this measure as an indicator of the relative strength and flexibility of its balance sheet. In addition, a maximum net debt to capitalization, book basis of 65% is one of the two financial covenants contained in the Company's committed bank lines. At period end net debt to capitalization, book basis was 59%.

Net debt to capitalization, market basis is net debt divided by the sum of net debt and market capitalization. Market capitalization is the number of common shares outstanding at period end multiplied by the trailing 12-month average per share market price. Market basis capitalization is intended to correct for the low historical book value of Norbord's asset base relative to its fair value. Net debt to capitalization, market basis is a key measure of a company's relative debt position and Norbord interprets this measure as an indicator of the relative strength and flexibility of its balance sheet. While the Company considers both book and market basis metrics, the Company believes the market basis to be superior to the book basis in measuring the true strength and flexibility of its balance sheet.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements, as defined in applicable legislation. The words "goal," "believes," "believe," "should," "expect," "expected," "forecast," "estimates," "estimated," and other expressions which are predictions of or indicate future events, trends or prospects and which do not relate to historical matters identify forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Norbord to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

Examples of such statements include, but are not limited to, comments with respect to: (1) outlook for the markets for products; (2) expectations regarding future product pricing; (3) the outlook for operations; (4) expectations regarding mill capacity and production volumes; (5) objectives; (6) strategies to achieve those objectives; (7) access to public and private capital markets (8) sensitivity to changes in product prices, such as the price of OSB; (9) sensitivity to changes in foreign exchange rates; (10) margin improvement program targets; (11) expectations regarding contingent liabilities, lawsuits and guarantees, including the outcome of pending litigation; (12) expectations regarding the amount, timing and benefits of capital investments; and (13) expectations regarding the amount and timing of tax refunds.

Although Norbord believes it has a reasonable basis for making these forward-looking statements, readers are cautioned not to place undue reliance on such forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predictions, forecasts and other forward-looking statements will not occur. Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include: general economic conditions; risks inherent with product concentration; effects of competition and product pricing pressures; risks inherent with customer dependence; effects of variations in the price and availability of manufacturing inputs; risks



inherent with a capital intensive industry; and other risks and factors described from time to time in filings with Canadian securities regulatory authorities.

Except as required by applicable laws, Norbord does not undertake to update any forward-looking statements, whether as a result of new information, future events or otherwise, or to publicly update or revise the above list of factors affecting this information. See the "Caution Regarding Forward-Looking Information" statement in the March 1, 2008 Annual Information Form and the cautionary statement contained in the "Forward-Looking Statements" section of the 2007 Management's Discussion and Analysis dated January 31, 2008.



NORBORD INC.
CONSOLIDATED STATEMENTS OF EARNINGS

| (unaudited) | 2 nd Qtr | | 6 mos | |
|---|---------------------|-----------|-----------|-----------|
| (US \$ millions, except per share information) | 2008 | 2007 | 2008 | 2007 |
| Net sales | \$ 262 | \$ 288 | \$ 496 | \$ 549 |
| Earnings before interest, income tax, depreciation, provision for non-core operation and litigation settlement | 1 | 17 | (23) | 21 |
| Litigation settlement <i>(note 13)</i> | (32) | - | (32) | - |
| Provision for non-core operation <i>(note 8)</i> | - | - | (4) | - |
| Interest and other income | 2 | 3 | 3 | 4 |
| Interest expense | (11) | (14) | (26) | (23) |
| Earnings before income tax and depreciation | (40) | 6 | (82) | 2 |
| Depreciation | (18) | (27) | (37) | (51) |
| Income tax | 21 | 6 | 51 | 18 |
| Earnings | \$ (37) | \$ (15) | \$ (68) | \$ (31) |
| Earnings per common share <i>(note 7)</i> | | | | |
| - Basic | \$ (0.25) | \$ (0.11) | \$ (0.46) | \$ (0.22) |
| - Diluted | \$ (0.25) | \$ (0.11) | \$ (0.46) | \$ (0.22) |

(See accompanying notes)



