



*J. Barrie Shineton*  
*President & Chief Executive Officer*

October 24, 2008

Dear Norbord Shareholder,

Norbord's third quarter results reflected ongoing weakness in North American new home sales, downward momentum in UK housing-related activity and the overall impact of the global credit crisis. Against this backdrop, Norbord recorded negative EBITDA of \$9 million.

Oriented strand board (OSB) prices in North America were actually better than anticipated during the third quarter, although they are still at unsustainably low levels and are expected to soften during the fourth quarter. In addition to a seasonal drop in construction activity, buyers are aggressively managing working capital levels to meet their own financial covenant targets at year-end; a key priority for every business given today's tight credit markets. We faced significant input cost pressures during the third quarter, however, we believe wood, resin and wax prices have peaked and will ease going forward. US housing starts will end the year at less than 1.0 million and remain at this level in 2009 – this is an important indicator for our business as more than 65% of the OSB produced in North America goes into new home construction. For these reasons, we believe that OSB prices will remain constrained in the near-term.

I've stated over the past few quarters that there are several market adjustments that must occur before we see a meaningful improvement in housing starts and stronger OSB prices: 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 the recovery will likely take some time.

The recent expansion of the US credit crisis into global financial markets means that challenges facing our European operations now mirror those in North America. In the UK, where most of our European operations are located, housing starts have fallen 40% year-to-date as mortgage lenders tightened credit terms and limited mortgage approvals. We believe the market dynamics needed to see improved housing starts and stronger panel board prices in Europe are now very similar to North America. It is important to note, however, that the UK market is not handicapped in the same manner as North America by high inventories of new or used unsold homes. There is also a systemic lack of available housing in the UK and this pent-up demand continues to grow. Combined, these factors suggest that there may be a faster recovery in housing and panel board demand once credit conditions correct and financial markets stabilize.

We took additional steps this quarter to strengthen Norbord's balance sheet. To ensure we have sufficient liquidity to manage through this prolonged downturn, we increased our accounts receivable securitization program by \$35 million. At the end of the quarter, Norbord had \$181 million of liquidity consisting of cash, unutilized bank lines and unutilized term debt facilities. Our current liquidity position supported another dividend payment this quarter. However, we are in unusually challenging 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 for our Company and we will keep you apprised of further developments.

In our view, the next two years will be difficult for the building materials industries in North America and Europe. Norbord has the right strategy, good management and the necessary support from Brookfield Asset Management, our major shareholder. We fully expect to emerge from this cycle a stronger company.

Thank you for your continuing support.

A handwritten signature in black ink, appearing to read "Laurie Shimet". The signature is written in a cursive, flowing style.

## **NEWS RELEASE**

### **NORBORD REPORTS Q3 2008 RESULTS**

Note: Financial references in US dollars unless otherwise indicated

#### **Q3 2008 HIGHLIGHTS**

- **Achieved breakeven EBITDA at North American OSB operations for a second consecutive quarter**
- **Completed US MACT air emissions compliance projects**
- **Improved safety rate 22% year-to-date**

**TORONTO, ON (October 24, 2008) – Norbord Inc. (TSX:NBD)** today reported a loss of \$18 million or \$0.12 per share in the third quarter of 2008. In the prior quarter, Norbord reported a loss of \$37 million or \$0.25 per share, which included an antitrust litigation settlement charge. Norbord recorded a loss of \$1 million or \$0.00 per share in the third quarter of 2007.

Norbord recorded negative EBITDA of \$9 million in Q3 2008 compared to positive EBITDA of \$1 million in the prior quarter and positive \$30 million in Q3 2007.

“North American OSB prices were better than anticipated during the quarter and our North American OSB operations broke even again this quarter as a result,” said Barrie Shingleton, Norbord’s President and CEO. “However, world-wide economic conditions continue to deteriorate and are now impacting results from our European operations. Near-term, we don’t expect to see improvements in the economy or the housing start numbers in North America or Europe. In this environment, we continue to focus on containing costs, servicing our excellent customer base and optimizing the performance of our mills so that we are well positioned when markets recover.”

#### **Market Conditions**

North American North Central benchmark OSB prices averaged \$201, an improvement of \$22 and \$24 from the second quarter of 2008 and the third quarter of 2007, respectively. In the South East region, where approximately 55% of Norbord’s North American capacity is located, prices averaged \$158 in the third quarter versus \$155 last quarter and \$149 in the same period last year. Third quarter benchmark prices reflected continuing wide-spread industry curtailments, the seasonal increase in construction activity, low supply chain inventory levels and production constraints due to weather-related log shortages.

The lack of available credit in the US has resulted in severely limited mortgage approvals and a further decline in housing starts. These same financial restrictions are forcing many of Norbord’s customers to modify operating plans and aggressively reduce their own working capital levels. The combination of these factors is expected to exaggerate the seasonal slowdown in demand going into the fourth quarter.

The credit crisis that began in the US has expanded into global financial markets. Consumer confidence and housing-related spending across Europe have been significantly impacted as a result. In the UK, where the majority of Norbord's European assets are located, 2008 housing starts have fallen 40% year-to-date as mortgage lenders tightened credit terms and limited mortgage approvals. Norbord's European panelboard prices declined 7% on average compared to the second quarter of 2008.

