



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

October 24, 2007

Dear Norbord Shareholder,

Norbord delivered EBITDA of \$30 million, a significant increase over EBITDA of \$17 million last quarter. This achievement is the direct result of positive contributions from our European operations. Our North American operations also generated positive EBITDA during the quarter, due to our low cost position and oriented strand board (OSB) price improvements.

We maintain our view that OSB is the industry's best growth opportunity. Without question, the North American OSB industry is facing a period of prolonged weakness due to the combination of much lower US housing starts, tighter mortgage lending conditions and the addition of new OSB capacity to the market. Still, we believe the long term fundamentals that support North American housing and OSB demand remain positive.

Specifically, housing fundamentals – immigration, two-home ownership rates and increased panel intensity - continue to support OSB growth. Housing starts will recover when the unsold inventory of new and used homes returns to more normalized levels. In addition, OSB is a low cost substitute for plywood and will continue to take market share. We expect this substitution, along with the other positive fundamentals will ultimately result in better demand and prices for OSB.

We believe our strategy is effective and it will remain consistent throughout the business cycle:

*Grow OSB business* – the ramp up of our new line at Cordele, Georgia is progressing very well and this investment represents a unique opportunity for Norbord to grow its lowest-cost capacity.

*Own low cost assets* – Norbord's capital expenditures are directed to projects that improve productivity and lower costs.

*Maintain margin improvement culture* – our Margin Improvement Program (MIP) improves product mix, increases production and reduces costs. MIP is ingrained in Norbord's culture and has delivered \$185 million in savings over the past five years.

*Focus on growth customers* – Norbord's sales strategy targets customers who are growing their own market share. We continue to produce OSB at record levels, and more importantly, we are able to sell all that we produce.

*Allocate capital with discipline* – our disciplined 2007 capital program of \$35 million reflects current market conditions. Capital this year was limited to high-return projects, like our biomass heat-energy projects.



We do not expect near-term relief from housing market pressures in North America. US housing forecasts for 2008 have been revised down again to 1.2 million to 1.4 million. Overcapacity in North America remains an issue with three additional mills expected to ramp up over the next year. We will continue to control our costs, improve our product mix and increase our sales to home centres to improve our competitive position.

In Europe, our strategy of geographic diversification will continue to help offset the decline in North American markets. Our European mills continue to perform well and have delivered EBITDA of \$73 million year-to-date, almost three times their contribution in 2006. Norbord's excellent customer base, first-rate logistics system and competitive cost position will ensure we continue to benefit from strong European markets.

Norbord's business is heavily weighted to OSB – a cyclical commodity. It is important to remember that our business is managed to maximize shareholder returns throughout the cycle.

Our strategy continues to serve us well. Our management team is innovative, motivated and committed. Norbord is very well-positioned to benefit when the housing market recovers.

Thank you for your continuing support.

A handwritten signature in cursive script that reads "Bowie Shingleton".

## **NEWS RELEASE**

### **Norbord Reports Third Quarter 2007 Results**

Note: Financial references in US dollars unless otherwise indicated

#### **HIGHLIGHTS**

- **Improved EBITDA to \$30 million**
- **Recorded ROCE of 35% at European operations**
- **Generated positive EBITDA from North American operations**
- **Increased banking facilities by \$35 million**
- **Re-certified mills at Cordele, Georgia and Jefferson, Texas as OSHA VPP-Star safety sites**

**TORONTO, ON (October 24, 2007) – Norbord Inc. (TSX:NBD)** today reported EBITDA of \$30 million in the third quarter, a \$13 million increase over EBITDA of \$17 million in the prior quarter. The EBITDA improvement was largely due to strong results from European operations again this quarter and North American OSB price improvements.

Norbord recorded a loss of \$1 million or \$0.00 per share in the third quarter of 2007. This compares favourably to a loss of \$15 million or \$0.11 per share in second quarter of 2007. Improved earnings in the third quarter were due to higher EBITDA and lower depreciation. In the third quarter of 2006, earnings were \$7 million or \$0.05 per share.

“Norbord’s European mills provided important earnings diversification again this quarter, contributing EBITDA of \$29 million and ROCE of 35%,” said Barrie Shingleton, President and CEO.

#### **Market Conditions**

The North Central benchmark price averaged \$177 in the quarter, up \$21 over last quarter. Norbord benefited from higher prices in the quarter, however, the impact was limited by regional price variations. In the South East region, where approximately 55% of Norbord’s North American production capacity is located, prices averaged \$149 in the quarter, down \$4 from the second quarter. US housing start estimates continue to be revised down with industry experts now expecting 2007 starts of 1.3 million to 1.4 million, well below the 1.8 million level experienced in 2006.

In Europe, prices for all Norbord’s major product lines remained strong in the quarter. Year-to-date, European panel prices are up more than 15% with demand being driven by strong economic activity in Eastern Europe.

#### **Performance**

Norbord achieved record OSB production in the third quarter. Total OSB production increased 10% over the same quarter last year as a result of the ramp-up of the new line at Cordele as well as increased production from our other mills.



Norbord's North American per unit OSB cost increase was limited to 1% over the prior quarter despite significantly higher resin prices. Year-to-date, North American OSB per unit production costs are down 1% from the prior year as wood prices, spending on supplies and maintenance, and lower profit share offset higher resin prices. In Europe, wood and resin cost pressures continue to negatively impact manufacturing costs.

Capital investments totaled \$8 million in the quarter and \$29 million year-to-date. For the full year, capital investments are expected to be \$35 million. Net debt to total capitalization was 32% on a market basis.

### **Developments**

Ramp up of the new OSB line at Cordele continues to progress well. Production on the new line reached 100% of design capacity in September and volumes averaged 90% for the full quarter.

Norbord took a total of 7 days of scheduled maintenance OSB downtime in North America during the third quarter. Norbord expects to take approximately 14 days of scheduled OSB downtime in North America in the fourth quarter. In addition, Norbord's OSB mill at Guntown, Mississippi will take an extended shutdown in the first quarter of 2008 to conduct major maintenance on its press line. The shutdown is expected to last 6 to 8 weeks and will reduce Guntown's annual production by approximately 65 mmsf (3/8" basis) in 2008.

Norbord increased its committed bank lines by \$35 million in the third quarter. As a result, Norbord has \$231 million of unused committed liquidity available.