NORBORD INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

| (unaudited) | 2 nd Qtr | 2 nd Qtr | 6 mos | 6 mos |
|---|---------------------|---------------------|---------|---------|
| (US \$ millions) | 2008 | 2007 | 2008 | 2007 |
| CASH PROVIDED BY (USED FOR): | | | | |
| Operating Activities | | | | |
| Earnings | \$ (37) | \$ (15) | \$ (68) | \$ (31) |
| Items not affecting cash: | | | | |
| Depreciation | 18 | 27 | 37 | 51 |
| Future income taxes | (18) | (6) | (43) | (19) |
| Other items | - | 3 | (1) | 2 |
| | (37) | 9 | (75) | 3 |
| Net change in non-cash working capital balances | 125 | 2 | 82 | (42) |
| | 88 | 11 | 7 | (39) |
| Investing Activities | | | | |
| Investment in property, plant and equipment | (10) | (12) | (15) | (21) |
| Other <i>(note 9)</i> | - | (19) | (13) | (19) |
| | (10) | (31) | (28) | (40) |
| Financing Activities | | | | |
| Repurchase of 8 1/8% debentures <i>(note 4)</i> | - | - | (197) | - |
| Drawings under term debt facility <i>(note 4)</i> | 20 | - | 75 | - |
| Issue of senior notes <i>(note 4)</i> | - | - | - | 198 |
| Other debt incurred <i>(note 4)</i> | (32) | (87) | 114 | (40) |
| Dividends | (8) | (8) | (16) | (16) |
| | (20) | (95) | (24) | 142 |
| Increase (decrease) in cash and cash equivalents | \$ 58 | \$ (115) | \$ (45) | \$ 63 |
| Cash and cash equivalents, beginning of period | \$ 25 | \$ 198 | \$ 128 | \$ 20 |
| Cash and cash equivalents, end of period | 83 | 83 | 83 | 83 |

(See accompanying notes)



**NORBORD INC.
CONSOLIDATED BALANCE SHEETS**

| (US \$ millions) | Jun 28 2008 | Dec 31 2007 |
|---|----------------|----------------|
| | (unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 83 | \$ 128 |
| Accounts receivable | 101 | 83 |
| Tax receivable | 16 | 89 |
| Inventory <i>(note 3)</i> | 133 | 131 |
| | 333 | 431 |
| Property, plant and equipment | 956 | 968 |
| Other assets | 5 | 5 |
| | \$ 1,294 | \$ 1,404 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities <i>(note 13)</i> | \$ 221 | \$ 191 |
| Current portion of long-term debt <i>(note 4)</i> | - | 199 |
| | 221 | 390 |
| Long-term debt <i>(note 4)</i> | 669 | 480 |
| Other liabilities <i>(note 5)</i> | 21 | 18 |
| Future income taxes | 109 | 156 |
| Shareholders' equity <i>(note 6)</i> | 274 | 360 |
| | \$ 1,294 | \$ 1,404 |

(See accompanying notes)



NORBORD INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME

(unaudited)

(US \$ millions)

| | 2 nd Qtr 2008 | 2 nd Qtr 2007 | 6 mos 2008 | 6 mos 2007 |
|--|-----------------------------|-----------------------------|---------------|---------------|
|--|-----------------------------|-----------------------------|---------------|---------------|

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Share Capital

| | | | | |
|--|---------------|---------------|---------------|---------------|
| Balance at beginning of period | \$ 156 | \$ 131 | \$ 150 | \$ 127 |
| Dividend reinvestment plan <i>(note 6)</i> | 7 | 6 | 13 | 10 |
| Balance at end of period | <u>\$ 163</u> | <u>\$ 137</u> | <u>\$ 163</u> | <u>\$ 137</u> |

Contributed Surplus

| | | | | |
|--------------------------------|-------------|-------------|-------------|-------------|
| Balance at beginning of period | \$ 1 | \$ 1 | \$ 1 | \$ - |
| Stock-based compensation | 1 | - | 1 | 1 |
| Balance at end of period | <u>\$ 2</u> | <u>\$ 1</u> | <u>\$ 2</u> | <u>\$ 1</u> |

Retained Earnings

| | | | | |
|--|---------------|---------------|---------------|---------------|
| Balance at beginning of period | \$ 159 | \$ 277 | \$ 205 | \$ 305 |
| Adoption of new accounting recommendations <i>(note 2)</i> | - | - | (1) | - |
| Adjusted balance at beginning of period | 159 | 277 | 204 | 305 |
| Earnings | (37) | (15) | (68) | (31) |
| Common share dividends | (15) | (14) | (29) | (26) |
| Balance at end of period | <u>\$ 107</u> | <u>\$ 248</u> | <u>\$ 107</u> | <u>\$ 248</u> |

