NORBORD YEAR-END 2008 CONFERENCE CALL
CORRECTED TRANSCRIPT
JANUARY 30, 2009 - 11:00 A.M. ET

OPERATOR
Good day everyone, and welcome to Norbord's 2008 Year-End 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 the March 1, 2008 Annual Information Form and the cautionary statement contained in the Forward-Looking Statements section of the 2008 Management's Discussion and Analysis dated January 29, 2009.

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

J. BARRIE SHINETON, PRESIDENT AND CHIEF EXECUTIVE OFFICER
Thanks, Markus, and good morning everyone. I have Robin Lampard, our CFO and Anita Veel, our Director of Corporate and Regulatory Affairs with me today.

There are a few points I'd like to touch on before I turn the call over to Robin for the financial review. Clearly, 2008 was a very difficult year for Norbord. We're not happy with our results, but we're not surprised either. Like everyone in housing-related industries, we faced declining demand throughout the year and $140 oil had a significant negative impact on our manufacturing input costs. These issues were amplified in the fall when the housing collapse and the credit crisis expanded into a financial meltdown. The challenges facing our European operations now mirror those in North America and it's clear that any housing recovery in North America and the U.K. will not happen in 2009.

We took a number of tough decisions in the fourth quarter to improve our liquidity and stabilize our balance sheet. You've all read about our recapitalization efforts. I believe these actions were absolutely necessary and they will allow us to manage through what we believe will be another difficult year.

Robin will walk you through the details for quarter four and the full year and I'm going to wrap-up at the end with our outlook and then we'll open the lines up for your questions. Over to you, Robin.

ROBIN E. LAMPARD, SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER
Thanks, Barrie. We've been saying for some time that we were looking at a number of alternatives to strengthen our liquidity position. As Barrie mentioned, the systemic breakdown in financial markets this fall meant that traditional financing alternatives were unavailable. Against this backdrop, Norbord launched a Rights Offering in November that was successful in raising 240 million Canadian dollars.

As reported, Brookfield Asset Management supported the offering by entering into a standby purchase agreement. Following the settlement of the initial subscription on December 24th and the completion of the standby commitment on January 6th, Brookfield now holds approximately 325 million common shares or 75% of Norbord's outstanding shares and 131 million warrants. The company now has a total of 432 million common shares and 136 million warrants issued and outstanding. Norbord also announced the suspension of its quarterly dividend which will result in annual savings of 60 million Canadian dollars.

In November, we reached an agreement with six of our seven lenders to widen the covenants and extend the term on our revolving bank lines. We expect to complete definitive documentation of these amendments during the first quarter. At that time, our aggregate revolving bank line commitment will be reduced from $235 million to $205 million, the term will be extended to May 2011 and the financial covenants will be amended to the following: minimum tangible net worth of $250 million and maximum net debt-to-total capitalization of 70%. In addition, a $50 million term debt facility with Brookfield will remain available to the company, which more than offsets the $30 million reduction in the revolving bank line commitment.

At year-end, Norbord had a net debt-to-capitalization of 61%. Pro-forma for the settlement of Brookfield's standby commitment and the closing of the bank line amendments, Norbord will have access to almost $300 million of liquidity, tangible net worth of $384 million and net debt-to-capitalization of 51%. We believe the execution of this recapitalization plan provides access to sufficient liquidity to manage through the foreseeable future.

Turning now to our results, I will start by pointing out that we released our full year 2008 MD&A and audited financial statements this morning instead of the fourth quarter unaudited. So, you won't have to wait for the release of our Annual Report this year.

The U.S. housing downturn that began in 2006 has accelerated throughout 2007 and 2008. U.S. housing starts were about 0.9 million in 2008, down from 1.35 million in 2007 and 1.8 million in 2006. Benchmark North Central OSB prices averaged $170 in Q4 and $172 for the full year 2008, modestly better than 2007's average NC price of $161. As we tell you each quarter, the South East benchmark is more relevant to Norbord with 55% of our production capacity located in that region. South East benchmark prices averaged $137 in Q4 and $143 for the full year, unchanged from 2007.