### **Developments**

Norbord concluded an additional \$35 million commitment under its accounts receivable securitization program during the third quarter. At quarter end, Norbord had \$181 million of liquidity consisting of cash and cash equivalents, unutilized bank lines and unutilized term debt facilities. The Company continues to consider alternatives to further strengthen its liquidity position and conserve cash.

### **Performance**

In the quarter, Norbord's North American per unit OSB cash production costs increased 5% over the prior quarter and 9% over the same period last year. This increase is largely due to higher resin and wax costs. Production costs have also been impacted, to a lesser extent, by higher fibre and energy prices and lower production volumes.

In North America, Norbord curtailed approximately 10% of its OSB production during the third quarter, compared to 10% in Q2 2008. Norbord curtailed 20% of its European capacity during the quarter, versus 10% in the prior quarter.

Norbord will continue its practice of monitoring the financial performance of each mill and will suspend operations on a temporary or indefinite basis should cash losses exceed shutdown costs. As Norbord does not consider temporary or indefinite curtailments material in the current market environment, these shutdowns will be summarized at the end of each quarter rather than disclosed as they happen.

Capital investments totaled \$22 million year-to-date; \$7 million in the third quarter. These capital investments included approximately \$12 million to complete the last of Norbord's US MACT air emissions compliance projects. Norbord expects to limit 2009 capital investments to less than \$25 million. At quarter end, Norbord's net debt was 37% of capitalization on a market basis and 62% on a book basis.

### **Quarterly Dividend**

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

## Conference Call

Norbord will hold a conference call for investors on Friday, October 24, 2008 at 11:00 a.m. ET. The call will be broadcast live over the Internet via [www.norbord.com](http://www.norbord.com) and [www.newswire.ca](http://www.newswire.ca). A replay number will be available approximately one hour after completion of the call and accessible until Friday, November 28, 2008, by dialing 647.436.0148 or 888.203.1112. The passcode is 8684342. 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 & Regulatory Affairs  
(416) 643-8838  
[anita.veel@norbord.com](mailto: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," "expect," "expects," "expected," "forecast," "estimate," "estimates," "estimated," "likely", "may" 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.*

*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  
THIRD QUARTER 2008**

**October 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](http://www.norbord.com) or the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com). All financial references in the MD&A are stated in US dollars unless otherwise noted.

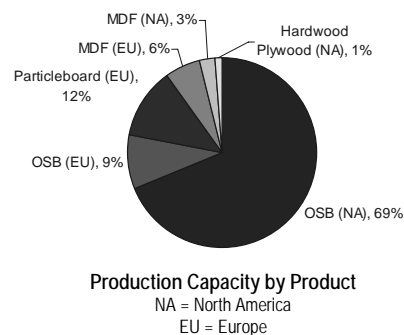
Some of the statements included or incorporated by reference in this MD&A constitute forward-looking statements within the meaning of applicable securities legislation. Forward-looking statements are based on various assumptions and are subject to various risks. See the cautionary statement contained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

EBITDA, operating working capital, total working capital, capital employed, ROCE, ROE, net debt, tangible net worth, 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



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.

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, subject to financial market conditions. At the end



of the quarter, the Company had a net debt to capitalization of 37% on a market basis and 62% on a book basis. The Company continues to consider 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. North America experienced a modest rise in OSB pricing in the quarter, however, management expects prices to moderate through the remainder of the year. North American markets remain under pressure principally due to the continuing sharp decline in US housing starts and the effects of the unprecedented economic slowdown. The economic challenges in North America are now having a global impact. European panel markets weakened in the quarter as market demand and pricing fell and key input prices rose. The European market decline experienced in the quarter contrasts the exceptionally robust levels experienced in 2007.

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

Norbord recorded EBITDA of negative \$9 million in the third quarter, versus positive \$1 million in the previous quarter and positive \$30 million in the third quarter of 2007. Norbord's North American OSB mills ran well in the quarter and achieved break-even EBITDA results for the past two consecutive quarters. Despite the improvement in North American benchmark OSB prices quarter over quarter, key input prices continue to rise. European markets continue to decline in 2008 and rising resin and global energy prices continue to impact the business because Norbord's European products are more resin and energy intensive.

The Company recorded a loss of \$18 million (\$0.12 per share) in the third quarter of 2008 compared to a loss of \$37 million (\$0.25 per share) and \$1 million (\$0.00 per share) in the second quarter of 2008 and third quarter of 2007, respectively. Norbord's results in the second quarter of 2008 include a \$32 million pre-tax antitrust litigation settlement charge (\$0.15 earnings per share) to limit the risks and costs associated with a prolonged trial. Norbord vehemently denies that it violated US antitrust or any other laws.