### **Quarterly Dividend**

The Board of Directors declared a quarterly dividend of CAD \$0.10 per common share, payable on December 21, 2007 to shareholders of record on December 1, 2007.

### **Conference Call**

Norbord will hold a conference call for investors on Wednesday, October 24, 2007 at 10:00 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 will be available one hour following the call until November 23, 2007 by dialing 1.888.203.1112. The pass code is 4077016. Audio playback will also be available on the Norbord website.



## **Norbord Profile**

Norbord Inc. is an international producer of wood-based panels with assets of \$1.4 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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*This news release and attached Shareholders Letter contain forward-looking statements, as defined in applicable legislation. The words "forecast," "are expected," "should," "is on track to," "is expected," and other expressions which are predictions of or indicate future events, trends or prospects and which do not relate to historical matters identify forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Norbord to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.*

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

*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, 2007 Annual Information Form and the cautionary statement contained in the "Forward-Looking Statements" section of the 2006 Management's Discussion and Analysis dated January 31, 2007.*



## MANAGEMENT'S DISCUSSION AND ANALYSIS THIRD QUARTER 2007

**October 23, 2007**

*The Management's Discussion and Analysis (MD&A) provides a review of the significant developments that impacted Norbord's performance during the period. Norbord's significant accounting policies and other financial disclosures are contained in the audited annual financial statements and accompanying notes. 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 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 in this MD&A.*

*EBITDA, EBITDA margin, operating working capital, total working capital, capital employed, ROCE, ROE, net debt, net debt to capitalization, book basis, net debt to capitalization, market basis and book value per share are non-GAAP measures described in the Definitions section. Non-GAAP 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. There are no directly comparable GAAP measures to any of these measures. Where appropriate, a quantitative reconciliation of the non-GAAP measure to the nearest comparable GAAP measure is also provided.*

*Additional information on Norbord, including the annual information form and the 2006 annual report, containing the annual MD&A and audited annual financial statements is available on SEDAR at [www.sedar.com](http://www.sedar.com).*

### **Business Overview and Strategy**

Norbord is an international producer of wood-based panels with 15 plant locations in the United States, Europe and Canada. 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 US South. The Company is a significant producer of wood-based panels in Europe. The geographical breakdown of panel production capacity is 60% US, 27% Europe and 13% Canada.

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. Norbord met this target in 2005 and 2006.

Maintaining a strong 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 on attractive terms. At the end of the quarter, the Company believes that it was well positioned with a net debt to capitalization of 32% on a market basis and 61% on a book basis.

### **Summary**

Norbord's strategy of geographic diversification continued to be substantiated as markets for Norbord's European and North American products continued to move in different directions. In Europe, prices for Norbord's products remained at relatively high levels due to strong market conditions, particularly in Eastern Europe. In contrast, North American markets remained challenging. North American OSB prices have retreated from the highs of recent years, reflecting the sharp decline in US housing starts.



In the quarter, Norbord generated \$30 million of EBITDA, versus \$17 million in the previous quarter and \$35 million in the third quarter of 2006. Year-to-date, \$51 million of EBITDA was generated, versus \$225 million in the prior year. Notable in this third quarter result is the contribution from European operations at \$29 million, up from \$26 million and \$13 million in the second quarter of 2007 and third quarter of 2006, respectively. Year-to-date, European operations contributed \$73 million, up from \$25 million in the same period of 2006.

The Company recorded a loss of \$1 million in the third quarter of 2007 or \$0.00 per share compared to a loss of \$15 million or \$0.11 per share in the second quarter of 2007. Improved earnings in the quarter were due to higher third quarter EBITDA and lower depreciation expense, as Norbord's estimate of the useful life of its OSB assets was revised during the quarter.

Net sales in the quarter were \$292 million, compared to \$288 million and \$291 million in the second quarter of 2007 and third quarter of 2006 respectively. Year-to-date, net sales were \$841 million compared to \$993 million in 2006. The increase in European net sales, driven by higher pricing and shipment volumes, was offset by lower net sales in North America. In North America, the benefit on net sales of higher OSB shipment volumes was more than offset by lower North American OSB prices.

While weak North American OSB pricing is expected in the near term, the long term fundamentals supporting North American housing and OSB demand continue to be favourable. Management continues to believe that OSB is the best growth product in the forest products industry.

## Results of Operations

	3 <sup>rd</sup> Qtr 2007	2 <sup>nd</sup> Qtr 2007	3 <sup>rd</sup> Qtr 2006	9 mos 2007	9 mos 2006
<small>(US\$ millions, except per share information, unless otherwise noted)</small>					
Return on capital employed (ROCE)	11%	6%	15%	7%	30%
Return on equity (ROE)	(1)%	(15)%	6%	(10)%	27%
Earnings per share – diluted	\$ 0.00	\$ (0.11)	\$ 0.05	\$ (0.22)	\$ 0.68
Net sales	\$ 292	\$ 288	\$ 291	\$ 841	\$ 993
EBITDA	30	17	35	51	225
EBITDA margin	10%	6%	12%	6%	23%
Depreciation	19	27	23	70	70
Capital investments	8	12	39	29	116
<b>Shipments (MMsf 3/8")</b>					
OSB	1,060	1,161	1,076	3,333	3,206
Particleboard <sup>(1)</sup>	162	172	165	503	485
MDF	124	131	127	381	413
Hardwood plywood	19	19	18	58	60
<b>Indicative OSB Prices</b>					
Average OSB price – North Central (\$/Msf 7/16")	177	156	181	159	234
Average OSB price – South East (\$/Msf 7/16")	149	153	181	146	265
Average OSB price – Europe (€/m <sup>3</sup> )	246	249	213	242	204

(1) Excludes particleboard consumed internally (33 MMsf, 36 MMsf, 41 MMsf, 103 MMsf, 141 MMsf for each period, respectively).

In Europe, Norbord's prices for all major products held firm or continued to improve in the third quarter. Year-to-date, Norbord's European panel prices all posted double digit gains with average realized pricing for OSB and MDF up almost 20% and particleboard up almost 15%.