Industry-wide, OSB mills in North America operated at approximately 55% of capacity in the fourth quarter and 70% for the full year. We ran our North American mills at approximately 60% of capacity in the fourth quarter and averaged about 80% for the full year. Looking at this another way, we curtailed 374 days of OSB production during the fourth quarter and 759 days for the full year. Even though our volume decreased due to these curtailments, I'm pleased to say that when we did run our mills, they ran even better than last year.

We expect to continue operating at lower volumes in 2009. Earlier this month, we informed employees at our mills in Jefferson, Texas and Huguley, Alabama that we would suspend production there indefinitely. Combined, these mills represent 915 million square feet of annual production capacity. Given our market outlook, these indefinite curtailments will better enable us to conserve cash and manage operating working capital.

In the U.K. where the majority of Norbord's European assets are located, housing starts fell 35% and house prices declined 16% in 2008. Both indicators are expected to weaken further in 2009. As a result, European OSB prices declined 15% versus 2007. Year-over-year, average annual particleboard and MDF prices were relatively unchanged. However, prices for these products trended down in the second half of '08. In this environment, Norbord curtailed 30% of its European capacity in the fourth quarter and 15% for the full year. We don't consider temporary or indefinite curtailments material in the current market environment and accordingly we will continue our practice of summarizing downtime at the end of each quarter.

In 2008, EBITDA was negative $60 million compared to positive $42 million in 2007. Higher input prices especially for resin and energy accounted for $81 million of the year-over-year decline. In the fourth quarter, we recorded EBITDA of negative $28 million company-wide compared to negative $9 million in the third quarter. This quarter-over-quarter change was due to the impact of lower production volumes and higher key input prices.

North American OSB generated negative EBITDA of $19 million in the fourth quarter and $46 million for the full year. Notable was the achievement of breakeven EBITDA in both the second and third quarters of 2008 in spite of continued input cost pressure and curtailed production volume.

Norbord's North American per unit OSB production costs increased 9% in 2008. This increase was largely due to higher prices for almost all of our key inputs combined with lower production volumes. The negative impact was partially offset by the benefit of increased productivity and improved usages. In the fourth quarter, our per unit cost increased 7% versus Q3 due to the impact of production curtailments and energy usages.

European operations recorded an EBITDA loss of $5 million in the fourth quarter and positive EBITDA of $4 million for the full year. European results in the second half of the year reflect a sharp deterioration of market conditions and continued input price pressure especially for resin and energy. Our European business is disproportionately impacted by rising input prices as these products are more resin and energy-intensive to produce.

It's important to note that significantly higher input prices had a dramatic impact on the global forest products industry in 2008. Oil prices peaked at about $140 a barrel and the knock on effect, particularly on energy and resin pricing, was an economic reality for most of the year. Input prices did start to ease towards the end of the fourth quarter and we are seeing further moderation so far this year.

Combined, fiber, resin and energy accounts for about 70% of Norbord's OSB production cost and prices for these inputs have increased sharply over the past five years. Our margin improvement program gains of $144 million realized over the past five years, including $14 million in 2008, limited the impact of these higher input prices on our earnings. Our plans for reduced operating rates in 2009 will limit the visibility of our margin improvement efforts in the near-term, but we will continue to progress the gains realized in prior years.

Operating working capital was reduced by $76 million during the year. The 2008 and 2007 accounts receivable balances are reduced by $68 million and $50 million, respectively, of accounts receivable sold under a securitization facility. So excluding the impact of the securitization, our operating working capital was reduced by almost $60 million. We worked aggressively throughout the year to minimize our investment in working capital and this will remain a priority in 2009.

I would also note that despite the current economic environment, Norbord's accounts receivable metrics remain in line with prior periods.

Operating activities consumed $13 million of cash in 2008 compared to generating $15 million of cash in '07. The decrease is largely due to a lower loss in the comparable period, and payment of the antitrust litigation settlement charge in 2008. This was partially offset by the reduced investment in operating working capital and receipt of sizable cash tax refunds in '08.

If U.S. President Obama's stimulus package is enacted as currently drafted, Norbord would be entitled to approximately $64 million of additional cash tax refunds, resulting from the extension of the loss carry back period from two to five years.

