NORBORD INC.
Q4 2009 CONFERENCE CALL
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CORRECTED TRANSCRIPT

OPERATOR
Good day, everyone, and welcome to Norbord, Incorporated 2009 fourth quarter 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 future information on known risks, please see the caution regarding forward-looking information statement in Norbord's March 2, 2009 annual information form and the cautionary statement contained in the Forward-Looking Statement section of Norbord's Management's Discussion and Analysis dated January 29, 2010.

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

J. BARRIE SHINETON, PRESIDENT AND CHIEF EXECUTIVE OFFICER
Thank you, Renee. Good morning, everyone, and welcome to Norbord's year end conference call. 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. Both our fourth quarter and our full year results were better than we anticipated. We were EBITDA positive in both North America and Europe in quarter four and break-even for the full year.

Fourth quarter EBITDA was, in fact, $34 million better than quarter four of 2008. While we still generated negative earnings for the year, I'm feeling much better today about Norbord's business outlook than I did at this time last year.

I'll comment on my view of 2010 after Robin's review of the quarter and full year results. As always, we'll take your questions after our prepared remarks. Over to you, Robin.

ROBIN E. LAMPARD, SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER
Thanks, Barrie. U.S. housing starts dropped to 0.55 million in 2009, a 39% decline from 2008 actual starts.

We believe this historically low number represents the bottom of the housing cycle. You see the same housing forecasts that we do for 2010, indicating that housing will be in the 0.6 to 0.9 million range this year. In our view, starts will fall somewhere in the middle of that range, still representing a 25% increase over 2009.

Benchmark North Central OSB prices averaged $172 in Q4 and $163 for the full year 2009, modestly lower than 2008's average North Central price of $172. As we tell you each quarter, the

South East benchmark is more relevant to Norbord with a significant portion of our production capacity located in that region.

South East benchmark prices averaged $154 in Q4 and $148 for the full year, slightly better than 2008's average South East price of $143.

Our North American OSB mills ran at 60% of capacity in both the fourth quarter and the full year 2009, down from 80% in 2008. Put another way, we curtailed 369 days of OSB production in the fourth quarter and 1,362 days for the full year.

In the U.K., where the majority of Norbord's European assets are located, housing starts fell an additional 20% in 2009. However, the second half of the year saw a gradual improvement, with December housing prices 6% higher than the prior year.

European panel prices declined by 20% for OSB, 16% for MDF and 6% for particle board in 2009 versus 2008. Prices for all three product lines were under pressure at the beginning of 2009 and stabilized by mid-year.

OSB prices began to recover, particularly in the fourth quarter, as a result of improved demand, low supply chain inventory and higher imported plywood prices across Europe. Our European mills operated at 80% of capacity throughout the fourth quarter and the full year compared to 85% in 2008.

Our EBITDA was break-even in 2009 compared to negative $60 million in 2008, with approximately two-thirds of this improvement generated by our North American operations. Our work to conserve cash was helped in the year by a significant decline in manufacturing input prices, especially for resin and wax. The lower input prices accounted for a $61 million improvement in our EBITDA.

In the fourth quarter, we recorded positive EBITDA of $6 million versus negative EBITDA of $28 million in the fourth quarter of 2008. The quarterly improvement comes from continued overhead cuts, lower input prices, higher shipment volumes in Europe and the benefits of the indefinite production curtailments we took in Alabama and Texas. A full EBITDA variance analysis for 2009 and the fourth quarter can be found in our MD&A.

North American operations generated positive EBITDA of $1 million in the fourth quarter and negative $8 million for the full year. This is a significant improvement against negative EBITDA of $19 million in the fourth quarter of 2008 and negative $46 million for the full year '08.

Norbord's North American per unit OSB cost decreased 7% in 2009 from the prior year. The decrease was largely due lower key input prices, partially offset by the impact of lower production volume. In the fourth quarter, our per unit cost increased by 8% over Q3 due to higher resin and fiber prices, lower production volumes and higher key input usages.