The strengthening market conditions in Europe were partially offset by continued cost pressures for fibre and resin. A number of initiatives have been undertaken to address these cost pressures including the installation of biomass heat energy systems at Genk, Belgium OSB and Cowie, Scotland MDF and the 2006 restructuring of Cowie MDF and South Molton, England particleboard and lamination. Norbord expects that these initiatives will result in higher overall margin contribution from the European mills.

Improved European results provide a timely contribution as North American OSB prices have retreated from the highs of recent years. In the nine-month period, North Central benchmark North American OSB prices averaged \$159 per Msf (7/16 – inch basis) compared to \$234 in the same period of 2006. The decline in North American OSB prices, which began in the second quarter of 2006, is the result of lower housing starts in the US. New home construction is the principal end use for OSB, accounting for about 70% of demand in 2006. North American OSB prices have also been impacted by an increase in production capacity as a number of new mills have come on stream. Relatively weak pricing levels are expected to persist through 2008 as a result of weaker overall demand and the impact of additional capacity.

In the quarter, North Central benchmark OSB prices averaged \$177, up \$21 over the second quarter. Norbord benefited from higher prices in the quarter, however, the impact was limited by regional pricing variations. In the South East region, where approximately 55% of Norbord's North American capacity is located, prices averaged \$149 in the quarter, down \$4 compared to the second quarter.

Throughout the cycle, Norbord took steps to prepare itself for this cyclical downturn by focusing on cost containment and developing a higher margin product mix. The Margin Improvement Program (MIP) has helped Norbord concentrate on improving its competitive position, generating \$185 million of margin improvement over the past five years. These gains helped to offset the impact of rising input costs and management believes its relative competitive position in the industry has improved over this time. Gains from MIP were \$16 million year-to-date, measured relative to 2006 at constant prices and exchange rates. Norbord's MIP target for the full year 2007 is \$25 million.

Ramp up of the new OSB line at Cordele continues to outperform. The expansion added approximately 550 million square feet (3/8-inch basis) of production capacity at a capital cost of \$135 million and increased Norbord's global OSB production capacity by 12%. This expansion should further strengthen Norbord's position as one of the lowest cost OSB producers in North America. Production on the line was 90% of capacity for the full quarter and 75% year-to-date. The results from this line were capitalized until April 2007 while the facility remained in its start-up phase. Accordingly, any benefit from the additional volume from the new OSB line was not reflected in EBITDA, or the EBITDA variance, until the second quarter. During the first quarter \$3 million was capitalized as start-up costs.

Norbord achieved record OSB production in the quarter. The additional volume from the new OSB line at Cordele and increased European OSB volume offset the reduced volume from Jefferson, Texas. The Jefferson mill began operating at 70% of capacity in the quarter due to regional wood shortages. Year-to-date, overall OSB production increased by 10%, principally due to the additional volume from the new line at Cordele.

Year-to-date Norbord's OSB shipments are at record levels, a notable achievement in light of current North American OSB market conditions and continued validation of the Company's customer strategy.

In the quarter, Norbord's North American per unit OSB cash production costs, including employee profit share, were up 1% over the prior quarter principally due to higher resin price. Production costs were in line with the third quarter of 2006 as the benefit of higher volume, lower fibre price and lower profit share offset the higher resin prices. Year-to-date, production costs were down 1% over the prior year as lower wood prices, spending on supplies and maintenance and profit share offset higher resin prices.



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 2007 vs. 2 <sup>nd</sup> Qtr 2007	3 <sup>rd</sup> Qtr 2007 vs. 3 <sup>rd</sup> Qtr 2006	9 mos 2007 vs. 9 mos 2006
EBITDA – current period	\$ 30	\$ 30	\$ 51
EBITDA – comparative period	17	35	225
Variance	\$ 13	\$ (5)	\$ (174)
Mill nets <sup>(1)</sup>	\$ 15	\$ (4)	\$ (179)
Volume <sup>(2)</sup>	(3)	4	23
Key input prices <sup>(3)</sup>	(3)	(1)	(12)
Key input usage <sup>(3)</sup>	2	(1)	1
Other <sup>(4)</sup>	2	(3)	(7)
	\$ 13	\$ (5)	\$ (174)

- (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 2007	2 <sup>nd</sup> Qtr 2007	3 <sup>rd</sup> Qtr 2006	9 mos 2007	9 mos 2006
Interest and other income	\$ -	\$ 3	\$ -	\$ 4	\$ 3
Interest expense	(13)	(14)	(7)	(36)	(22)
Depreciation	(19)	(27)	(23)	(70)	(70)
Income tax recovery (expense)	1	6	2	19	(38)

Interest and other income were in line with prior year and down \$3 million over the prior quarter due to higher average cash balances in the prior quarter. Interest expense of \$13 million was in line with the prior quarter. Year-to-date interest expense is higher than 2006 due to additional interest on borrowings under the Company's committed bank lines and the February issuance of \$200 million of senior notes maturing in 2017.

In accordance with the Company's policy, depreciation rates for property, plant and equipment are assessed from time to time to ensure they continue to approximate their useful life. Effective July 1, 2007, management's estimate of the useful life for its OSB assets was changed from 15 years to 25 years. This change in estimate was accounted for prospectively. The impact of this change in estimate on third quarter depreciation was a reduction of \$9 million. Depreciation expense increased in the second quarter of 2007 by \$3 million as depreciation of the new OSB line commenced in that quarter.

A tax recovery of \$1 million was recorded in the quarter on a pre-tax loss of \$2 million. Year-to-date, a tax recovery of \$19 million was recorded on a pre-tax loss of \$51 million. The effective tax rate differs from the statutory rate principally due to rate differences on foreign activities and fluctuations in relative currency values.

In 2005 and 2006, Norbord paid \$163 million in income and income-related taxes, principally in North America. Losses incurred in 2007 can be carried back and applied against taxes paid for a cash refund in 2008. Losses incurred in the first nine months of 2007 would result in a refund of approximately \$50 million.