In 2008, we constrained capital investments to $27 million to reflect market conditions; $12 million of this was directed to complete the last of our U.S. MACT air emissions compliance projects. We will limit 2009 CapEx to less than $25 million, which will include only essential capital projects.

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

J. BARRIE SHINETON, PRESIDENT AND CHIEF EXECUTIVE OFFICER
Thank you, Robin. We agree with most expert opinions that the decline in U.S. housing was an early indicator of the current recession. We also agree that housing recovery will be the catalyst for a broader economic recovery. However, in our view there are several market adjustments that must occur before there is any meaningful improvement. Government stimulus packages have to filter through to the housing sector and that hasn't happened yet. Housing prices need to stabilize before buyers will reenter the market, although affordability is no longer the significant issue. Mortgage lenders must support the return of qualified and first time buyers back into the housing market. And, the high level of inventory of new and existing homes for sale must return to more normal levels.

Experts are forecasting annualized U.S. housing starts to drop below 0.8 million in 2009, with the first half of the year being at an even slower pace. Some of the same experts are suggesting that the market will bottom out later this year, but we don't expect to see any of the benefits of a housing recovery until late 2010 or perhaps early 2011.

In the U.K., the sharp decline in housing and financial markets is a more recent event. House prices were down 15% in 2008 and are forecast to decline a further 10% this year. We expect prices for all panel products in Europe to soften in 2009. Any recovery in the U.K., like in the U.S., will depend on how quickly financial markets stabilize and when mortgage lenders reengage.

However, it is important to remember that there are some real differences in U.K. housing. The market is not handicapped by an overhang of unsold homes. And, there is a systemic lack of affordable housing and pent-up demand continues to grow. So, when we see a recovery, it may well happen faster than in the U.S.

Norbord also benefits from a weaker pound that has depreciated 30% against the euro and dollar. This currency development makes it more difficult to import competing panels into the U.K. and will provide an opportunity for Norbord to export more of its products to the continent.

We believe Norbord has the right plan in place to manage for the remainder of the downtime. We will stay the course. We continue to believe OSB is the industry's best long-term growth opportunity. Our recapitalization initiatives have significantly improved our ability to access liquidity. We are comfortable with our cost position in North America although we recognize that the cost curve is flatter and others – as others have closed their high cost capacity. Foreign exchange is improving our competitive position in Europe. And, as always, we have the continued support of our major shareholder. We will be ready when markets recover.

Perhaps now I will turn things back over to the operator, who will open up the lines for any questions you might have.

Q&A

Operator
Thank you. [Operator Instructions]. We will standby for the first question. The first question comes from Ronald Redfield with Redfield, Blonsky. Please go ahead.

<Q - Ronald Redfield>: Okay, thank you. A question, just trying to look through everything, on the $240 million Canadian Rights Offering, $144 was supplied by Brookfield, is that correct?
<A - Robin Lampard>: That was their standby commitment. Yes.

<Q - Ronald Redfield>: Okay. So, $96 came from other parties. And were there any other Brookfield entities that were involved in that outside of the $144 million from Brookfield?

<A - Robin Lampard>: Just to be clear Ronald, the initial subscription which was the actual exercise of rights under the offering, there was $96 million that came in from that and the majority of that was Brookfield's exercise of its rights.

<Q - Ronald Redfield>: Okay. So essentially all the $240 was from Brookfield?

<A - Robin Lampard>: Not all of it, but a large part.

<Q - Ronald Redfield>: Okay, okay. And then, so the $240 Canadian then a lot of it I guess went back to Brookfield on the – how much did you owe them prior to any of the money coming in at the height?

<A - Robin Lampard>: We repaid them $75 million under the subordinated line.

<Q - Ronald Redfield>: And do you – so, and now you have a $50, formerly $100 but now a $50 million line of credit with them, is there any balance on that and was the old line all paid-off?

<A - Robin Lampard>: The old line was all paid-off and there is nothing outstanding under the new line.

<Q - Ronald Redfield>: Great. And then, in the conference call you mentioned support – you have support from the major shareholder, which is BAM, Brookfield, can you elaborate on what that support might be other than a $50 million line of credit?

<A - J. Barrie Shineton>: Brookfield has been a shareholder for many, many years in our company and they participate at Board meetings and they have always been supportive of the company, that was the context in which I said that, I think.