Accumulated Other Comprehensive Income

| | | | | |
|--------------------------------|-------------|-------------|-------------|-------------|
| Balance at beginning of period | \$ 4 | \$ 3 | \$ 4 | \$ 2 |
| Other comprehensive income | (2) | - | (2) | 1 |
| Balance at end of period | <u>\$ 2</u> | <u>\$ 3</u> | <u>\$ 2</u> | <u>\$ 3</u> |

| | | | | |
|----------------------|---------------|---------------|---------------|---------------|
| Shareholders' equity | <u>\$ 274</u> | <u>\$ 389</u> | <u>\$ 274</u> | <u>\$ 389</u> |
|----------------------|---------------|---------------|---------------|---------------|

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | | | | |
|---|----------------|----------------|----------------|----------------|
| Earnings | \$ (37) | \$ (15) | \$ (68) | \$ (31) |
| Other comprehensive income | | | | |
| Net change in unrealized cumulative translation gains | (2) | - | (2) | 1 |
| Other comprehensive income | <u>\$ (2)</u> | <u>\$ -</u> | <u>\$ (2)</u> | <u>\$ 1</u> |
| Comprehensive income | <u>\$ (39)</u> | <u>\$ (15)</u> | <u>\$ (70)</u> | <u>\$ (30)</u> |

(See accompanying notes)

**NORBORD INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited)

(In US\$, unless otherwise noted)

Note 1 - Basis of Presentation

The interim financial statements are unaudited and follow the accounting policies summarized in the notes to the annual consolidated financial statements, except as noted in note 2, below.

The interim financial statements do not conform in all respects to the disclosure requirements of Canadian generally accepted accounting principles for annual financial statements and should, therefore, be read in conjunction with the annual consolidated financial statements of Norbord Inc. which includes information necessary or useful to understanding the Company's business and financial statement presentation. In particular, the Company's significant accounting policies and practices are presented as Note 1 to the annual consolidated financial statements. Certain prior period amounts have been reclassified to conform to the current period's presentation.

Note 2 – Changes in Accounting Policies

Effective January 1, 2008, the Company adopted new accounting recommendations from the Canadian Institute of Chartered Accountants (CICA), Handbook Section 1535, Capital Disclosures, Section 3031, Inventories, Section 3862, Financial Instruments – Disclosure, and Section 3863, Financial Instruments – Presentation.

Section 1535 specifies the requirements for the disclosure of both qualitative and quantitative information that enable users of financial statements to evaluate the Company's objectives, policies and processes for managing capital (note 11).

Section 3031 relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories. The impact of adopting this new standard was a \$1 million adjustment to opening retained earnings and a \$3 million reclassification of certain capital spare parts from operating and maintenance supplies inventory to property, plant and equipment. The opening retained earnings adjustment arises due to prior years' depreciation on the reclassified capital spare parts and a lower opening carrying value of certain finished goods and raw material inventory. Inventories of raw materials and operating maintenance supplies are valued at the lower of cost and net realizable value, with cost determined on an average cost basis. Previously, the Company valued these inventories at the lower of cost and replacement cost. The capital spare parts reclassified to property, plant and equipment from operating and maintenance supplies inventory are recorded as production equipment at cost and are depreciated on a straight line basis. The rates of depreciation are intended to fully depreciate the assets over two to five years, which approximate their useful lives.

Section 3862 and Section 3863 replace Section 3861, Financial Instruments – Disclosure and Presentation, and revise and enhance the disclosure requirements and carry forward the presentation requirements (note 12).

The CICA issued a new accounting standard, Section 3064, Goodwill and intangible assets, which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company will adopt this new standard in the first quarter 2009 and is currently assessing the impact of adoption on its consolidated financial statements.

NORBORD INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(In US\$, unless otherwise noted)

In February 2008, the CICA's Accounting Standard Board (AcSB) announced that Canadian public companies will adopt International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) effective January 1, 2011. Early adoption is permissible. The Company is currently assessing the impact and date of adoption on its consolidated financial statements.