European operations recorded positive EBITDA of $7 million in the fourth quarter and $17 million for the full year. Lower key input prices and cost reduction initiatives contributed to the improved results, despite significantly lower panel prices during the year.

As I told you earlier, lower input prices improved Norbord's overall EBITDA result by $61 million in 2009. Cycle-high global commodity prices began to soften in late 2008 and continued a rapid decline through the first half of 2009. Input prices bottomed in the third quarter and are expected to trend up in 2010.

Margin Improvement Program gains of $29 million in 2009, measured relative to 2008 at constant prices and exchange rates, limited the impact of lower panel prices on earnings in 2009. Contributions to MIP included key input usage reduction initiatives, lower overhead and maintenance operating supply initiatives.

Operating working capital increased by $11 million during the year to negative $42 million on December 31, 2009 compared to negative $53 million at December 31, 2008. The modest increase in working capital was largely driven by fewer production curtailments taken at the end of 2009 compared to the prior year end. On the positive side, we implemented raw material and supplies of inventory reduction initiatives in 2009 resulting in lower levels year-over-year. We worked aggressively again this year to minimize our investment in operating working capital and this will remain a priority in 2010.

I'll also note that Norbord's accounts receivable performance metrics remained in line with prior periods.

Operating activities consumed $35 million of cash in 2009 compared to $13 million in 2008. In 2009, interest expense and the modest increase in operating working capital were partially offset by $10 million of cash tax refunds. 2008 operating cash flow had been significantly boosted by the $75 million of cash tax refunds we received that year.

As you know, the U.S. government passed the Worker, Homeownership and Business Assistance Act late last year that extended the current loss carry back period from two to five years with respect to either the 2008 or 2009 net operating losses. Norbord has carried back its 2008 losses to the prior years and set up a net tax receivable of $55 million at year end. Subsequent to year end we did receive this cash tax refund.

In 2009 we constrained capital investments to $14 million, which covered essential maintenance and the completion of an efficiency improvement project at our mill in Joanna, South Carolina. Although $14 million was extremely low, we are prepared to keep CapEx at this level or lower in 2010, depending on OSB market conditions.

We finished the year with liquidity of $241 million, net debt to capitalization of 58% versus our 70% bank line covenant, tangible net worth of $334 million versus our $250 million bank line covenant. And with the receipt of our U.S. tax refund earlier this month, we fully paid down our bank line drawings. We're comfortable with our balance sheet and have sufficient access to liquidity to manage through the remainder of this downturn.

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

J. BARRIE SHINETON, PRESIDENT AND CHIEF EXECUTIVE OFFICER
Thank you, Robin. Overall, as I commented at the beginning, I'm feeling better about our business outlook than I did this time last year.

We will see better U.S. housing numbers and panel demand this year, although I do expect it to be a bumpy and fragile recovery. Limited mortgage availability, higher unemployment and an unprecedented level of foreclosures will continue to be problematic.

However, we still believe longer term the demand fundamentals of new household formation and immigration will eventually push housing starts back to the 25-year trend of around 1.5 million per year.

Our European mills will do better again in 2010 as the U.K. economy recovers. Unemployment is moderating, credit availability has improved for home buyers and house prices appear to have stabilized in the U.K. Our operations will continue to benefit from the weak pound sterling relative to the euro. This trend is providing Norbord with sales growth opportunities locally and new export opportunities for our U.K.-based manufacturing.

Now remember that our biggest OSB and MDF competitors are all euro-based companies. Our view is that the U.K. housing recovery and improved panel demand will outpace North America.

In North America our OSB sales are strongly biased now to industrial and home improvement centers and in 2009 these two market segments had a positive effect by limiting our exposure to new home construction. Sales growth in these market segments will continue to be a key focus again in 2010.

