NORBORD INC.
Q3 2009 CONFERENCE CALL
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CORRECTED TRANSCRIPT

OPERATOR
Good day everyone. Welcome to Norbord, Inc's 2009 Third Quarter Earnings Conference Call. As a reminder, today's call is being recorded and webcast on Norbord's website at 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 discussion and analysis dated April 28, 2009.

And, now, I will turn the call over to Barrie Shineton, President and Chief Executive Officer. Please go ahead, sir.

J. BARRIE SHINETON, PRESIDENT AND CHIEF EXECUTIVE OFFICER
Thank you, Michelle. Good morning and welcome to Norbord's conference call. I have Robin Lampard, our CFO and Anita Veel, our Director of Corporate and Regulatory Affairs here around the table. Robin will walk you through the details for quarter three and after that, I'll wrap up with our outlook. And then, we'll open up the lines for your questions.

From my perspective, it was a very pretty straight forward quarter for us. So we're going to get right to the numbers and I'll be back at the end of Robin's remarks, to talk about our quarter four outlook. Robin?

ROBIN E. LAMPARD, SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER
Thanks, Barrie. Let's start with the markets today. As you know the seasonal OSB price improvement normally experienced in the second quarter was delayed until Q3 this year. North-Central OSB benchmark prices peaked at $191 and averaged $178 in the third quarter. This average price represents a $32 improvement quarter-over-quarter, but is $23 lower than last year. Benchmark prices in the Southeast averaged $157 in the third quarter compared to $140 in the second and $150 in the third quarter of last year.

In addition to the seasonal improvement, prices in the quarter were supported by the $8,000 tax credit incentive for first time home buyers in the U.S. This tax credit ends on December 1 and industry efforts are underway to have this stimulus extended or replaced with new housing incentives.

Industry-wide, the APA reported that North American OSB industry operated at around 60% of capacity in the third quarter. We ran our mills at about 65% of capacity, curtailing 310 days of production in the third quarter – a marginally lower level of curtailment than we took in Q2.

You read the same reports that we do. They peg 2010 housing start forecasts between 0.6 and 0.9 million units. These forecasts suggest an average improvement of 30% over 2009's record low levels.

Turning to Europe, where there were several encouraging developments during the third quarter.

First investment buyers re-entered the UK housing market and housing prices have stabilized. However, industry experts continue to caution that improved mortgage availability for first time buyers is still needed for a more robust housing market recovery to take hold.

Second, we were pleasantly surprised by the growth in the "do-it-yourself" or DIY business segment in the quarter. This segment has held up well over the past year and Norbord's European operations benefit from their strong market position and established relationships with leading DIY retailers.

And finally, the weaker pound relative to the euro continued to provide a significant advantage for UK-based manufacturers again this quarter. We believe this currency advantage will continue to have a positive impact on Norbord's business as it creates greater sales opportunities in the UK and allows us to expand our exports into Continental Europe.

Pricing for all three of Norbord's European products, OSB, MDF and particleboard was unchanged quarter-over-quarter. We continued to curtail about 25% of our European capacity in Q3.

Overall, we generated a positive EBITDA of $10 million in the third quarter, a $19 million improvement over the same quarter last year and $12 million better than the prior quarter. And more importantly, positive EBITDA was recorded in both our North American and European operations for the first time in two years.

EBITDA from our North American OSB operations improved $16 million from a loss of $6 million in Q2 to positive $10 million in Q3. This improvement is due to seasonally higher OSB benchmark prices and shipment volumes, improved key input usages and lower overhead costs.

In the third quarter, Norbord's North American per unit OSB costs were down 3% from the prior quarter due to higher production volume, improved key input usages and lower supplies, maintenance and overhead costs.

Our European operations recorded positive EBITDA of $5 million this quarter, up from $4 million in the prior quarter. Overhead cost reduction initiatives in Europe and improved key input usages more than offset the negative impact of lower shipment volumes. Prices for Norbord's European products were flat versus the prior quarter.

Lower global energy prices provided significant input cost relief to our operations in both North America and Europe in the first half of this year, saving us $40 million year-to-date versus last year. As we told you last quarter, the lower resin, fibre and energy prices are welcome, however we believe input prices have bottomed. Prices were flat quarter-over-quarter and we expect them to remain near current levels for the foreseeable future.

Positive EBITDA of $10 million and a $13 million decrease in non-cash working capital more than covered our interest expense in the quarter resulting in $15 million of cash generated from operating activities.