Note 3 – Inventory

Inventory is comprised of:

| (US\$ millions) | Jun 28 2008 | Dec 31 2007 |
|------------------------------------|----------------|----------------|
| Raw materials | \$ 32 | \$ 40 |
| Finished goods | 70 | 59 |
| Operating and maintenance supplies | 31 | 32 |
| | \$ 133 | \$ 131 |

The amount of inventory recognized as an expense during the quarter was \$262 million (six month period - \$526 million) which includes \$18 million (six month period - \$37 million) of depreciation expense on property, plant & equipment. There was no write-down of inventories required relating to the lower of cost and net realizable value at period end.

Note 4 – Long-Term Debt

| (US\$ millions) | Book Value | | | |
|--|--------------------|---------------------------|----------------|----------------|
| | Principal Value | Fair Value Adjustments | Jun 28 2008 | Dec 31 2007 |
| 8 1/8% debentures due 2008 | \$ - | \$ - | \$ - | \$ 197 |
| 7 1/4% debentures due 2012 | 240 | 5 | 245 | 247 |
| Senior notes due 2017 | 200 | (3) | 197 | 197 |
| Term debt facility | 75 | - | 75 | - |
| Other debt | 152 | - | 152 | 38 |
| | 667 | 2 | 669 | 679 |
| Less current portion of long-term debt | - | - | - | (199) |
| | \$ 667 | \$ 2 | \$ 669 | \$ 480 |

In January 2008, the Company concluded a \$100 million unsecured term debt facility with a related company at an interest rate equal to the greater of 8% and US base rate plus ½%. The facility matures in 2010 and is subordinated to the Company's committed unsecured revolving bank lines. Any drawings under the facility are treated as tangible net worth for bank line covenant purposes. At period end, \$75 million was drawn as cash.

NORBORD INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(In US\$, unless otherwise noted)

In the first quarter, the 8 1/8% debentures with a principal value of \$197 million were repurchased and a corresponding amount of interest rate swaps matured. In addition, \$50 million of interest rate swaps matured. At June 28, 2008, the Company had \$115 million (December 31, 2007 – \$362 million) of interest rate swaps outstanding. The terms of these swaps correspond to the terms of the underlying hedged debt.

The Company has committed unsecured revolving bank lines of \$235 million which mature in 2010, bear interest at money market rates plus a margin that varies with the Company's credit rating, and contain financial covenants (note 11). At period end, \$79 million of these lines was unutilized, with \$152 million drawn as cash and \$4 million utilized for letters of credit.

In the first quarter of 2007, the Company issued \$200 million of senior notes due in 2017 with an interest rate that varies with the Company's credit ratings. At quarter end, the rate was 7.45%.

Note 5 – Other Liabilities

| (US\$ millions) | Jun 28 2008 | Dec 31 2007 |
|---|----------------|----------------|
| Unrealized net investment hedge losses <i>(note 12)</i> | \$ 9 | \$ 8 |
| Accrued pension and post-retirement benefits | 4 | 3 |
| Unrealized interest rate swap losses <i>(note 12)</i> | 2 | 3 |
| Other liabilities | 6 | 4 |
| | \$ 21 | \$ 18 |

The unrealized net investment hedge and interest rate swap losses are offset by unrealized gains on the underlying exposures being hedged.

Note 6 – Shareholders' Equity

In the first quarter, 1.0 million options were granted under the stock option plan. For the six-months ended June 28, 2008, \$1 million related to stock-based compensation was expensed.

For the six-months ended June 28, 2008, 0.1 million common shares were issued as a result of options exercised under the stock option plan for proceeds of less than \$1 million.

During the quarter, 1.2 million common shares (six-month period – 2.5 million) were issued in lieu of cash dividends of \$7 million (six-month period – \$13 million) under the Company's dividend reinvestment plan.

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Note 7 – Earnings per Common Share

Earnings per common share are calculated as follows:

| (US\$ millions, except per share information, unless otherwise noted) | 2 nd Qtr 2008 | 2 nd Qtr 2007 | 6 mos 2008 | 6 mos 2007 |
|---|-----------------------------|-----------------------------|---------------|---------------|
| Earnings available to common shareholders | \$ (37) | \$ (15) | \$ (68) | \$ (31) |
| Common shares (millions): | | | | |
| Weighted average number of common shares outstanding | 148.3 | 144.4 | 147.6 | 144.2 |
| Stock options | - | - | - | - |
| Diluted number of common shares | 148.3 | 144.4 | 147.6 | 144.2 |
| Earnings per common share: | | | | |
| Basic | \$ (0.25) | \$ (0.11) | \$ (0.46) | \$ (0.22) |
| Diluted | \$ (0.25) | \$ (0.11) | \$ (0.46) | \$ (0.22) |

Stock options issued under the Company's stock option plan were excluded in the calculation of diluted number of common shares. If dilutive in the future, stock options would be included to the extent the exercise price of those options was less than the average market price of the Company's common shares during the period.