**RESULTS OF OPERATIONS**

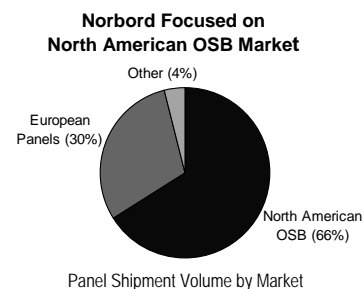
(US\$ millions, except per share information, unless otherwise noted)	3 <sup>rd</sup> Qtr 2008	2 <sup>nd</sup> Qtr 2008	3 <sup>rd</sup> Qtr 2007	9 mos 2008	9 mos 2007
Return on capital employed (ROCE)	(4)%	0%	11%	(4)%	7%
Return on equity (ROE)	(28)%	(50)%	(1)%	(39)%	(10)%
Earnings per share – diluted	\$ (0.12)	\$ (0.25)	\$ 0.00	\$ (0.58)	\$ (0.22)
Net sales	\$ 256	\$ 262	\$ 292	\$ 752	\$ 841
EBITDA	(9)	1	30	(32)	51
Depreciation	18	18	19	55	70
Investment in property, plant and equipment	7	10	8	22	29
<b>Shipments (MMsf 3/8")</b>					
OSB	1,124	1,114	1,060	3,197	3,333
Particleboard <sup>(1)</sup>	86	102	162	319	503
MDF	112	117	124	340	381
Hardwood plywood	10	15	19	40	58
<b>Indicative OSB Prices</b>					
Average OSB price – North Central (\$/Msf 7/16")	201	179	177	172	159
Average OSB price – South East (\$/Msf 7/16")	158	155	149	145	146
Average OSB price – Europe (€/m <sup>3</sup> )	196	210	246	208	242

(1) Excludes particleboard consumed internally (22 MMsf, 30 MMsf, 33 MMsf, 87 MMsf, 103 MMsf for each period, respectively).

Net sales in the quarter were \$256 million, compared to \$262 million and \$292 million in the second quarter of 2008 and the third quarter of 2007, respectively. Year-to-date net sales were \$752 million versus \$841 million in the same prior year period. OSB shipment volume and changes in North American OSB benchmark prices and European panel prices 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 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 \$201, an improvement of \$22 and \$24 from the second quarter of 2008 and the third quarter of 2007 respectively. 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. Approximately 55% of Norbord's North American capacity is located in the South East region making the South East benchmark pricing significant to Norbord. South East benchmark prices averaged \$158 in the third quarter versus \$155 last quarter and \$149 in the same period last year. Third quarter benchmark prices reflected continued wide-spread production curtailments taken across the industry, the seasonal increase in housing activity, low supply chain inventory levels and production constraints due to weather-related log shortages.

New home construction is the principal end use for OSB, accounting for about 65% of demand in 2007. US housing starts fell to a 17-year low in August and are forecast to be approximately 0.9 million in 2008. Most experts forecast housing starts will remain at or below this level again in 2009.

The US economy experienced unprecedented turmoil during the quarter attributed to the unforeseen instability in the financial markets. The lack of available credit in the US has resulted in severely limited mortgage approvals and a further decline in housing starts. In addition, financial restrictions have forced many customers to modify operating plans and aggressively reduce their own working capital levels. The combination of these factors has exaggerated the seasonal slowdown in demand going into the fourth quarter.

The economic downturn that began in the US has now expanded globally. Consumer confidence and housing-related spending across Europe has dropped significantly as a result. In the UK, where the majority of Norbord's European assets are located, 2008 housing starts have fallen 40% year-to-date as mortgage lenders tighten credit terms and limit mortgage approvals. In this environment of reduced demand, approximately 20% of Norbord's European capacity was curtailed during the quarter. European panel prices were down 7% on average compared to the second quarter of 2008. Management expects that market conditions in Europe will likely mirror those in North America for the foreseeable future.

### **Operating Results**

In total, Norbord generated EBITDA of negative \$9 million in the quarter and negative \$32 million year-to-date versus positive \$30 million and positive \$51 million in the comparable prior year periods, respectively. Quarter over quarter, Norbord generated EBITDA of negative \$9 million in the third quarter versus positive \$1 million in the second quarter.

Norbord's North American operations generated an EBITDA loss of \$2 million in the third quarter, and \$32 million year-to-date versus positive \$3 million and negative \$7 million in the comparable prior year periods, respectively. Quarter over quarter, the North American operations generated an EBITDA loss of \$2 million in the third quarter versus negative \$1 million in the second quarter.

North American OSB operations achieved break-even EBITDA for the second consecutive quarter driven by a modest rise in North American benchmark OSB prices offset by a rise in key input prices and the impact of lower production volumes. Norbord expects OSB prices to moderate during the fourth quarter. Norbord's North American OSB mills operated at approximately 90% of capacity in the second and third quarters of 2008 and approximately 95% of capacity in the third quarter of 2007. Year-to-date, Norbord's North American OSB mills operated at approximately 85% of capacity versus 100% in 2007.

The third quarter break-even result from North America OSB operations is a positive achievement in light of the continued pressure from rising resin, fibre and global energy prices. In the quarter, Norbord's North American per unit OSB cash production costs increased 5% over the second quarter of 2008 and increased 9% over the third quarter of 2007. The increase in cash costs versus the comparable periods is principally due to higher resin prices and to a lesser extent, higher fibre and energy prices as well as the impact of lower production volumes.

