

**NORBORD INC.**  
**Q2 2009 CONFERENCE CALL**  
**JULY 31, 2009 - 11:00 A.M. ET**  
**CORRECTED TRANSCRIPT**

**OPERATOR**

Good day ladies and gentlemen, and welcome to Norbord Inc. 2009 Second Quarter Earnings Conference Call. As a reminder, today's call is being recorded and webcast on Norbord's website at [www.norbord.com](http://www.norbord.com).

Norbord's discussion today may include certain projections and forward-looking statements regarding Norbord's business, future actions and expected results. These statements are subject to known and unknown risks and future results may differ materially. For further information on known risks, please see the caution regarding forward-looking information statement in Norbord's March 2, 2009 Annual Information Form and the cautionary statement contained in the Forward-Looking Statements section of Norbord's Management's Discussion and Analysis dated April 28, 2009.

And now it is my pleasure to turn the call over to Barrie Shingleton, President and Chief Executive Officer. Please go ahead, sir.

**J. BARRIE SHINGLETON, PRESIDENT AND CHIEF EXECUTIVE OFFICER**

Thank you, Joshua. Good morning everyone and welcome to Norbord's quarterly conference call. I have Robin Lampard, our CFO and Anita Veel, our Director of Corporate and Regulatory Affairs with me today. Robin will walk you through the details of quarter two and then I'll wrap-up with our outlook and then we will open the lines up for your questions.

There are a few points I'd like to touch on before I turn the call over to Robin and her financial review. With a few exceptions 2009 is unfolding pretty much as we anticipated and you will recall that I've been taking a rather pessimistic view. While Norbord's EBITDA performance this year is only marginally better than last year there have been big movements in our revenue and cost lines.

Revenue margins so far this year are down about \$25 million due to lower prices and volume. And this is mostly a European mill net story. However, materials input costs have improved by about \$20 million, and these savings are largely coming from better resin prices in North America.

And significantly better mill operating performance and lower overheads in both North America and Europe are more than offsetting the impact of the indefinite closures of our two North American OSB mills and the additional curtailments we've taken in our European plants.

Our European business is one area where we've been pleasantly surprised actually. We've continued to generate positive EBITDA numbers this year in spite of significantly weaker markets and lower panel prices. And Robin will talk to you more about this in a few minutes.

With that I'll turn the call over to Robin.

**ROBIN E. LAMPARD, SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER**

Thanks, Barrie. We'll start with market conditions. U.S. housing start levels are currently half of the pace set at this time last year and are expected to end the year around 0.5 million. North American OSB prices often experience a seasonal improvement in the second quarter. This seasonal increase did materialize this year, although it was delayed until late in the quarter and prices did not rise to last year's levels.

Benchmark North-Central OSB prices averaged \$146 in the quarter, down from \$154 in Q1 and \$179 in Q2 of '08. The Southeast benchmark is also relevant to Norbord with more than half of our production capacity in that region. Southeast benchmark prices averaged \$140 in the quarter, compared to \$139 in Q1 and \$155 in Q2 of '08.

Industry-wide, the APA indicated that the North American OSB industry operated at around 50% of capacity in the second quarter. We ran our North American mills at over 60% of capacity. Looking at this another way, we curtailed 335 days of production in the second quarter, and we've moved to reduced production schedules at Cordele and Guntown at the end of June.

In the UK, where the majority of Norbord's European assets are located, consumer confidence indicators and housing starts strengthened modestly. These tentative signs of improvement are welcome, although it is important to note that economic recovery on the continent does not appear to have the same momentum to date, particularly in Germany.

The weaker pound continued to provide a competitive advantage for us as a U.K. based producer. Although this currency exchange trend has recently moderated due to the uncertain outlook for the continental economies, the pound is still at supportive levels versus the euro.

Compared to the prior quarter, Norbord's European product prices declined 7% for OSB, 5% for MDF, and 2% for particle board. Norbord curtailed 25% of its European capacity during the quarter.

Our second-quarter EBITDA loss of \$2 million was a \$12 million improvement over the prior quarter. This improved operating result was achieved despite lower benchmark prices in the quarter and was due to increased North American OSB sales volumes, better uptime at our European mills, lower input prices, and overhead reductions.