Note 8 – Provision For Non-Core Operation

In the first quarter, the Company recorded a \$4 million provision relating to severance arising on the permanent closure of a particleboard line at the Genk, Belgium site.

Note 9 – Supplemental Cash Flow Information

Other investing activities comprises:

| (US\$ millions) | 2 nd Qtr 2008 | 2 nd Qtr 2007 | 6 mos 2008 | 6 mos 2007 |
|--|-----------------------------|-----------------------------|---------------|---------------|
| Cash provided by (used for): | | | | |
| Recouping payment, net | \$ - | \$ (19) | \$ - | \$ (17) |
| Realized net investment hedge gains (losses) (note 12) | - | (2) | (15) | (1) |
| Other | - | 2 | 2 | (1) |
| | \$ - | \$ (19) | \$ (13) | \$ (19) |

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Cash and cash equivalents comprises:

| (US\$ millions) | June 28 2008 | June 30 2007 |
|------------------|-----------------|-----------------|
| Cash | \$ 16 | \$ 14 |
| Cash equivalents | 67 | 69 |
| | \$ 83 | \$ 83 |

Note 10 – Related Party Transactions

The Company's major shareholder has various interests over which it has control or otherwise has significant influence (a "related company" or collectively "related companies").

During the quarter, the Company provided certain administrative services to a related company which were charged on a cost recovery basis. In addition, the Company periodically engages the services of related companies for various financial, real estate and other business advisory services. The total fees for the above noted services were less than \$1 million in the quarter, and were charged at market rates.

In January 2008, the Company concluded a \$100 million unsecured term debt facility with its major shareholder (note 4).

Note 11 – Capital Management

Norbord's capital management objective is to achieve top-quartile return on equity (ROE) and cash return on capital employed (ROCE) over the business cycle among North American forest products companies to enable it to retain access to public and private capital markets. This objective is unchanged from the prior year.

Norbord monitors its capital structure using two key measures of its relative debt position. While the Company considers both book and market basis metrics, the Company believes the market basis to be superior to the book basis in measuring the true strength and flexibility of its balance sheet:

Net debt to capitalization, book basis, is net debt divided by the sum of net debt and tangible net worth. Net debt consists of the principal value of long-term debt including the current portion and bank advances less cash and cash equivalents and drawings under the term debt facility. Consistent with the treatment under the Company's bank line financial covenants, drawings under the term debt facility are excluded from net debt and treated as a component of tangible net worth. Tangible net worth consists of shareholders' equity and drawings under the term debt facility.

Net debt to capitalization, market basis, is net debt divided by the sum of net debt and market capitalization. Net debt is calculated as outlined above under net debt to capitalization, book basis. Market capitalization is the number of common shares outstanding at period end multiplied by the trailing 12-month average per share market price. Market basis capitalization is intended to correct for the low historical book value of Norbord's asset base relative to its fair value.

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Norbord's capital structure at period end consisted of the following:

| (US\$ millions) | Jun 28 2008 | Dec 31 2007 |
|--|----------------|----------------|
| Long-term debt, principal value | \$ 667 | \$ 478 |
| Add: Current portion of long-term debt | - | 197 |
| Less: Drawings under term debt facility ⁽¹⁾ | (75) | - |
| Cash and cash equivalents | (83) | (128) |
| Net debt | 509 | 547 |
| Shareholders equity | 274 | 360 |
| Plus: Drawings under term debt facility ⁽¹⁾ | 75 | - |
| Tangible net worth | 349 | 360 |
| Total capitalization | 858 | 907 |
| Net debt to capitalization, book basis | 59% | 60% |
| Net debt to capitalization, market basis | 33% | 30% |

(1) Drawings under the Company's term debt facility are treated as equity for bank line financial covenant purposes.