**Liquidity and Capital Resources**

(US\$ millions, except per share information, unless otherwise noted)	3 <sup>rd</sup> Qtr 2007	2 <sup>nd</sup> Qtr 2007	3 <sup>rd</sup> Qtr 2006	9 mos 2007	9 mos 2006
Cash provided by (used for) operating activities	\$ (18)	\$ 11	\$ 37	\$ (57)	\$ 137
Cash provided by (used for) operating activities per share	(0.12)	0.07	0.26	(0.39)	0.96
Operating working capital	127	79	70	127	70
Total working capital	175	162	66	175	66
Capital investments	8	12	39	29	116
Net debt to capitalization, market basis	32%	32%	24%	32%	24%
Net debt to capitalization, book basis	61%	59%	51%	61%	51%

In addition to cash on hand of \$48 million, and cash generated from operations, the Company has \$235 million of committed unsecured revolving bank lines available to support short-term liquidity requirements. During the quarter, the Company increased its committed unsecured revolving bank lines by \$35 million from \$200 million. At September 29, 2007, \$231 million was available and \$4 million was 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 certain financial covenants which the Company must comply with on a quarterly basis.

Operating working capital, consisting of accounts receivable and inventory less accounts payable and accrued liabilities, at September 29, 2007 was \$127 million compared to \$70 million at September 30, 2006 and \$33 million at December 31, 2006. The additional investment in operating working capital is driven by strategic initiatives and positive European business conditions.

Higher European sales prices and volume has led to higher accounts receivable balances. It should be noted that standard European collection terms are significantly longer than in North America, amplifying the effect of these increases. In addition, to support and grow its European business, Norbord increased its export of OSB from North America to Europe in the third quarter. The inventory build due to longer shipping times, and differences in North American and European collection terms has necessitated an increase in Norbord's working capital investment.

In North America, additional volume from the new OSB line at Cordele impacted operating working capital balances. At the same time, Norbord has strategically grown sales to home centres. Managing inventories for home centres has added to working capital. Relative to year-end, operating working capital has further increased due to a lower North American profit share accrual.

Total working capital at September 29, 2007 was \$175 million including \$48 million in cash and cash equivalents.

Operating activities consumed \$18 million of cash in the quarter as the increased investment in operating working capital offset higher earnings. Year-to-date operating activities consumed \$57 million compared to generating \$137 million in the same period of 2006. The decrease is principally due to higher earnings in the comparable period and the increased investment in operating working capital in the current year.

In the first quarter the Company issued \$200 million of senior notes due in 2017 with an interest rate of 6.45% which are subject to a credit ratings based coupon step-up provision. At period end the interest rate was 6.70%. The notes were issued to pre-fund the March 2008 debenture maturity.

Cash dividends of \$8 million were paid in the quarter, reflecting continued increased participation in the Company's Dividend Reinvestment Program (DRIP), which permits Canadian shareholders to elect to receive their dividends in the form of common shares. A \$19 million recouping payment was made in the second quarter on cross-currency swaps which are designated as hedges against the Company's net investments in Europe. This was offset by an unrealized gain on the net investments being hedged.



Norbord's net debt stood at \$592 million at quarter end, representing 32% of capitalization on a market basis and 61% 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 on attractive terms.

## Investments and Divestitures

### Capital Investments

Capital investments were \$29 million year-to-date (third quarter – \$8 million). Norbord's 2007 capital investments are expected to be \$35 million plus \$3 million of interest capitalized in the first quarter related to the new line at Cordele. Capital investments for 2007 include biomass heat energy systems at Genk and Nacogdoches, Texas. The 2007 capital investments will be funded with cash on hand, cash generated from operations and, if necessary, drawings under the Company's committed bank lines.

### Non-Core Asset Sale

In the second quarter of 2007, the I-joist mill in Juniper, New Brunswick was sold. There was no gain or loss on the disposition. In the fourth quarter of 2006, a \$13 million provision was taken in relation to these assets following the indefinite closure of the mill.

## Selected Quarterly Information

	2007			2006			2005	
	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr
(US\$ millions, except per share information, unless otherwise noted)								
Cash provided by (used for) operating activities	(18)	11	(50)	54	37	70	30	121
Cash provided by (used for) operating activities per share	(0.12)	0.07	(0.34)	0.37	0.26	0.49	0.21	0.83
Return on capital employed (ROCE)	11%	6%	2%	8%	15%	33%	46%	46%
Return on equity (ROE)	(1)%	(15)%	(15)%	(1)%	6%	27%	43%	41%
Net Sales	292	288	261	259	291	334	368	351
EBITDA	30	17	4	22	35	79	111	110
Earnings	(1)	(15)	(16)	(1)	7	33	58	52
Earnings per share								
Basic	0.00	(0.11)	(0.11)	0.00	0.05	0.23	0.40	0.36
Diluted	0.00	(0.11)	(0.11)	(0.01)	0.05	0.23	0.40	0.36
OSB shipments (MMsf 3/8")	1,060	1,161	1,112	1,083	1,076	1,048	1,082	1,021
Average OSB price – North Central (\$/Msf 7/16")	177	156	145	166	181	238	285	317
Average OSB price – South East (\$/Msf 7/16")	149	153	138	141	181	249	303	336
Average OSB price – Europe (€/m <sup>3</sup> )	246	249	234	219	213	204	197	182

The price of OSB is the primary factor 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 in 2007 is approximately \$35 million or approximately \$0.16 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 13% 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 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 fourth quarter 2006 results include pre-tax income of \$7 million (\$0.03 per share) due to softwood lumber duty refunds, the \$13 million provision (\$0.06 per share) for non-core operation and tax recovery of \$4 million (\$0.03 per share) due to the resolution of several income tax audit items relating to prior taxation years. In addition, in the third quarter of 2007, management's estimate of the useful life of its OSB assets changed from 15 years to 25 years. The impact of this change in estimate on depreciation expense was a \$9 million reduction. In the second quarter of 2007, depreciation expense increased \$3 million as depreciation commenced on the new OSB line at Cordele.

### **Common Shares**

At October 23, 2007, there were 145.9 million common shares outstanding. In addition, 2.4 million stock options were outstanding, of which approximately 40% were fully vested.

### **Changes in Accounting Policies and Significant Accounting Estimates**

In accordance with the Company's policy, depreciation rates for property, plant and equipment are assessed from time to time to ensure they continue to approximate their useful life. Effective July 1, 2007, management's estimate of the useful life for its OSB assets was changed from 15 years to 25 years. This change in estimate was accounted for prospectively. The impact of this change in estimate on third quarter depreciation was a reduction of \$9 million.