North American OSB EBITDA losses were reduced 50% quarter-over-quarter to \$6 million. In the second quarter, Norbord's North American per-unit OSB production costs were down 10% quarter-over-quarter, a result of higher production volumes, lower input prices, and better key input usage rates.

European operations recorded positive EBITDA of \$4 million this quarter compared to positive \$1 million in the prior quarter on lower energy prices and higher shipment volumes.

Lower input costs continue to provide significant relief across our operations in both North America and Europe, saving us \$21 million year-to-date versus last year.

The lower resin, fiber and energy prices were welcome, although we believe input prices have now bottomed and resin prices in particular will begin trending up again through the back half of the year.

Operating activities generated \$39 million of cash in the second quarter, due mainly to a reduction in operating working capital and \$15 million in income tax refunds. We've used this \$39 million to pay down our bank lines.

Operating working capital was reduced by \$30 million quarter-over-quarter to a negative \$5 million. This improvement was due to seasonally lower inventory levels, higher proceeds from the Accounts Receivable securitization program, and increased Accounts Payable related to the timing of bond coupon payments. Despite the challenging market environment, our Accounts Receivable performance metrics remain in line with prior periods.

At quarter end, Norbord had available liquidity of \$220 million consisting of cash, unused bank lines, and the Brookfield debt facility. The Company's tangible net worth was \$348 million and net debt to total capitalization on a book basis was 58%.

You'll see, in our MD&A, that we've changed our depreciation methodology of production equipment from straight-line to units of production. This change in estimate is being applied prospectively and resulted in a depreciation expense reduction of \$4 million in the quarter. The units of production method allocates equipment capital costs to actual production, which better matches our accounting with the economic realities of having two plants indefinitely curtailed.

Capital investments were limited to \$3 million in the second quarter and \$8 million year-to-date. We will constrain our capital program to \$15 million this year and we are prepared to hold CapEx to this level again in 2010, depending on market conditions.

Before I turn the call back over to Barrie, I will comment briefly on the proposed share consolidation. At our shareholders meeting in April, our Board of Directors received approval to move forward with a 10-for-1 consolidation when and if it is deemed to be in the interest of shareholders. The Board has until the end of October to move forward, and we will issue an announcement when we are ready to implement the consolidation.

And with that I will turn it back over to Barrie.

**J. BARRIE SHINETON, PRESIDENT AND CHIEF EXECUTIVE OFFICER**

Thanks, Robin. As I told you last quarter, we are planning for a business recovery that we think will take hold in 2011. There was positive housing news in quarter two that suggested we are approaching a housing bottom. New homes sales numbers have been positive for three months now; existing home sales are marginally better than expected; and housing starts were up again in June.

The question now for Norbord is how long will we be on the bottom and what does the slope of the recovery curve for housing look like when it finally comes? We still think it will take a while for high inventories of new and used homes to be depleted. It'll take a while for housing prices to stabilize, credit availability to improve, and employment and consumer confidence levels to strengthen.

2010 will certainly be a better year. But as I was reminded recently, this just means that it will be the second-worst year in housing history. However, we continue to believe that the demographic realities of immigration, new household formations, and replacement homes will push U.S. housing demand back above the long-term average of \$1.5 million.

I believe Norbord is doing all the right things to manage through the remainder of this downturn. We have access to adequate liquidity. We are comfortable with our cost position in North America, although we recognize that the cost curve is flatter today as most of the high-cost capacity is now closed. The support of currency and better performance from our operations is improving our competitive position in Europe. All of our mills are running well. Inventory and working capital are well-controlled. Company-wide SG&A costs are down about 30%. And we have the continued support of our majority shareholder, Brookfield. We will be ready when markets recover.

And with that I will turn things back over to the operator who will open up the lines for your questions.

## Q&A

### Operator

Thank you. [Operator Instructions]. Our first question today comes from Michael Boam of BlueBay Asset Management. Please go ahead.