The Company's \$235 million of committed unsecured revolving bank lines contain the following financial covenants related to capital management that the Company must comply with on a quarterly basis: minimum tangible net worth of \$300 million, and maximum net debt to total capitalization, book basis, of 65%. Drawings under the Company's term debt facility are treated as equity for bank line financial covenant purposes. At period end, the Company's tangible net worth was \$349 million versus the minimum \$300 million covenant; and net debt to total capitalization, book basis, was 59% versus the maximum 65% covenant.

Note 12 – Financial Instruments

Norbord has exposure to market, counterparty credit, and liquidity risk. Norbord's primary risk management objective is to protect the Company's balance sheet, earnings and cash flow in support of achieving top-quartile return on equity (ROE) and cash return on capital employed (ROCE) among North American forest products companies.

Norbord's financial risk management activities are governed by Board-approved financial policies that cover risk identification, tolerance, measurement, hedging limits, hedging products, authorization levels, and reporting. Derivative contracts that are deemed to be highly effective in offsetting changes in the fair value, net investment or cash flows of hedged items are designated as hedges of specific exposures.

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Gains and losses on these instruments are recognized in the same manner as the item being hedged. Hedge ineffectiveness, if any, is measured and included in current period earnings.

Market Risk

Norbord purchases commodity inputs, issues debt at fixed and floating interest rates, invests surplus cash, sells product and purchases inputs in foreign currencies, and invests in foreign operations. These activities expose the Company to market risk from changes in commodity prices, interest rates and foreign exchange rates, which affect the Company's balance sheet, earnings and cash flows. The Company uses derivatives as part of its overall financial risk management policy to manage certain exposures to market risk that result from these activities.

Commodity Price Risk

Norbord is exposed to commodity price risk on most of its manufacturing inputs, principally wood fibre, resin and energy. These manufacturing inputs are purchased primarily on the open market in competition with other users of such resources and prices are influenced by factors beyond Norbord's control.

Norbord monitors market developments in all commodity prices to which it is materially exposed. No liquid futures markets exist for the majority of Norbord's commodity inputs but, where possible, Norbord will hedge a portion of its commodity price exposure up to Board-approved limits in order to reduce the potential negative impact of rising commodity input prices. Should Norbord decide to hedge any of this exposure, it will lock in prices directly with its suppliers and, if unfeasible, purchase financial hedges where liquid markets exist.

At July 23, 2008, Norbord has hedged approximately 50% of its 2008 expected natural gas consumption by locking in the price directly with its suppliers. Approximately 65% of Norbord's electricity is purchased in regulated markets and Norbord has hedged approximately 45% of its 2008 deregulated electricity consumption. While these contracts are derivatives, they are exempt from being accounted for as financial instruments as they were normal purchases for the purpose of receipt.

Interest Rate Risk

Norbord's financing strategy is to access public and private capital markets to raise long-term core financing and utilize the banking market to provide committed standby credit facilities to support its short-term cash flow needs. The Company has fixed-rate debt, which subjects it to interest rate price risk, and has floating-rate debt, which subjects it to interest rate cash flow risk. In addition, the Company invests surplus cash in bank deposits and short-term money market securities.

The Company enters into interest rate swaps to convert a portion of its debt from fixed to floating rates. At period end, \$115 million of interest rate swaps were outstanding. The terms of these swaps correspond to the terms of the underlying hedged debt.

From time to time the Company can recoupon its portfolio of interest rate swaps to more efficiently manage cash flow and credit exposure. Any gains or losses realized are deferred and amortized over the remaining term of the debt against which the swaps were designated as hedges. At period end, \$9 million of gains were deferred and included in the carrying value of long-term debt in the consolidated balance sheet. Amortization of \$1 million (six-month period - \$2 million) was included in interest expense during the quarter.

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Currency Risk

Norbord's foreign exchange exposure arises from the following sources:

- Net investments in self-sustaining foreign operations, limited to Norbord's investment in its European operations
- Net Canadian dollar-denominated monetary assets and liabilities
- Committed or anticipated foreign currency denominated transactions, primarily Canadian dollar costs in Norbord's Canadian operations and Euro revenues in Norbord's UK operations

The Company's policy is to hedge all significant balance sheet foreign exchange exposures using cross-currency swaps and forward foreign exchange contracts. The Company may hedge a portion of future foreign currency denominated cash flows using forward foreign exchange contracts or options for periods up to three years in order to reduce the potential negative effect of a strengthening Canadian dollar versus the US dollar or a weakening Euro versus the Pound Sterling.