Norbord's European operations generated an EBITDA loss of \$5 million in the third quarter and positive \$8 million year-to-date versus \$29 million and \$73 million in the comparable prior year periods, respectively. Quarter-over-quarter, the European operations generated an EBITDA loss of \$5 million in the third quarter versus positive \$6 million in the second quarter. European pricing and markets have retreated in 2008 from the exceptional levels of 2007, which has led to production curtailments and lower production volumes. European results in the quarter reflect sharply slower market conditions and continued key input price pressure. Norbord's European mills operated at approximately 80% of capacity in the quarter, compared to approximately 90% in the second quarter of 2008 and 100% in the third quarter of 2007. Year-to-date, Norbord's European mills operated at 90% of capacity versus 100% in 2007.

The European business is also disproportionately impacted by rising resin and global energy prices because Norbord's European products are more resin and energy 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. The conversion to biomass heat energy systems at these mills provides an annualized cost savings of approximately \$5 million versus current prices.

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)	3 <sup>rd</sup> Qtr 2008	3 <sup>rd</sup> Qtr 2008	9 mos 2008
	vs. 2 <sup>nd</sup> Qtr 2008	vs. 3 <sup>rd</sup> Qtr 2007	vs. 9 mos 2007
EBITDA – current period	\$ (9)	\$ (9)	\$ (32)
EBITDA – comparative period	1	30	51
Variance	\$ (10)	\$ (39)	\$ (83)
Mill nets <sup>(1)</sup>	\$ 4	\$ (1)	\$ 14
Volume <sup>(2)</sup>	(9)	(15)	(35)
Key input prices <sup>(3)</sup>	(10)	(26)	(61)
Key input usage <sup>(3)</sup>	2	2	8
Other <sup>(4)</sup>	3	1	(9)
	\$ (10)	\$ (39)	\$ (83)

(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)	3 <sup>rd</sup> Qtr 2008	2 <sup>nd</sup> Qtr 2008	3 <sup>rd</sup> Qtr 2007	9 mos 2008	9 mos 2007
Interest and other income	\$ -	\$ 2	\$ -	\$ 3	\$ 4
Interest expense	(11)	(11)	(13)	(37)	(36)
Depreciation	(18)	(18)	(19)	(55)	(70)
Income tax recovery	20	21	1	71	19

Interest and other income and interest expense were relatively consistent with prior periods.

Depreciation in 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 \$20 million was recorded in the quarter on a pre-tax loss of \$38 million. Year-to-date, a tax recovery of \$71 million was recorded on a pre-tax loss of \$157 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 were carried back for 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)	3 <sup>rd</sup> Qtr 2008	2 <sup>nd</sup> Qtr 2008	3 <sup>rd</sup> Qtr 2007	9 mos 2008	9 mos 2007
Cash provided by (used for) operating activities	\$ (8)	\$ 88	\$ (18)	\$ (1)	\$ (57)
Cash provided by (used for) operating activities per share	(0.06)	0.60	(0.12)	(0.01)	(0.39)
Operating working capital	(10)	13	127	(10)	127
Total working capital	19	112	175	19	175
Investment in property, plant and equipment	7	10	8	22	29
Net debt to capitalization, market basis	37%	33%	32%	37%	32%
Net debt to capitalization, book basis	62%	59%	61%	62%	61%

The Company continues to consider various alternatives to further strengthen its liquidity position and conserve cash.

During the third quarter, Norbord concluded an additional \$35 million 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 September 27, 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 \$9 million, and \$235 million of committed unsecured revolving bank lines to support short-term liquidity requirements. At September 27, 2008, \$147 million of the revolving bank lines was unutilized and \$88 million was utilized – \$84 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 \$317 million and net debt to total capitalization, book basis was 62%.

Operating activities consumed \$8 million of cash in the quarter as a result of negative EBITDA and interest paid offset by a decreased investment in operating working capital. Operating working capital decreased as a result of additional proceeds received from the accounts receivable securitization facility offset by a payment related to the antitrust litigation settlement. In the prior quarter, operating activities generated \$88 million of cash, the majority of which related to the receipt of \$85 million of income tax refunds. Year-to-date operating activities consumed \$1 million of cash compared to \$57 million in the same period of 2007. The increase in operating cash flows period-over-period was principally due to a strategic decrease in the investment in operating working capital, the receipt of income tax refunds and proceeds received on account of the accounts receivable securitization facility, offset by both decreased earnings and a payment related to the antitrust litigation settlement.

Operating working capital, consisting of accounts receivable and inventory less accounts payable and accrued liabilities was negative \$10 million at period end compared to positive \$13 million at June 28, 2008 and \$127 million at the end of the third quarter of 2007. At period end, accounts receivable was \$56



million which represents a decrease of \$45 million over the second quarter and a decrease of \$139 million over the third quarter in 2007 primarily due to accounts receivable sold under the securitization program. Proceeds of \$50 million were received in fourth quarter of 2007 and an additional \$35 million in the third quarter of 2008. Despite the current economic environment, Norbord's accounts receivable metrics remain in line with prior periods. Partially offsetting the decrease in accounts receivable, is a reduction in accounts payable and accrued liabilities following a payment of \$17 million for the antitrust litigation settlement in the third quarter.