<Q - Ronald Redfield>: Okay. And then my last question is in the press release you realized in 2008, $26 million of investment hedges. Was this brokered by or related in anyway to Brookfield Asset Management or any of their entities?

<A - Robin Lampard>: No, it is not. That is our balance sheet hedging program. We do hedge the investment we have in our foreign operations, which is our European operations. So, it's exposed to the Pound Sterling and the Euro. And as you know, the pound in particular went from 2.0 at the beginning of the year to 1.4 at the end of the year. And so the hedges we had ended up giving rise to some realized gains in the back half of the year.

<Q - Ronald Redfield>: So, what firm do you facilitate those hedges with?

<A - Robin Lampard>: We do them with high quality bank counter parties.

<Q - Ronald Redfield>: And not Trilon Bank Corp. or anything?

<A - Robin Lampard>: Nothing to do with Brookfield.

<Q - Ronald Redfield>: Great. Thank you very much. Have a good one, guys.

<A - Robin Lampard>: You're welcome.

Operator
Thank you. And the next question on the line comes from Paul Quinn with RBC Capital Markets. Please go ahead.

<Q - Paul Quinn>: Yeah, thanks. Just a couple of questions, one is on just the downtime. I understand you've indefinitely curtailed Jefferson and I guess Huguley at the end – or in March, was Jefferson running in Q4?

<A - J. Barrie Shineton>: In Q4 yes, it was running in – Paul, in Q4. It was on a 10-4 schedule. But it took fairly extensive downtime in the month of December.

<Q - Paul Quinn>: Okay. So, essentially that mill hasn't run in 2009?

<A - J. Barrie Shineton>: That mill has not started up in 2009. No.

<Q - Paul Quinn>: Okay. And just trying to understand the context, I mean I understand things are very bad out there. But your comment of, you don't expect any benefits of the housing turnaround until late 2010, 2011, just trying to understand that.

<A - J. Barrie Shineton>: Well, put it this way, our business plan in 2009 has an OSB price that's roughly the same as the average OSB price for 2008.

<Q - Paul Quinn>: Okay. Great, that's helpful. Thanks.

Operator
Thank you. The next question in the line comes from Sean Steuart with TD Newcrest. Please go ahead.

<Q - Sean Steuart>: Thank you. Good morning, everyone. Just a couple of questions. Barrie, in your comments in the press release you talk about transitioning the North American OSB sales away from housing-related customers and more towards big-box retailers and industrial customers. Just wondering if you can go into a bit more detail there with respect to marketing initiatives and how far along you are in that process already?

<A - J. Barrie Shineton>: I think Sean you are already aware that the big-box sector was a significant part of our customer base and a significant part of our strategy, and has been for many years. We continue to be able to sort of lever all the work we've done in the past. And in fact we are doing – more and more of our capacity is going to that sector.

<Q - Sean Steuart>: Okay. And just one other question on Europe **-**

<A - J. Barrie Shineton>: I could just add, in Q4 probably over – well over 40% of our business was directed that way.

<Q - Sean Steuart>: Okay. And for Europe in Q4, still EBITDA negative, but the loss narrowed a bit from the third quarter, is that all foreign-exchange related or is there something else there we should be looking at?

<A - Robin Lampard>: Certainly the foreign-exchange does have a big impact when we've seen the kind of move that we saw in the Pound in the back half of the year Sean, so that is part of it. But, you heard us talk on our last conference call about how things really turned in the third quarter in Europe and that obviously continued in the fourth quarter.

<Q - Sean Steuart>: Okay. That's helpful. Thanks.

<A - Robin Lampard>: You're welcome.
Operator
Thank you. The next question in the line comes from Daryl Swetlishoff with Raymond James. Please go ahead.

<Q - Daryl Swetlishoff>: Well, thanks. Good morning, just two questions, first on cost. You mentioned that you saw a significant cost increases on inputs mainly related to energy and resin. Now we've seen prices come off from methanol and obviously in the oil and gas area, what's your cost outlook for 2009?