Each US one-cent change in the value of the Canadian dollar impacts annualized pre-tax earnings by approximately \$1 million in 2008. Each Pound Sterling one-pence change in the value of the Euro impacts pre-tax earnings by approximately £1 million in 2008.

Counterparty Credit Risk

Norbord invests surplus cash in bank deposits and short-term money market securities, sells its product to customers on standard market credit terms, and uses derivatives to manage its market risk exposures. These activities expose the Company to counterparty credit risk that would result if the counterparty failed to meet its obligations in accordance with the terms and conditions of its contracts with the Company.

Accounts receivable credit risk is mitigated through established credit management techniques, including conducting financial and other assessments to establish and monitor a customer's creditworthiness, setting customer limits, monitoring exposures against these limits, and in some instances, purchasing credit insurance or obtaining trade letters of credit. Under an accounts receivable securitization program, Norbord has transferred substantially all of its present and future trade accounts receivable to a highly rated financial institution, on a fully serviced basis, for proceeds consisting of cash and deferred purchase price. At period end, Norbord recorded cash proceeds of \$50 million and a deferred purchase price of \$79 million under this program. The fair value of the deferred purchase price approximates its carrying value as a result of the short accounts receivable collection cycle and negligible historical credit losses.

Surplus cash is only invested with counterparties meeting minimum credit quality requirements and issuer and concentration limits. Derivative transactions are executed only with approved high-quality counterparties under master netting agreements. The Company monitors and manages its concentration of counterparty credit risk on an ongoing basis.

The Company's maximum counterparty credit exposure at period end consists of the carrying amount of cash and cash equivalents and accounts receivable, which approximates fair value, and the fair value of derivative financial assets.

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Liquidity Risk

Norbord strives to maintain sufficient financial liquidity at all times in order to participate in investment opportunities as they arise, as well as to withstand sudden adverse changes in economic circumstances. Management forecasts cash flows for its current and subsequent fiscal years to identify financing requirements. These requirements are then addressed through a combination of committed credit facilities and access to capital markets.

At period end, Norbord had \$83 million of cash and cash equivalents, \$79 million of unutilized committed unsecured revolving bank lines and \$25 million unutilized under an unsecured term debt facility.

The following table summarizes the aggregate amount of contractual future cash outflows for the Company's financial liabilities:

| (US\$ millions) | Payments Due by Period | | | | |
|------------------------------------|------------------------|-----------------------|--------------------|--------------------|---------------------|
| | Total | Less than One Year | One-Three Years | Four-Five Years | After Five Years |
| Long-term debt, including interest | 900 | 44 | 301 | 295 | 260 |

Fair Values

The carrying and fair values of non-derivative financial instruments as at period end were as follows:

| (US\$ millions) | Carrying Value | Fair Value |
|--|-------------------|---------------|
| Financial Assets: | | |
| Cash and cash equivalents | \$ 83 | \$ 83 |
| Accounts receivable | 101 | 101 |
| Tax receivable | 16 | 16 |
| | \$ 200 | \$ 200 |
| Financial Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 221 | \$ 221 |
| Long-term debt | 669 | 601 |
| | \$ 890 | \$ 822 |

Information about derivative financial instruments at period end was as follows:

| (In millions and in US\$ unless otherwise noted) | Notional Value | Unrealized gain/(loss) at period end ⁽¹⁾ | Realized gain/(loss) during the period | Sensitivity to 1% change |
|--|-------------------|---|--|-----------------------------|
| Currency hedges: | | | | |
| Net investment | | | | |
| UK | £114 | (7) | (6) | 1 |
| Belgium | €82 | (2) | (9) | 1 |
| Monetary liabilities | CAD \$25 | - | 1 | - |
| Interest rate hedges: | | | | |
| Interest rate swaps | \$115 | (2) | - | 1 |

(1) The carrying values of the derivative financial instruments are equivalent to the unrealized gain/(loss) at period end.

Realized and unrealized gains and losses on derivative financial instruments are offset by realized and unrealized losses and gains on the underlying exposures being hedged.

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Note 13 – Litigation Settlement

Norbord and eight other North American OSB producers have been named as defendants in several lawsuits filed in the US District Court for the Eastern District of Pennsylvania. The lawsuits allege that these nine North American OSB producers violated US and various state antitrust and other laws by allegedly agreeing to fix prices and reduce the supply of OSB from June 1, 2002 through the present.