<Q>: Hi. I have a few questions if that's okay. I appreciate that you have obviously sold some of your receivables. And you've mentioned, during the presentation and in the release indeed, that there is some build up of payables due to interest payments. I just wonder. I mean should we expect you to be effectively net cash positive going forward with respect to working capital?

Because the situation is just to swing around quite a lot. At the end of the fourth quarter by my numbers you had a \$40 million inflow, but then you had a \$40 million outflow in Q1, and it looks like that's all come back in Q2 pretty much. I appreciate there is some seasonality in this, but I just wondered where that number should sort of sit going forward.

<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>: There is definitely a seasonal pattern to our working capital fluctuations. It always builds in the first quarter of every year and it usually reverses over the remainder of the year. We achieved a pretty large reversal in the second quarter and we typically experience another one in the fourth.

And you did see that last year in the fourth. What was unusual in the past 12 months, as you look back, is that we had all of our mills shut down at the end of 2008, and so working capital was correspondingly lower than it had been in prior years. So perhaps that is what is making the numbers look a little different from normal. But that seasonal pattern continues. We build in the first, and it reverses over the rest of the year.

<Q>: Yeah I guess what I'm asking, though, is should the net number -- I mean, if I look at your net working capital in Q1 last year, you had \$154 million of net working capital, i.e. receivables and inventories exceeded payables. That number at the end of the first quarter this year was down at 40 and in the second quarter it's minus 1. Should we -- I mean, should it be staying down at these sorts of levels, or not the net position?

<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>: Yes. Other than seasonal fluctuations, this is sort of the new normal for us, given our operating configuration.

<Q>: Okay. Then my second question -- you received I think \$15 million in terms of tax rebate during the quarter? And your receivable I notice is down at \$4 million now. I mean obviously you

had those receipts last year; you had receipts this year. I mean, is that sort of the end of what you can claim back, or is there likely to be more?

**<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>**: No, that's about it at this point. The only thing that would change that -- and this is not something I view as likely -- is if the loss carryback period in the U.S. is ever extended from two to five years. It was on the table in one of the stimulus packages, but it never made it through. So if that were to happen in one of the U.S. budgets this year or next, then that would allow us to carry back losses, but otherwise that's it.

**<Q>**: Can you give me some idea as to what the increment you would be able to claim back would be, if that was enacted?

**<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>**: Yes. We actually disclosed that in our -- I think it was our Q4 numbers and it was \$65 million.

**<Q>**: Okay. And then a couple of other points, if I may? If you want me to go back in the queue, I can. Can I just ask why the volume data hasn't been published this quarter?

**<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>**: You're talking production volume?

**<Q>**: No, the sales volumes. You historically always produced data for OSB, particle board.

**<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>**: It is in our MD&A.

**<Q>**: Is it?

**<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>**: Yes, it is.

**<Q>**: Okay, so I just need to find that then.

**<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>**: If you haven't seen it already -- it's on page 7, you can go to our website and pull it off there.

**<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>**: Yeah.

**<Q>**: Okay. Then my final point if I can -- you mentioned obviously raw materials have started to move up again. As things stands at the moment, are you recovering that through higher prices, or should that start to eat into margin again sort of through the third and fourth quarter, given the low sort of occupancy?

**<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>**: Well, if you can tell me what prices are going to do, I can give you an answer.

**<Q>**: Okay.

**<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>**: We don't give guidance on prices. You can see what's happening with the North American benchmark prices through Random Lengths.

<Q>: Yeah, I know, I know.

<A - **Robin E. Lampard, Senior Vice President and Chief Financial Officer**>: But it all depends on what happens to price.

<Q>: Okay. Thank you very much for your time.

<A - **Robin E. Lampard, Senior Vice President and Chief Financial Officer**>: You are welcome.

**Operator**

Thank you. And our next question comes from Sean Steuart of TD Newcrest. Please go ahead.

<Q - **Sean Steuart**>: Thank you. Good morning everyone. Just a few questions -- Barrie, we saw a good lift in North American OSB volumes in the second quarter. A lot of that is just seasonal, I guess, but a better than expected lift from our perspective. Can you just talk a little bit about how shipment volumes are trending so far this quarter?