Effective January 1, 2007, the Company adopted new accounting recommendations from the Canadian Institute of Chartered Accountants (CICA), Handbook Section 1530, Comprehensive Income, Section 1651, Foreign Currency Translation, Section 3251, Equity, Section 3855, Financial Instruments – Recognition and Measurement, Section 3861, Financial Instruments – Disclosure and Presentation and Section 3865 Hedges.

Section 1530 established standards for reporting and presenting a comprehensive income statement. Section 3855 requires all financial assets and financial liabilities to be classified as one of five categories. Financial assets are to be classified as either held for trading, available for sale, held to maturity or loans and receivables. Financial liabilities are to be classified as either held for trading or other financial liabilities. All financial assets and financial liabilities are to be carried at fair value in the consolidated balance sheet, except held to maturity, loans and receivables and other financial liabilities which are carried at amortized cost.

Subsequent accounting for changes in fair value will depend on initial classification. Realized and unrealized gains and losses on financial assets and liabilities that are held for trading will continue to be recorded in the consolidated statement of earnings. Unrealized gains and losses on financial assets that are held as available for sale are to be recorded in other comprehensive income until realized, at which time they will be recorded in the consolidated statement of earnings. During the quarter, the Company did not have any financial assets or liabilities other than cash & cash equivalents which would be designated as either held for trading or available for sale.



Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of foreign currency exposures of net investments in self sustaining foreign operations.

In accordance with these new standards there has been a retroactive adjustment to reclassify the negative \$8 million of cumulative translation adjustment as of January 1, 2006 and \$2 million as of January 1, 2007 as accumulated other comprehensive income. There was no impact to opening retained earnings on adoption of these accounting recommendations.

The CICA has issued several new accounting standards including: Section 1535, Capital Disclosures, Section 3031, Inventories, Section 3862, Financial Instruments – Disclosure, and Section 3863, Financial Instruments – Presentation. The Company will adopt these new standards effective January 1, 2008 and is currently assessing the impact of adoption on its consolidated financial statements.

Section 1535 specifies the requirements for the disclosure of information relating to objectives, policies and processes for managing capital.

Section 3031 relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories.

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.

### **Class Action Lawsuit**

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.

During the quarter, the district court certified a class of persons and entities that purchased OSB in the US directly from any of the named North American OSB producers between June 1, 2002 and the present. This class is seeking injunctive relief and damages under US federal antitrust law. The district court also certified a class of persons and entities who, as end users, indirectly purchased for their own use and not for resale, new OSB manufactured and sold by one or more of the named North American OSB producers between June 1, 2002 and the present. This class is seeking injunctive relief under US federal antitrust law.

The district court is still considering the extent to which it will certify classes of indirect purchasers for purposes of pursuing claims under state laws. As of October 23, 2007, the district court has certified for purposes of pursuing claims under state laws a class consisting of persons and entities residing in eleven states who, as end users, indirectly purchased for their own use, and not for resale, new OSB manufactured and sold by one or more of the named North American OSB producers between June 1, 2002 and the present. This class is seeking damages, injunctive, and other relief under state laws.

Norbord believes that the lawsuits are entirely without merit and intends to defend this matter vigorously.

### **Environmental Matters**

Norbord's operations are subject to a range of general and industry specific environmental laws and regulations relating to air emissions, wastewater discharges, solid and hazardous waste management, plant and wildlife protection, and site remediation. Norbord believes that all of its facilities are in substantial compliance with these matters. Failure to comply with applicable environmental laws and regulations could result in fines, penalties or other enforcement actions which could impact Norbord's production capacity or increase Norbord's production costs.



Maximum Achievable Control Technology (MACT) regulations, designed to reduce hazardous air emissions, took effect in the US in 2004. The new standards apply to more than 200 mills manufacturing plywood, OSB, MDF, particleboard and other wood composite panels. Existing mills were required to demonstrate compliance by October 2008.

A number of environmental advocacy groups launched legal action against the US Environmental Protection Agency (EPA) challenging several aspects of the rules. In June 2007, the US Court of Appeals made several important decisions in this litigation. Two decisions will impact Norbord's MACT compliance plans. First, the courts removed the health based low risk compliance option, which was expected to exempt three Norbord operations. The cost of complying with the amended rules is estimated to be \$4 million in addition to the \$8 million investment already planned. Second, the courts reinstated the original October 2007 compliance deadline. Individual states, however, have the authority to grant 12-month extensions and the Company has extended or is working to extend the deadlines where necessary.

### **Internal Controls Over Financial Reporting**

During the third quarter, Norbord Inc. ceased voluntary filing certain reports with the US Securities and Exchange Commission. Documents publicly filed by the Company may be accessed through the Internet on Norbord's website at [www.norbord.com](http://www.norbord.com) or on the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).

The assessment of the Company's internal controls over financial reporting is governed by Canadian National Instrument 52-109. Under this National Instrument, the timetable for Norbord to meet the requirement for management's assessment of effectiveness of internal controls over financial reporting is December 31, 2008. There is no requirement for the independent audit of management's assessment. Based on the work done to date, the Company expects it will comply with these requirements.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and compliance with Canadian generally accepted accounting principles. There have been no changes in Norbord's internal control over financial reporting during the interim period ended September 29, 2007 that have materially affected or are reasonably likely to materially affect its internal control over financial reporting.

### **Definitions**

The following non-GAAP measures have been used in this MD&A. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. There are no directly comparable GAAP measures to any of these measures. Each non-GAAP measure is defined below. Where appropriate, a quantitative reconciliation of the non-GAAP measure to the nearest comparable GAAP measure is provided.