Operating working capital was negative $19 million at quarter end, compared to negative $5 million in the second quarter and negative $10 million in the third quarter of 2008. The $14 million quarter-over-quarter working capital improvement was due to the seasonal decrease in log inventory, which more than offset bond coupon payments and a repayment of proceeds under the accounts receivable securitization program. Norbord's accounts receivable performance metrics remain inline with prior periods.

At quarter end, Norbord had available liquidity of $229 million, consisting of cash, unused revolving bank lines, and the Brookfield debt facility. The Company's tangible net worth was $344 million and net debt to total capitalization (book basis) was 58%, leaving headroom versus our bank covenants.

Capital investments totaled $3 million in the third quarter and $11 million year-to-date. Our 2009 CapEx program will be constrained to $15 million. And we are prepared to hold CapEx to this level again in 2010, or even reduce it further, depending on our cash position.

And with that, I will turn the call back over to Barrie.

J. BARRIE SHINETON, PRESIDENT AND CHIEF EXECUTIVE OFFICER
Thanks, Robin. I'd like to touch briefly on the share consolidation before I get to my outlook comments. On October 16th, Norbord implemented a One-For-Ten Share Consolidation and our shares are now trading on the TSX on a post-consolidated basis.

The rationale for the share consolidation was outlined in detail in the management proxy circular but to summarize, the biggest driver was in our view that a higher share price will attract additional institutional investment interest and improve trading liquidity.

Turning now to our business outlook.

Overall I believe Norbord's business is better positioned today heading into 2010 than we were at this time last year. In North America, we expect housing starts to continue to improve throughout next year. OSB inventory levels are extremely low, both at mills and throughout the entire supply chain. Big box sales are holding up better than we expected. And you'll recall that this is a key customer segment for Norbord. And the costs associated with our mill closures and the indefinite curtailments are behind us.

In Europe, we believe the pound will stay weak relative to the euro for some time and that's an advantage for our UK based panel business. Our European management team has delivered a significant step change in controllable fixed costs and overhead costs and we will see these benefits flow through in 2010. We continue to be pleasantly surprised by the cash our South Molton operation generates. They supply flat pack kitchen cabinets to the DIY customer segment that Robin spoke about earlier.

There are always uncertainties of course and that can change our outlook. In our business, I'm mostly referring to energy and resin costs and the impact of wood costs of all the potential biomass initiatives and government support programs that are underway in North America.

We still don't think a robust housing recovery is in the cards for 2010, either in North America or Europe. But we absolutely believe there are sound underlying housing demographics that will support an eventual strong recovery. We're watching unemployment levels and credit availability closely as we think these will be key indicators of a meaningful housing market improvement.

We still plan for a business recovery to take place in 2011. And in the meantime, Norbord continues to take proactive steps to stabilize and improve its balance sheet. And we continue to surprise ourselves by finding new opportunities to improve operating efficiencies and costs.

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

Q&A

Operator
Thank you. [Operator Instructions]. Your first question comes from Sean Steuart from TD Newcrest. Please go ahead.

<Q - Sean Steuart>: Thank you, good morning everyone. Barrie, Just a couple of questions more big picture on the industry. Just wanting to get your thoughts on idle North American OSB capacity and may be if demand does pick up a little bit faster than you are expecting. Just your thoughts on, I guess how flat the cost curve is and how much or how fast some of that idle capacity can come back online and at what price you might think that could be an issue?

<A - J. Barrie Shineton, President and Chief Executive Officer>: I suspect you know the answers to all of those questions, Sean, already. But we look at APA stats, we think they are pretty accurate, if you want to do some work on them. And about 60% of the industry's capacity ran in the past quarter. On the cost curve question, it's flat and I think it's pretty clear from our perspective that all the higher cost capacity has been curtailed or closed. And at those kind of curtailment levels I think a lot of the capacity could come on fairly quickly if the owners of that capacity have the will to do that. There are certainly issues around recruiting employees and seasonal logging issues that would make the decision complicated for some companies depending on the geographic location but the capacity is certainly sitting there.

<Q - Sean Steuart>: Yeah, my thinking was more around how fast it would be to get employees back in place to restart some of that?

<A - J. Barrie Shineton, President and Chief Executive Officer>: Yes, six months for our mills is the kind of timeframe we talk about.

<Q - Sean Steuart>: Okay.

<A - J. Barrie Shineton, President and Chief Executive Officer>: Internally in our organization.