The Court has certified the following classes: A nationwide class of persons and entities that purchased OSB in the US directly from any of the defendant North American OSB producers between June 1, 2002 and February 24, 2006; a nationwide class of persons who, as end users, indirectly purchased in the US for their own use, and not for resale, new OSB manufactured and sold by one or more of the defendant North American OSB producers between June 1, 2002 and February 24, 2006 (other than persons who purchased OSB only as part of a house or other structure); and a multi-state class of residents of seventeen States who, as end users, indirectly purchased in the US for their own use, and not for resale, new OSB manufactured and sold by one or more of the defendant North American OSB producers between June 1, 2002 and February 24, 2006 (other than persons who purchased OSB only as part of a house or other structure). All three classes seek damages or injunctive or other relief under applicable laws.

Norbord has entered into a settlement agreement with the certified class of direct purchasers of OSB in the OSB antitrust Litigation to limit the risks and costs associated with a prolonged trial. Norbord has vigorously contested the plaintiffs' allegations and continues to deny that it violated US antitrust or any other laws. Under the terms of the settlement agreement, which is subject to Court approval, Norbord will pay \$30 million into an escrow account for the benefit of members of the direct purchaser class. A first payment of \$15 million is due on or before July 25, 2008 and the remainder is due on or before October 24, 2008.

As allowed by Court order, a small number of class members have chosen to opt out of the direct-purchaser class. Norbord estimates that the purchases by these entities represents between 10% and 15% of defendants' sales to direct purchasers of OSB during the class period. Each of these entities is entitled to pursue its own individual "opt-out" claims against Norbord and the other defendants. If any of them do so, Norbord will be entitled to a partial refund of the \$30 million settlement amount paid to the direct-purchaser class.

Norbord has also reached an agreement in principle to pay \$2 million in settlement of the claims asserted on behalf of the certified classes of indirect purchasers of OSB. The final settlement agreement with the indirect purchasers will also be subject to Court approval. The Court has not yet set a deadline by which members of the certified classes of indirect purchasers of OSB must exercise, if they choose to do so, their right to opt out of the classes.

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Note 14 – Geographic Segments

The Company has a single reportable segment. The Company operates principally in North America and Europe. Net sales by geographic segment are determined based on the origin of shipment and therefore include export sales.

(US\$ millions)

| 2 nd Qtr 2008 | North America | Europe | Unallocated | Total |
|---|------------------|--------|-------------|--------|
| Net sales | \$ 151 | \$ 111 | \$ - | \$ 262 |
| EBITDA ⁽¹⁾ | (1) | 6 | (4) | 1 |
| Depreciation | 11 | 7 | - | 18 |
| Property, plant and equipment | 690 | 262 | 4 | 956 |
| Investment in property, plant and equipment | 10 | - | - | 10 |
| 2nd Qtr 2007 | | | | |
| Net sales | \$ 156 | \$ 132 | \$ - | \$ 288 |
| EBITDA ⁽¹⁾ | (2) | 26 | (7) | 17 |
| Depreciation | 18 | 9 | - | 27 |
| Property, plant and equipment | 708 | 273 | 4 | 985 |
| Investment in property, plant and equipment | 8 | 4 | - | 12 |
| 6 mos 2008 | | | | |
| Net sales | \$ 266 | \$ 230 | \$ - | \$ 496 |
| EBITDA ⁽¹⁾ | (30) | 13 | (6) | (23) |
| Depreciation | 22 | 15 | - | 37 |
| Property, plant and equipment | 690 | 262 | 4 | 956 |
| Investment in property, plant and equipment | 15 | - | - | 15 |
| 6 mos 2007 | | | | |
| Net sales | \$ 290 | \$ 259 | \$ - | \$ 549 |
| EBITDA ⁽¹⁾ | (10) | 44 | (13) | 21 |
| Depreciation | 33 | 18 | - | 51 |
| Property, plant and equipment | 708 | 273 | 4 | 985 |
| Investment in property, plant and equipment | 15 | 6 | - | 21 |

(1) EBITDA is calculated as earnings determined in accordance with GAAP before interest, income tax, depreciation and amortization, provision for non-core operation and litigation settlement. Norbord views EBITDA as a measure of gross profit and interprets EBITDA trends as an indicator of relative operating performance.