**EBITDA** is earnings determined in accordance with GAAP before interest, income taxes, depreciation and amortization. Norbord views EBITDA as a measure of gross profit and interprets EBITDA trends as an indicator of relative operating performance. EBITDA is presented as a useful indicator of a company's ability to incur and service debt and meet capital expenditure requirements. The following table reconciles EBITDA to the nearest comparable GAAP measure:

(US\$ millions)	3 <sup>rd</sup> Qtr 2007	2 <sup>nd</sup> Qtr 2007	3 <sup>rd</sup> Qtr 2006	9 mos 2007	9 mos 2006
Earnings	\$ (1)	\$ (15)	\$ 7	\$ (32)	\$ 98
Add: Interest expense	13	14	7	36	22
Less: Interest and other income	-	(3)	-	(4)	(3)
Add: Income tax	(1)	(6)	(2)	(19)	38
Add: Depreciation	19	27	23	70	70
<b>EBITDA</b>	<b>\$ 30</b>	<b>\$ 17</b>	<b>\$ 35</b>	<b>\$ 51</b>	<b>\$ 225</b>

**EBITDA margin (%)** is EBITDA as a percentage of net sales.

**Operating working capital** is accounts receivable plus inventory less accounts payable.

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

**Capital employed** is the sum of property, plant and equipment, operating working capital and other assets less any unrealized net investment hedge losses included in other liabilities. The following table reconciles capital employed to the nearest comparable GAAP measure:

(US\$ millions)	Sep 29 2007	Jun 30 2007	Dec 31 2006
Property, plant and equipment	\$ 981	\$ 985	\$ 1,008
Accounts receivable	195	173	163
Inventory	125	112	98
Accounts payable and accrued liabilities	(193)	(206)	(228)
Other assets	6	7	7
Unrealized balance sheet hedge gain (loss) <sup>(1)</sup>	(21)	(14)	(25)
<b>Capital employed</b>	<b>\$ 1,093</b>	<b>\$ 1,057</b>	<b>\$ 1,023</b>

(1) Included in other liabilities

**ROCE** (return on capital employed) is EBITDA divided by average capital employed. The ratio is expressed on an annualized basis. ROCE is a measurement of financial performance, focusing on cash generation and the efficient use of capital.

**ROE** (return on equity) is earnings available to common shareholders (earnings) divided by common shareholders' equity. The ratio is expressed on an annualized basis. ROE is a measure for common shareholders to determine how effectively their money is being employed.

**Net debt** is the principal value of long-term debt including the current portion and bank advances less cash and cash equivalents. Net debt is a useful indicator of a company's debt position. Net debt is comprised of:

(US\$ millions)	Sep 29 2007	Jun 30 2007	Dec 31 2006
Long-term debt	\$ 640	\$ 640	\$ 480
Bank advances	-	-	-
Cash and cash equivalents	(48)	(83)	(20)
<b>Net debt</b>	<b>\$ 592</b>	<b>\$ 557</b>	<b>\$ 460</b>

**Net debt to capitalization, book basis** is net debt divided by the sum of net debt and shareholders' equity. 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.

**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.

**Book value per share** is common shareholders' equity divided by common shares outstanding.

### **Forward-Looking Statements**

This document contains forward-looking statements, as defined in applicable legislation. The words "believes," "believe," "should," "expect," "expected," "will," "aim," "estimates," "estimated," "goal," 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) sensitivity to changes in product prices, such as the price of OSB; (8) sensitivity to changes in foreign exchange rates; (9) margin improvement program targets; (10) expectations regarding contingent liabilities, lawsuits and guarantees, including the outcome of pending litigation; (11) expectations regarding the amount, timing and benefits of capital investments; and (12) 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 and the US Securities and Exchange Commission.

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, 2007 Annual Information Form and the cautionary statement contained in the "Forward-Looking Statements" section of the 2006 Management's Discussion and Analysis dated January 31, 2007.



**NORBORD INC.**  
**CONSOLIDATED STATEMENTS OF EARNINGS**

(unaudited)	3 <sup>rd</sup> Qtr		9 mos	
(US \$ millions, except per share information)	2007	2006	2007	2006
Net sales	\$ 292	\$ 291	\$ 841	\$ 993
Earnings before interest, income tax and depreciation	30	35	51	225
Interest and other income	-	-	4	3
Interest expense	(13)	(7)	(36)	(22)
Earnings before income tax and depreciation	17	28	19	206
Depreciation	(19)	(23)	(70)	(70)
Income tax <i>(note 7)</i>	1	2	19	(38)
Earnings	\$ (1)	\$ 7	\$ (32)	\$ 98
Earnings per common share <i>(note 6)</i>				
- Basic	\$ 0.00	\$ 0.05	\$ (0.22)	\$ 0.68
- Diluted	\$ 0.00	\$ 0.05	\$ (0.22)	\$ 0.68

(See accompanying notes)



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

(unaudited)

(US \$ millions)

	3 <sup>rd</sup> Qtr 2007	3 <sup>rd</sup> Qtr 2006	9 mos 2007	9 mos 2006
<b>CASH PROVIDED BY (USED FOR):</b>				
<b>Operating Activities</b>				
Earnings	\$ (1)	\$ 7	\$ (32)	\$ 98
Items not affecting cash:				
Depreciation	19	23	70	70
Future income taxes (note 7)	3	13	(16)	22
Other items	(2)	(5)	-	(9)
	19	38	22	181
Net change in non-cash working capital balances	(37)	(1)	(79)	(44)
	(18)	37	(57)	137
<b>Investing Activities</b>				
Capital investments	(8)	(39)	(29)	(116)
Other (note 8)	(1)	(4)	(20)	(3)
	(9)	(43)	(49)	(119)
<b>Financing Activities</b>				
Issue of senior notes (note 3)	-	-	198	-
Other debt incurred (repaid), net (note 3)	-	26	(40)	26
Dividends	(8)	(135)	(24)	(160)
Repurchase of common shares (note 5)	-	-	-	(29)
Issue of common shares (note 5)	-	-	-	1
	(8)	(109)	134	(162)
Increase (decrease) in cash and cash equivalents	\$ (35)	\$ (115)	\$ 28	\$ (144)
Cash and cash equivalents, beginning of period	\$ 83	\$ 126	\$ 20	\$ 155
Cash and cash equivalents, end of period	48	11	48	11

(See accompanying notes)



**NORBORD INC.  
CONSOLIDATED BALANCE SHEETS**

(US \$ millions)	Sep 29 2007	Dec 31 2006
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 48	\$ 20
Accounts receivable	195	163
Inventory	125	98
Future income taxes	3	3
	371	284
Property, plant and equipment	981	1,008
Other assets	6	7
	\$ 1,358	\$ 1,299
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 193	\$ 228
Current portion of long-term debt <i>(note 3)</i>	201	-
	394	228
Long-term debt <i>(note 3)</i>	440	480
Other liabilities <i>(note 4)</i>	39	44
Future income taxes	100	113
Shareholders' equity <i>(note 5)</i>	385	434
	\$ 1,358	\$ 1,299