<Q - Sean Steuart>: Okay. And my second question was around industry consolidation potential. You have often talked in the past, I guess with potential sponsorship of your parent participating in that, lots of speculation just wondering if, from your perspective, Norbord would still be an active participant in making that happen and additional thoughts on consolidation trends?

<A - J. Barrie Shineton, President and Chief Executive Officer>: I think we've always said Sean that we're interested in growing our business and I think we've said that our major shareholder would support us in that endeavor. And I guess to answer your careful question maybe more directly, I think everybody knows Grant's assets are in CCAA and are in a monitored sales process. So, consolidation is going to likely happen.

<Q - Sean Steuart>: Okay. And then just finally Barrie, the do-it-yourself market in Europe, just the relative strength there, any thoughts on what's driving that in a bit more detail?

<A - J. Barrie Shineton, President and Chief Executive Officer>: In our particular case and speaking specifically about Europe the biggest part of our business into the DIY market is this flat-pack kitchen business. And there have been failures of large competitors in the UK in the past year and that certainly helped our customer base win fairly significant market shares of that business and of course as a supplier to those customers, we benefited from that.

<Q - Sean Steuart>: Okay. That's all I had. Thanks, Barrie.

<A - J. Barrie Shineton, President and Chief Executive Officer>: Thanks, Sean.

Operator
Thank you. Your next question comes from Michael Boam from BlueBay. Please go ahead.

<Q>: Hi, two questions if I can please. Firstly with respect to the tax rebates, have you now received everything that you expect to receive, there is nothing left in your receivables balances?

<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>: Michael it's Robin speaking. We do still have $6 million on our balance sheet in tax receivable and so that's the extent of it that we would be expecting to receive in bits and pieces over the next year or so. But there is nothing meaningful coming on the tax refund side unless the loss carry-back periods in the U.S. are ever changed which I think as I said on the last quarter's call, I don't view that as likely at this point.

<Q>: Okay. And secondly, I mean I'll go back to the question I asked on the last call on your working capital balance. You again have managed to extract cash from that. And effectively your payables are now greater than your receivables or inventory. I mean is this a position that's likely to persist for a period of time or is it just some lumpy payments in those payables that are the reason for that, if you like anomaly to exist. It's not how the business has been funded historically if you like?

<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>: A couple of things that I'll just point out, Michael. The first is that we have securitized a portion of our receivables.

<Q>: Yes.

<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>: So that's why you would see that receivables balance lower than it would have been historically for us. And that's probably why you see the working capital being negative. And then we talked last quarter about the seasonality in our working capital and the general trend is that we build working capital in the first quarter of every year and that's partly due to seasonal logging practices in our northern mills.

And the other big seasonal driver is the coupon payments on our bonds. We pay those in the first and third quarter. So we see the payables balance fluctuating correspondingly between the quarters because of those payments. So those are the big seasonal drivers. We build working capital in the first quarter and it reverses over the next three and that trend is intact, it hasn't changed and I would expect it to continue. But recognizing that we were running 65% of our capacity in North America and 75% in Europe obviously our working capital is correspondingly lower because we're not running at full capacity.

<Q>: Yes. I'm sorry just one other question, your comments regarding your raw material cost. I guess I am sort of surprised, they have been – I mean you said third quarter was flat on second quarter and you expect things to continue to be flat. Obviously, for example oil prices moved up fairly aggressively since the start of the year I'm not saying that oil is direct raw material for resins but I'm just surprised there is no sort of cost inflation whatsoever?

<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>: No, we haven't seen it. As I said input prices were absolutely flat quarter-over-quarter. And we don't expect to see the volatility and the pressure that we saw last year.

<Q>: Okay.

<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>: But as I said, we've been clear, this is as low as we think they'll go.

<Q>: Yes I know, okay. Thank you very much for your time. Thank you.

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

OPERATOR
Thank you. [Operator Instructions]. Mr. Shineton, there are no further questions. At this time, I will turn the conference back to you.

J. BARRIE SHINETON, PRESIDENT AND CHIEF EXECUTIVE OFFICER
Well thanks very much Michelle. As always, Robin and Anita are available to respond to any questions you have and you can always call me if you need to. Thanks for participating today and we look forward to updating you on our progress when we talk again in January. Thanks. Goodbye.

OPERATOR
Ladies and gentlemen, this does conclude the conference call for today. You may now disconnect your line and have a great day.