Total working capital at September 27, 2008 was \$19 million which included \$9 million in cash and cash equivalents and \$20 million of tax receivable. Total working capital was \$112 million in the second quarter of 2008 and \$175 million in the third quarter of 2007. The decrease in total working capital relative to the comparable prior periods was due primarily to the decrease in operating working capital, the receipt of income tax refunds and the decrease in cash and cash equivalents used to pay down debt facilities.

Dividends of \$14 million were declared in the quarter of which \$9 million was paid in cash and \$5 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 gain of \$20 million in the third quarter and \$5 million year to date on its matured net investment hedges. The realized gain was offset by an unrealized loss on the net investments being hedged.

Norbord's net debt stood at \$515 million at period end, representing 37% of capitalization on a market basis and 62% 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, subject to financial market conditions.

## **INVESTMENTS AND DIVESTITURES**

### **Investment in Property, Plant and Equipment**

Investment in property, plant and equipment was \$22 million year-to-date (third quarter - \$7 million). Approximately \$12 million of the \$22 million invested related to capital investments for advanced air emission controls in compliance with US Environmental Protection Agency MACT (Maximum Achievable Control Technology) standards. Norbord's 2008 investment in property, plant and equipment has been limited to \$30 million to reflect market conditions. In 2009, the Company expects to limit capital investments to \$25 million. Capital investments are 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. The majority of the provision has been paid. 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 October 23, 2008, there were 150.6 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

As at October 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

## 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 settlement agreements with the certified classes of direct and indirect 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 agreements, which are 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 was made on July 25, 2008 and the remainder is due on or before October 24, 2008. Norbord also has paid \$2 million into an escrow account for the benefit of members of the indirect purchaser classes.

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. The Court has set a deadline of November 3, 2008 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.

**SELECTED QUARTERLY INFORMATION**

	2008			2007				2006
	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr
<i>(US\$ millions, except per share information, unless otherwise noted)</i>								
Cash provided by (used for) operating activities	(8)	88	(81)	72	(18)	11	(50)	54
Cash provided by (used for) operating activities per share	(0.06)	0.60	(0.55)	0.49	(0.12)	0.07	(0.34)	0.37
Return on capital employed (ROCE)	(4)%	0%	(9)%	(3)%	11%	6%	2%	8%
Return on equity (ROE)	(28)%	(50)%	(37)%	(14)%	(1)%	(15)%	(15)%	(1)%
Net Sales	256	262	234	263	292	288	261	259
EBITDA	(9)	1	(24)	(9)	30	17	4	22
Earnings	(18)	(37)	(31)	(13)	(1)	(15)	(16)	(1)
Earnings per share								
Basic	(0.12)	(0.25)	(0.21)	(0.09)	0.00	(0.11)	(0.11)	0.00
Diluted	(0.12)	(0.25)	(0.21)	(0.09)	0.00	(0.11)	(0.11)	(0.01)
OSB shipments (MMsf 3/8")	1,124	1,114	959	1,130	1,060	1,161	1,112	1,083
Average OSB price – North Central (\$/Msf 7/16")	201	179	137	165	177	156	145	166
Average OSB price – South East (\$/Msf 7/16")	158	155	121	132	149	153	138	141
Average OSB price – Europe (€/m <sup>3</sup> )	196	210	220	234	246	249	234	219

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 Norbord's 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 12 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 13 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 September 27, 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, income tax, depreciation and amortization, provision for non-core operation and litigation settlement. 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)	3 <sup>rd</sup> Qtr 2008	2 <sup>nd</sup> Qtr 2008	3 <sup>rd</sup> Qtr 2007	9 mos 2008	9 mos 2007
Earnings	\$ (18)	\$ (37)	\$ (1)	\$ (86)	\$ (32)
Add: Provision for non-core operation	-	-	-	4	-
Add: Litigation settlement	-	32	-	32	-
Add: Interest expense	11	11	13	37	36
Less: Interest and other income	-	(2)	-	(3)	(4)
Add: Income tax	(20)	(21)	(1)	(71)	(19)
Add: Depreciation	18	18	19	55	70
<b>EBITDA</b>	<b>\$ (9)</b>	<b>\$ 1</b>	<b>\$ 30</b>	<b>\$ (32)</b>	<b>\$ 51</b>

**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.

(US\$ millions)	Sep 27 2008	Jun 28 2008	Dec 31 2007	Sep 29 2007
Accounts receivable	\$ 56	\$ 101	\$ 83	\$ 195
Inventory	111	133	131	125
Accounts payable and accrued liabilities	(177)	(221)	(191)	(193)
<b>Operating working capital</b>	<b>(10)</b>	<b>\$ 13</b>	<b>\$ 23</b>	<b>\$ 127</b>

**Total working capital** is operating working capital plus cash and cash equivalents and tax receivable.

(US\$ millions)	Sep 27 2008	Jun 28 2008	Dec 31 2007	Sep 29 2007
Operating working capital	\$ (10)	\$ 13	\$ 23	\$ 127
Cash and cash equivalents	9	83	128	48
Tax receivable	20	16	89	-
<b>Total working capital</b>	<b>19</b>	<b>\$ 112</b>	<b>\$ 240</b>	<b>\$ 175</b>