(See accompanying notes)



**NORBORD INC.  
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS  
AND COMPREHENSIVE INCOME**

(unaudited)	3 <sup>rd</sup> Qtr	3 <sup>rd</sup> Qtr	9 mos	9 mos
(US \$ millions)	2007	2006	2007	2006
<b>Retained Earnings</b>				
Balance, beginning of period	\$ 248	\$ 324	\$ 305	\$ 412
Earnings	(1)	7	(32)	98
Common share dividends	(14)	(13)	(40)	(166)
Repurchase of common shares <i>(note 5)</i>	-	-	-	(26)
Balance, end of period	\$ 233	\$ 318	\$ 233	\$ 318
<b>Comprehensive Income</b>				
Earnings	\$ (1)	\$ 7	\$ (32)	\$ 98
Other comprehensive income:				
Net change in unrealized cumulative translation gains (losses)	4	3	5	6
Comprehensive Income	\$ 3	\$ 10	\$ (27)	\$ 104

(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 and Significant Accounting Estimates**

Effective January 1, 2007, the Company adopted new accounting recommendations from the Canadian Institute of Chartered Accountants (CICA), Handbook Section 1530, Comprehensive Income, Section 1651, Foreign Currency Translation, Section 3251, Equity, Section 3855, Financial Instruments – Recognition and Measurement, Section 3861, Financial Instruments – Disclosure and Presentation and Section 3865 Hedges.

Section 1530 established standards for reporting and presenting a comprehensive income statement.

Section 3855 requires all financial assets and financial liabilities to be classified as one of five categories. Financial assets are to be classified as either held for trading, available for sale, held to maturity or loans and receivables. Financial liabilities are to be classified as either held for trading or other financial liabilities. All financial assets and financial liabilities are to be carried at fair value in the consolidated balance sheet, except held to maturity, loans and receivables and other financial liabilities which are carried at amortized cost.

Subsequent accounting for changes in fair value will depend on initial classification. Realized and unrealized gains and losses on financial assets and liabilities that are held for trading will continue to be recorded in the consolidated statement of earnings. Unrealized gains and losses on financial assets that are held as available for sale are to be recorded in other comprehensive income until realized, at which time they will be recorded in the consolidated statement of earnings. During the quarter, the Company did not have any financial assets or liabilities other than cash & cash equivalents which would be designated as either held for trading or available for sale.

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of foreign currency exposures of net investments in self sustaining foreign operations.

In accordance with these new standards there has been a retroactive adjustment to reclassify the negative \$8 million of cumulative translation adjustment as of January 1, 2006 and \$2 million as of January 1, 2007 as accumulated other comprehensive income. There was no impact to opening retained earnings on adoption of these new accounting recommendations.

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

(unaudited)

(In US\$, unless otherwise noted)

In accordance with the Company's policy, depreciation rates for property, plant and equipment are assessed from time to time to ensure they continue to approximate their useful life. Effective July 1, 2007, management's estimate of the useful life for its OSB assets was changed from 15 years to 25 years. This change in estimate was accounted for prospectively. The impact of this change in estimate on third quarter depreciation was a reduction of \$9 million.

The CICA has issued several new accounting standards including: Section 1535, Capital Disclosures, Section 3031, Inventories, Section 3862, Financial Instruments – Disclosure, and Section 3863, Financial Instruments – Presentation. The Company will adopt these new standards effective January 1, 2008 and is currently assessing the impact of adoption on its consolidated financial statements.

Section 1535 specifies the requirements for the disclosure of information relating to objectives, policies and processes for managing capital.

Section 3031 relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories.

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

**Note 3 – Long-Term Debt**

(US\$ millions)	Book Value			
	Principal Value	Fair Value Adjustments	Sep 29 2007	Dec 31 2006
8 1/8% debentures due 2008	\$ 200	\$ 1	\$ 201	\$ 200
7 1/4% debentures due 2012	240	3	243	240
6.70% senior notes due 2017	200	(3)	197	-
Other debt	-	-	-	40
	640	1	641	480
Less current portion of long-term debt:				
8 1/8% debentures due 2008	(200)	(1)	(201)	-
	\$ 440	\$ -	\$ 440	\$ 480

At September 29, 2007, the Company had \$365 million (December 31, 2006 – \$365 million) of interest rate swaps outstanding. The terms of these swaps correspond to the terms of the underlying hedged debt.

The Company has committed unsecured revolving bank lines of \$235 million which mature in 2010, bear interest at money market rates that vary with the Company's credit rating, and contain certain financial covenants which the Company must comply with on a quarterly basis. At quarter end, \$231 million was available to support short-term liquidity requirements and \$4 million was utilized for letters of credit.

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

(unaudited)

(In US\$, unless otherwise noted)

In the first quarter, the Company issued \$200 million of senior notes due in 2017 with an interest rate of 6.45% which are subject to a credit ratings based coupon step-up provision. At period end the rate was 6.70%. The notes were issued to pre-fund the March 2008 debenture maturity.

**Note 4 - Other Liabilities**

(US\$ millions)	Sep 29 2007	Dec 31 2006
Unrealized net investment hedge losses <i>(note 10)</i>	\$ 21	\$ 25
Unrealized interest rate swap losses	8	-
Accrued pension and post-retirement benefits	4	4
Deferred interest rate swap gains	-	11
Other liabilities	6	4
	<b>\$ 39</b>	<b>\$ 44</b>

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

**Note 5 - Shareholders' Equity**

(US\$ millions)	Sep 29 2007	Dec 31 2006
Capital stock:		
Common shares	\$ 143	\$ 127
Contributed surplus	2	-
	145	127
Retained earnings	233	305
Accumulated other comprehensive income	7	2
	<b>\$ 385</b>	<b>\$ 434</b>

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

(unaudited)

(In US\$, unless otherwise noted)

Summary of common share transactions:

	9 mos ended Sep 29, 2007		12 mos ended Dec 31, 2006	
	Shares (million)	Amount (US\$ millions)	Shares (million)	Amount (US\$ millions)
Balance at beginning of period	143.8	\$ 127	144.8	\$ 118
Dividend reinvestment plan	1.9	16	1.4	11
Issue of common shares	0.2	-	0.3	1
Repurchase of common shares	-	-	(2.7)	(3)
Balance at end of period	145.9	\$ 143	143.8	\$ 127

In the first quarter, 0.8 million options were granted under the stock option plan. Year-to-date, cost of sales include \$1 million related to stock based compensation expense.