<A - J. Barrie Shineton>: Well, Daryl if you sort of look at any of the trending you might do you'll see that the derivatives from oil which make up the inputs in resin of course, peaked in about July 2008. And the prices we are looking at in quarter one are down about 40% from those peaks.

<Q - Daryl Swetlishoff>: Okay, so...

<A - J. Barrie Shineton>: So, if you think going back, that is about 25% of our cash manufacturing costs on average. That 40% reduction has a pretty significant impact on our overall manufacturing cost.

<Q - Daryl Swetlishoff>: Right. And the lag – have you ever looked at the lag between methanol price and the resin price or is it fairly coincident with respect to timing of reduction?

<A - J. Barrie Shineton>: No, we look at the lag all the time and we understand it almost never and we continue to try to analyze it and figure it out.

<Q - Daryl Swetlishoff>: So, it's not a constant lag that you can [inaudible]?

<A - J. Barrie Shineton>: It depends whether your suppliers are buying on the spot market, whether they have long-term contracts and often that information is hard to get at.

<Q - Daryl Swetlishoff>: How far ahead do you buy typically your resin supply?

<A - J. Barrie Shineton>: Well, it's purchased basically on a tolling kind of arrangement where we use indices for the raw material inputs, plus some markup for overheads and profit. So, it's really a pass-through kind of arrangement on the pricing.

<Q - Daryl Swetlishoff>: Okay. And the figure you gave would include transportation as well?

<A - J. Barrie Shineton>: Figure for what?

<Q - Daryl Swetlishoff>: When you mentioned that the cost reductions you expect this year or was that – sorry, I just want to clarify if that was only on resin inputs or all inputs?

<A - J. Barrie Shineton>: I was talking principally about resin inputs being down 40% or – sorry resin costs being down 40%.

<Q - Daryl Swetlishoff>: Okay. So, the transportation cost would be on top of that, if there is...

<A - J. Barrie Shineton>: Transportation would be on top of that, yeah.

<Q - Daryl Swetlishoff>: Okay. That's all I had. Thank you very much.

<A - J. Barrie Shineton>: Thanks Daryl.

Operator
Thank you. The next question comes from Michael Boam with BlueBay Asset Management. Please go ahead.

<Q - Michael Boam>: Hi. A few questions if I may. I know that you haven't disclosed how much incremental margin you are paying on your – on the revised bank facility, but could you maybe just give us some guidance as to where you see cash interest coming in 2009. And also, can I just confirm a few others number, the tax rebate, I think it's just about $13 million for this year. And I have cash restructuring costs of around $15 million, are those numbers in line with what you are thinking or substantially different?

<A - Robin Lampard>: Let me just go through them one by one, you are asking. We don't ever give guidance on any of our forward-looking numbers, Michael. But I think you can appreciate that the bank market pricing has increased significantly in the environment that we are in and so our bank lines are clearly going to cost us more.

You were asking about tax refunds, we do have $13 million already set up as a receivable as you'll see on our balance sheet. That is what we would expect to receive in '09. And then, as I mentioned in my prepared remarks, if the U.S. stimulus package goes through as it is currently written, we could recover another additional $64 million.

And then, your third question can you repeat it?

<Q - Michael Boam>: Just in terms of any cash restructuring costs that you are likely to face this year?

<A - Robin Lampard>: It would not be anything too meaningful. We've closed the two mills as we talked about in Jefferson and Huguley and there would be no material severance charge there.

<Q - Michael Boam>: Okay. You have mentioned that you've roughly registered for a flat OSB price this year. Given that raw materials are down so much, would you expect some up-tick in margins or would you say that the industry will just give all of those away pretty much, so it's already given that capacity utilization is so low?

<A - J. Barrie Shineton>: I guess, I'd answer it this way. We think there might be some upside in lower input costs and we certainly expect our competitors to give it all away.

<Q - Michael Boam>: Okay. Thank you.

<A - Robin Lampard>: You're welcome.

OPERATOR
Thank you. And I would now like to turn the conference back over to Mr. Shineton. Please go ahead.

J. BARRIE SHINETON, PRESIDENT AND CHIEF EXECUTIVE OFFICER
Thank you very much. I appreciate everybody that took the time to engage us today and we look forward to updating you on our progress in April. So, thanks and goodbye everybody.

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