**Capital employed** is the sum of property, plant and equipment, operating working capital, tax receivable, 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)	Sep 27 2008	Jun 28 2008	Dec 31 2007
Property, plant and equipment	\$ 924	\$ 956	\$ 968
Accounts receivable	56	101	83
Tax receivable	20	16	89
Inventory	111	133	131
Accounts payable and accrued liabilities	(177)	(221)	(191)
Other assets	7	5	5
Unrealized net investment hedge loss <sup>(1)</sup>	(2)	(9)	(8)
<b>Capital employed</b>	<b>\$ 939</b>	<b>\$ 981</b>	<b>\$ 1,077</b>

(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)	Sep 27 2008	Jun 28 2008	Dec 31 2007
Long-term debt, principal value	\$ 599	\$ 667	\$ 478
Less: Drawings under term debt facility <sup>(1)</sup>	(75)	(75)	-
Current portion of long-term debt	-	-	197
Cash and cash equivalents	(9)	(83)	(128)
<b>Net debt</b>	<b>\$ 515</b>	<b>\$ 509</b>	<b>\$ 547</b>

(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 \$317 million.

(US\$ millions)	Sep 27 2008	Dec 31 2007
Shareholders equity	\$ 242	\$ 360
Plus: Drawings under term debt facility <sup>(1)</sup>	75	-
Tangible net worth	\$ 317	\$ 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 62%.

**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," "expects," "expected," "forecast," "estimate," "estimates," "estimated," "likely," "may" 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)	3 <sup>rd</sup> Qtr		9 mos	
(US \$ millions, except per share information)	2008	2007	2008	2007
Net sales	\$ 256	\$ 292	\$ 752	\$ 841
Earnings before interest, income tax, depreciation, provision for non-core operation and litigation settlement	(9)	30	(32)	51
Litigation settlement <i>(note 14)</i>	-	-	(32)	-
Provision for non-core operation <i>(note 9)</i>	-	-	(4)	-
Interest and other income	-	-	3	4
Interest expense	(11)	(13)	(37)	(36)
Earnings before income tax and depreciation	(20)	17	(102)	19
Depreciation	(18)	(19)	(55)	(70)
Income tax	20	1	71	19
Earnings	\$ (18)	\$ (1)	\$ (86)	\$ (32)
Earnings per common share <i>(note 8)</i>				
- Basic	\$ (0.12)	\$ 0.00	\$ (0.58)	\$ (0.22)
- Diluted	\$ (0.12)	\$ 0.00	\$ (0.58)	\$ (0.22)

(See accompanying notes)



**NORBORD INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited)	3 <sup>rd</sup> Qtr	3 <sup>rd</sup> Qtr	9 mos	9 mos
(US \$ millions)	2008	2007	2008	2007
<b>CASH PROVIDED BY (USED FOR):</b>				
<b>Operating Activities</b>				
Earnings	\$ (18)	\$ (1)	\$ (86)	\$ (32)
Items not affecting cash:				
Depreciation	18	19	55	70
Future income taxes	(16)	3	(59)	(16)
Other items	(5)	(2)	(6)	-
	(21)	19	(96)	22
Net change in non-cash working capital balances	13	(37)	95	(79)
	(8)	(18)	(1)	(57)
<b>Investing Activities</b>				
Investment in property, plant and equipment	(7)	(8)	(22)	(29)
Other <i>(note 10)</i>	18	(1)	5	(20)
	11	(9)	(17)	(49)
<b>Financing Activities</b>				
Repurchase of 8 1/8% debentures <i>(note 5)</i>	-	-	(197)	-
Drawings under term debt facility <i>(note 5)</i>	-	-	75	-
Issue of senior notes <i>(note 5)</i>	-	-	-	198
Other debt incurred/(repaid) <i>(note 5)</i>	(68)	-	46	(40)
Dividends	(9)	(8)	(25)	(24)
	(77)	(8)	(101)	134
Increase (decrease) in cash and cash equivalents	(74)	(35)	(119)	28
Cash and cash equivalents, beginning of period	\$ 83	\$ 83	\$ 128	\$ 20
Cash and cash equivalents, end of period <i>(note 10)</i>	\$ 9	\$ 48	\$ 9	\$ 48

(See accompanying notes)



**NORBORD INC.  
CONSOLIDATED BALANCE SHEETS**

(US \$ millions)	Sep 27 2008	Dec 31 2007
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 9	\$ 128
Accounts receivable <i>(note 3)</i>	56	83
Tax receivable	20	89
Inventory <i>(note 4)</i>	111	131
	<u>196</u>	<u>431</u>
Property, plant and equipment (net)	924	968
Other assets	7	5
	<u>\$ 1,127</u>	<u>\$ 1,404</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities <i>(note 14)</i>	\$ 177	\$ 191
Current portion of long-term debt <i>(note 5)</i>	-	199
	<u>177</u>	<u>390</u>
Long-term debt <i>(note 5)</i>	602	480
Other liabilities <i>(note 6)</i>	14	18
Future income taxes	92	156
Shareholders' equity <i>(note 7)</i>	242	360
	<u>\$ 1,127</u>	<u>\$ 1,404</u>

(See accompanying notes)



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

(unaudited)

(US \$ millions)