<A - **J. Barrie Shingleton, President and Chief Executive Officer**>: Good morning, Sean. Yes, well, we didn't think it was a particularly good lift in the second quarter. We were kind of expecting more. But things improved near the end of June and we are seeing that carry on so far through the third quarter. So we are positive, relatively positive, about the third quarter from a sales perspective, but we expect a very difficult fourth quarter, Sean.

<Q - **Sean Steuart**>: Okay. And then just on the cost side, you sort of suggested that the input cost relief was heavily weighted toward resin. Can you talk a little bit about what costs are doing in I guess the U.S. South and in Europe as well?

<A - **J. Barrie Shingleton, President and Chief Executive Officer**>: Well, wood costs continue to come down just about everywhere we operate. I think in the U.S. South they are probably as low as they are going to go today. The whole wood procurement sector is pretty stressed by the price levels that we are now paying for wood. So I don't imagine, I don't expect to see any lower wood prices in Europe.

In the U.K, we probably have the lowest, at least for the fiber we are interested in and we probably have the lowest cost in Europe today, although I know the wood costs on the continent are adjusting fairly rapidly right now.

<Q - **Sean Steuart**>: Okay. And then just finally on the overhead costs as well, you touched on progress you've made there in taking cost out of the system. I might have missed it in MD&A but do you have an updated number on progress there so far?

<A - **J. Barrie Shingleton, President and Chief Executive Officer**>: I think we've been pretty cautious about talking too much about it. We are always working away at our overhead costs. I know what I can tell you is that we are probably at two-thirds of the level now in total SG&A costs that we were 18 months ago. If I looked at just the savings from a variance point of view, we probably -- our SG&A costs are probably \$12 million. At least the SG&A costs we can control are probably \$12 million lower than they were at the beginning of that 18-month period.

<Q - **Sean Steuart**>: Okay. That's helpful. Thank you.

**<A - J. Barrie Shingleton, President and Chief Executive Officer>**: Thanks.

**Operator**

Thank you. And our next question comes from Steven Walker of Royal Bank of Scotland. Please go ahead.

**<Q>**: Hi guys Steve Walker, RBS. Just a quick question on your receivables securitization facility, so that facility has slightly tighter covenants than the revolving facility covenants which you had amended.

Is there any concern on those covenants, kind of going into 2010, that you need to have those changed or are you pretty comfortable with those?

**<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>**: No. I would say that we are – we prefer them to be aligned and we're working on that. When we have something to report, we will do so.

**<Q>**: Okay great. Thanks.

**Operator**

Thank you. And at this time there are no further questions. Please continue.

**<A - J. Barrie Shingleton, President and Chief Executive Officer>**: That's it?

**Operator**

We do have a question that just queued up. It is from Phillip Schaeffer of Scott's Cove. Please go ahead.

**<Q - Phillip Schaeffer>**: Yes, hi.

**<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>**: Good morning.

**<Q - Philip Schaefer>**: Yes, I'm sorry I had to adjust my phone. In your financials, you indicate the change [IFRS] -- it's not for a couple of years from now -- in 2011 regarding the Canadian accounting rule. As you understand it, it's going to change the carrying values. As you understand it to be, will the carrying values of your assets in the aggregate increase or decrease? How would that affect your tangible net worth and the related covenants?

**<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>**: Well, Phil, it is too early for us to say what the magnitude or direction of any adjustments would be. We are still trying to get our arms around them. We've just simply, at this point, identified the areas that we think will have an impact, and -- so we are not in a position to put out any numbers at this stage. But that will be coming next year.

**<Q - Phillip Schaeffer>**: Okay. Thank you.

**<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>**: Okay.

**OPERATOR**

Thank you. And once again there are no further questions.

**J. BARRIE SHINETON, PRESIDENT AND CHIEF EXECUTIVE OFFICER**

Thank you Joshua. And as always Robin and Anita will be available to respond to any questions you have if you think of something after the call. And I'd like to thank you all for dialing in today and we look forward to updating you on our progress next quarter. Thanks very much.

**OPERATOR**

Thank you. Ladies and gentlemen, this now concludes your conference for today. We thank you for your participation. You may now disconnect your lines and have a great rest of the day.