Summary of accumulated other comprehensive income movements:

(US\$ millions)	9 mos ended Sep 29, 2007	12 mos ended Dec 31, 2006
Balance at beginning of period	\$ -	\$ -
Adoption of new accounting recommendations (note 2)	2	(8)
Other comprehensive income	5	10
Balance at end of period	\$ 7	\$ 2

**Note 6 – Earnings per Common Share**

Earnings per common share are calculated as follows:

(US\$ millions, except per share information, unless otherwise noted)	3 <sup>rd</sup> Qtr 2007	3 <sup>rd</sup> Qtr 2006	9 mos 2007	9 mos 2006
Earnings available to common shareholders	\$ (1)	\$ 7	\$ (32)	\$ 98
Common shares (millions):				
Weighted average number of common shares outstanding	145.2	142.9	144.5	143.5
Stock options	0.2	0.4	0.2	0.6
Diluted number of common shares	145.4	143.3	144.7	144.1
Earnings per common share:				
Basic	\$ 0.00	\$ 0.05	\$ (0.22)	\$ 0.68
Diluted	\$ 0.00	\$ 0.05	\$ (0.22)	\$ 0.68

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

(unaudited)

(In US\$, unless otherwise noted)

Stock options issued under the Company's stock option plan were included in the calculation of diluted number of common shares 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 7 – Income Tax**

Interim income tax is calculated based on expected annual effective tax rates.

(US\$ millions)	3 <sup>rd</sup> Qtr 2007	3 <sup>rd</sup> Qtr 2006	9 mos 2007	9 mos 2006
(expense) recovery				
Current income tax	\$ 4	\$ 15	\$ 3	\$ (16)
Future income tax	(3)	(13)	16	(22)
Income tax	\$ 1	\$ 2	\$ 19	\$ (38)

**Note 8 – Supplemental Cash Flow Information**

Other investing activities comprises:

(US\$ millions)	3 <sup>rd</sup> Qtr 2007	3 <sup>rd</sup> Qtr 2006	9 mos 2007	9 mos 2006
Cash provided by (used for):				
Recouping payment, net ( <i>note 10</i> )	\$ -	\$ -	\$ (17)	\$ -
Realized net investment hedge gains (losses) ( <i>note 10</i> )	(1)	-	(2)	\$ (7)
Other	-	(4)	(1)	4
	\$ (1)	\$ (4)	\$ (20)	\$ (3)

**Note 9 – 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 was 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.

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

(unaudited)

(In US\$, unless otherwise noted)

**Note 10 – Commitments and Contingencies**

*Foreign Exchange Hedges*

The Company has outstanding forward foreign exchange contracts of £6 million (2006 - £6 million) and €79 million (2006 - €58 million) and cross-currency swaps of £125 million (2006 - £125 million), which are designated as hedges against its net investments in Europe. Year-to-date, the Company realized a loss of \$2 million (2006 – loss of \$7 million) on its matured net investment hedges, and at period end, the Company had an unrealized loss of \$21 million (2006 – loss of \$19 million) on its outstanding net investment hedges. In addition, during the second quarter, the Company paid \$19 million, and during the first quarter received \$2 million to recoupon its cross-currency swaps. Realized and unrealized losses are offset by realized and unrealized gains on the net investments being hedged.

In addition, at period end, the Company has outstanding forward foreign exchange contracts of CAD \$51 million (2006 – CAD \$15 million), which serve to hedge certain Canadian dollar-denominated monetary liabilities. Year-to-date, the Company realized a gain of \$4 million (2006 – nil) on its matured monetary liability hedges, and at period end, the Company had an unrealized gain of \$2 million (2006 – nil) on these outstanding hedges. Realized and unrealized gains, if any, are offset by realized and unrealized losses on the monetary liabilities being hedged.

The Company has entered into forward foreign exchange contracts of CAD\$10 million, which are designated as a hedge of future Canadian dollar-denominated net costs. At period end, the Company had an unrealized gain of nil (2006 – nil) on the outstanding hedges.

*Class Action Lawsuit*

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.

During the quarter, the district court certified a class of persons and entities that purchased OSB in the US directly from any of the named North American OSB producers between June 1, 2002 and the present. This class is seeking injunctive relief and damages under US federal antitrust law. The district court also certified a class of persons and entities who, as end users, indirectly purchased for their own use and not for resale, new OSB manufactured and sold by one or more of the named North American OSB producers between June 1, 2002 and the present. This class is seeking injunctive relief under US federal antitrust law.

The district court is still considering the extent to which it will certify classes of indirect purchasers for purposes of pursuing claims under state laws. As of October 23, 2007, the district court has certified for purposes of pursuing claims under state laws a class consisting of persons and entities residing in eleven states who, as end users, indirectly purchased for their own use, and not for resale, new OSB manufactured and sold by one or more of the named North American OSB producers between June 1, 2002 and the present. This class is seeking damages, injunctive, and other relief under state laws.

Norbord believes that the lawsuits are entirely without merit and intends to defend this matter vigorously.

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

(unaudited)

(In US\$, unless otherwise noted)

**Note 11 – Geographic Segments**

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

(US\$ millions)

3 <sup>rd</sup> Qtr 2007	North America	Europe	Unallocated	Total
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
Capital investments	3	5	-	8
<b>3<sup>rd</sup> Qtr 2006</b>				
Net sales	\$ 180	\$ 111	\$ -	\$ 291
EBITDA <sup>(1)</sup>	31	13	(9)	35
Depreciation	15	8	-	23
Property, plant and equipment	720	263	4	987
Capital investments	33	6	-	39
<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
Capital investments	18	11	-	29
<b>9 mos 2006</b>				
Net sales	\$ 671	\$ 322	\$ -	\$ 993
EBITDA <sup>(1)</sup>	215	25	(15)	225
Depreciation	44	25	1	70
Property, plant and equipment	720	263	4	987
Capital investments	106	10	-	116

(1) EBITDA is earnings before interest, income tax and depreciation.