	3 <sup>rd</sup> Qtr 2008	3 <sup>rd</sup> Qtr 2007	9 mos 2008	9 mos 2007
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**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

**Share Capital**

Balance at beginning of period	\$ 163	\$ 137	\$ 150	\$ 127
Dividend reinvestment plan <i>(note 7)</i>	5	6	18	16
Balance at end of period	\$ 168	\$ 143	\$ 168	\$ 143

**Contributed Surplus**

Balance at beginning of period	\$ 2	\$ 1	\$ 1	\$ -
Stock-based compensation	-	1	1	2
Balance at end of period	\$ 2	\$ 2	\$ 2	\$ 2

**Retained Earnings**

Balance at beginning of period	\$ 107	\$ 248	\$ 205	\$ 305
Adoption of new accounting recommendations <i>(note 2)</i>	-	-	(1)	-
Adjusted balance at beginning of period	107	248	204	305
Earnings	(18)	(1)	(86)	(32)
Common share dividends	(14)	(14)	(43)	(40)
Balance at end of period	\$ 75	\$ 233	\$ 75	\$ 233

**Accumulated Other Comprehensive Income (Loss)**

Balance at beginning of period	\$ 2	\$ 3	\$ 4	\$ 2
Other comprehensive income (loss)	(5)	4	(7)	5
Balance at end of period	\$ (3)	\$ 7	\$ (3)	\$ 7

Shareholders' equity

\$ 242    \$ 385    \$ 242    \$ 385

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)**

Earnings	\$ (18)	\$ (1)	\$ (86)	\$ (32)
Other comprehensive income (loss)				
Net change in unrealized cumulative translation gains	(5)	4	(7)	5
Other comprehensive income (loss)	\$ (5)	\$ 4	\$ (7)	\$ 5
Comprehensive income (loss)	\$ (23)	\$ 3	\$ (93)	\$ (27)

(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 12).

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 13).

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 – Accounts Receivable**

In the third quarter of 2008, the accounts receivable securitization program limit was increased by \$35 million to \$85 million through the addition of a second highly-rated financial institution. At period end, Norbord recorded cash proceeds of \$81 million and a deferred purchase price of \$35 million under this program.

The securitization program is subject to the following financial covenants 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%. At period end, the Company's tangible net worth was \$317 million and net debt to total capitalization, book basis, was 62%. In addition, the program contains trade accounts receivable portfolio performance covenants and standard reporting requirements. The program is not subject to any credit-rating requirements.

**Note 4 – Inventory**

Inventory is comprised of:

(US\$ millions)	Sep 27 2008	Dec 31 2007
Raw materials	\$ 24	\$ 40
Finished goods	56	59
Operating and maintenance supplies	31	32
	<b>\$ 111</b>	<b>\$ 131</b>

The amount of inventory recognized as an expense during the quarter was \$269 million (nine month period – \$795 million) which includes \$17 million (nine month period – \$54 million) of depreciation expense on property, plant & equipment. The provision to reflect inventories at the lower of cost and net realizable value was \$1 million at period end.

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**Note 5 – Long-Term Debt**

(US\$ millions)	Book Value			
	Principal Value	Fair Value Adjustments	Sep 27 2008	Dec 31 2007
8 1/8% debentures due 2008	\$ -	\$ -	\$ -	\$ 197
7 1/4% debentures due 2012	240	6	246	247
Senior notes due 2017	200	(3)	197	197
Term debt facility	75	-	75	-
Other debt	84	-	84	38
	599	3	602	679
Less current portion of long-term debt	-	-	-	(199)
	\$ 599	\$ 3	\$ 602	\$ 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.

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.

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 12). At period end, \$147 million of these lines were unutilized, with \$84 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. As at September 27, 2008, the rate was 7.45%.

The Company had \$115 million (December 31, 2007 – \$362 million) of interest rate swaps outstanding at period end. The terms of these swaps correspond to the terms of the underlying hedged debt.

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**Note 6 – Other Liabilities**

(US\$ millions)	Sep 27 2008	Dec 31 2007
Unrealized net investment hedge losses <i>(note 13)</i>	\$ 2	\$ 8
Accrued pension and post-retirement benefits	4	3
Unrealized interest rate swap losses <i>(note 13)</i>	2	3
Other liabilities	6	4
	<b>\$ 14</b>	<b>\$ 18</b>

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

**Note 7 – Shareholders' Equity**

In the first quarter, 1.0 million options were granted under the stock option plan. For the nine months ended September 27, 2008, \$1 million related to stock-based compensation was expensed.

For the nine months ended September 27, 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, 1.1 million common shares (nine month period – 3.7 million) were issued in lieu of cash dividends of \$5 million (nine month period – \$18 million) under the Company's dividend reinvestment plan.

**Note 8 – Earnings per Common Share**

Earnings per common share are calculated as follows:

(US\$ millions, except per share information, unless otherwise noted)	3rd Qtr 2008	3rd Qtr 2007	9 mos 2008	9 mos 2007
Earnings available to common shareholders	\$ (18)	\$ (1)	\$ (86)	\$ (32)
Common shares (millions):				
Weighted average number of common shares outstanding	149.5	145.2	148.3	144.5
Stock options	-	-	-	-
Diluted number of common shares	<b>149.5</b>	<b>145.2</b>	<b>148.3</b>	<b>144.5</b>
Earnings per common share:				
Basic	\$ (0.12)	\$ 0.00	\$ (0.58)	\$ (0.22)
Diluted	<b>\$ (0.12)</b>	<b>\$ 0.00</b>	<b>\$ (0.58)</b>	<b>\$ (0.22)</b>

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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 9 – 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. The majority of the provision has been paid.

**Note 10 – Supplemental Cash Flow Information**

Other investing activities comprises:

(US\$ millions)	3 <sup>rd</sup> Qtr 2008	3 <sup>rd</sup> Qtr 2007	9 mos 2008	9 mos 2007
Cash provided by (used for):				
Recouping payment, net	\$ -	\$ -	\$ -	\$ (17)
Realized net investment hedge gains (losses) <i>(note 13)</i>	20	(1)	5	(2)
Other	(2)	-	-	(1)
	\$ 18	\$ (1)	\$ 5	\$ (20)

Cash and cash equivalents comprises:

(US\$ millions)	Sep 27 2008	Sep 29 2007
Cash	\$ 6	\$ 18
Cash equivalents	3	30
	\$ 9	\$ 48

**Note 11 – 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.

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In January 2008, the Company concluded a \$100 million unsecured term debt facility with its major shareholder (note 5).

**Note 12 – 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, subject to financial market conditions. 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)	Sep 27 2008	Dec 31 2007
Long-term debt, principal value	\$ 599	\$ 478
Add: Current portion of long-term debt	-	197
Less: Drawings under term debt facility <sup>(1)</sup>	(75)	-
Cash and cash equivalents	(9)	(128)
<b>Net debt</b>	<b>515</b>	<b>547</b>
Shareholders equity	242	360
Plus: Drawings under term debt facility <sup>(1)</sup>	75	-
<b>Tangible net worth</b>	<b>317</b>	<b>360</b>
<b>Total capitalization</b>	<b>832</b>	<b>907</b>
Net debt to capitalization, book basis	62%	60%
Net debt to capitalization, market basis	37%	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 \$317 million and net debt to total capitalization, book basis was 62%.

**Note 13 – 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. 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.

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*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 October 23, 2008, Norbord has hedged approximately 80% 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 55% 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, \$8 million of gains were deferred and included in the carrying value of long-term debt in the consolidated balance sheet. Amortization of \$1 million (nine month period – \$3 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.

Norbord operates in a cyclical commodity business. 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. At period end, the key performance metrics on the Company's accounts receivable are in line with prior periods.

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 \$81 million and a deferred purchase price of \$35 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 \$9 million of cash and cash equivalents, \$147 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	813	43	231	287	252

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
<b>Financial Assets:</b>		
Cash and cash equivalents	\$ 9	\$ 9
Accounts receivable	56	56
Tax receivable	20	20
	\$ 85	\$ 85
<b>Financial Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 177	\$ 177
Long-term debt	602	485
	\$ 779	\$ 662

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 <sup>(1)</sup>	Realized gain/(loss) year-to-date	Sensitivity to 1% change
<b>Currency hedges:</b>				
Net investment				
UK	£97	1	3	1
Belgium	€82	(4)	2	1
Monetary liabilities	CAD \$26	1	-	-
<b>Interest rate hedges:</b>				
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.

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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.

**Note 14 – Commitments and Contingencies**

**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 settlement agreements with the certified classes of direct and indirect 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 agreements, which are 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 was made on July 25, 2008 and the remainder is due on or before October 24, 2008. Norbord also has paid \$2 million into an escrow account for the benefit of members of the indirect purchaser classes.

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. The Court has set a deadline of November 3, 2008 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 15 – Geographic Segments**

The Company has a single reportable business 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)

<b>3<sup>rd</sup> Qtr 2008</b>	<b>North America</b>		<b>Europe</b>		<b>Unallocated</b>		<b>Total</b>	
Net sales	\$	158	\$	98	\$	-	\$	256
EBITDA <sup>(1)</sup>		(2)		(5)		(2)		(9)
Depreciation		11		6		1		18
Property, plant and equipment		686		235		3		924
Investment in property, plant and equipment		5		2		-		7
<b>3<sup>rd</sup> Qtr 2007</b>								
Net sales	\$	154	\$	138	\$	-	\$	292
EBITDA <sup>(1)</sup>		3		29		(2)		30
Depreciation		9		9		1		19
Property, plant and equipment		701		276		4		981
Investment in property, plant and equipment		3		5		-		8
<b>9 mos 2008</b>								
Net sales	\$	424	\$	328	\$	-	\$	752
EBITDA <sup>(1)</sup>		(32)		8		(8)		(32)
Depreciation		33		21		1		55
Property, plant and equipment		686		235		3		924
Investment in property, plant and equipment		20		2		-		22
<b>9 mos 2007</b>								
Net sales	\$	444	\$	397	\$	-	\$	841
EBITDA <sup>(1)</sup>		(7)		73		(15)		51
Depreciation		42		27		1		70
Property, plant and equipment		701		276		4		981
Investment in property, plant and equipment		18		11		-		29

(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.