Our recapitalization program is complete and Robin has told you that Norbord's financial ratios are stable and our bank lines are undrawn. We will see the full savings from the overhead cost reduction initiatives and our curtailment decisions flow through in 2010. SG&A costs are down by 30% since the beginning of 2008.

So to sum up, I'm cautiously optimistic as we head into 2010. We have a better looking business plan. Our recapitalization initiatives are complete. We have efficiently adjusted our production capacity to conserve cash.

We have a solid customer base and a home for all our planned sales volume. The economy in the U.S. and the U.K. is improving, although I think the shape of any housing recovery in North America and Europe will be difficult to predict.

With that, I'll turn things back over to the operator, who will open the lines for your questions.

Q&A

Operator
[Operator Instructions] And our first question comes from Sean Steuart from TD Newcrest. Please go ahead.

<Q - Sean Steuart>: Thanks. Good morning, everyone. Just a couple of questions, Barrie, first the wet weather in the U.S. south, any issues with fiber availability, anticipate that that might feed into Q1 results at all?

<A - J. Barrie Shineton, President and Chief Executive Officer>: Good question. I mean we had a very significant issue, Sean, in quarter four with the unprecedented rainfall down south. I think I said to the Board, we lost 20 mill days due to log shortages in our southern mills combined and, of course, you know we had unprecedented or very cold weather down there in the beginning of this year. We seem to be managing okay. We haven't seen any increase in wood prices in the north and in the Great Lakes area, but we are seeing pressure on wood costs in the south. That pressure is all, in our view, weather-related.

<Q - Sean Steuart>: Any order of magnitude percentage change we might expect to see in the first quarter?

<A - J. Barrie Shineton, President and Chief Executive Officer>: We're seeing costs up. It's very local, as you know, of course, but I would say somewhere between $4 and $7, $4 and $6.

<Q - Sean Steuart>: Okay. And...

<A - J. Barrie Shineton, President and Chief Executive Officer>: We expect that to correct, of course, as soon as the weather cooperates and it stops raining in Mississippi and places like that.

<Q - Sean Steuart>: Right. Second question on the CapEx program, clearly you're going to keep it constrained next year and you have been for quite some time now. Just your ability to keep spending at these low levels indefinitely, is there a stage at which you're going to have to start to put more money back into the mills?

<A - J. Barrie Shineton, President and Chief Executive Officer>: Well we can't keep spending at these levels indefinitely, Sean. This is bare-bones capital and the trigger will come when we are in a different market dynamic and we want to run more of our capacity. We will have to invest money when we take decisions to, for example, bring our indefinitely curtailed mills back.

<Q - Sean Steuart>: Okay. That's all I had. Thank you.

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

Operator
Thank you. And our next question comes from Benoit Laprade from Scotia Capital. Please go ahead.

<Q - Benoit Laprade>: Yeah, good morning, Barrie. Just because you said you feel more, I guess, confident at this point than a few months ago, can you give us some color on how that would translate into how you're stocking your yards in terms of log at this time of the year, are you building inventory outside that are idled in preparation for hopefully a summer spike? Or what's your thinking at this point in terms of ability to be ready to run if demand is there?

<A - J. Barrie Shineton, President and Chief Executive Officer>: Benoit, I think that I'm more positive going into 2010 than I was going into 2009. Generally I have been more positive about our business in the last half of 2009. With respect to working capital, we are keeping iron clad controls on working capital everywhere. We think it's still the prudent thing to do and so we are running with pretty bare-bone inventories everywhere. It's that decision that got us into a little bit of trouble in the fourth quarter and led to some of the log-related curtailments, but I still think it's the right thing to do. You know, though, that we have traditionally a working capital build in quarter one as we replenish our log yards in the winter logging season.

<Q - Benoit Laprade>: So would that mean that you're also bringing logs to the mills that are indefinitely curtailed at this point?

<A - J. Barrie Shineton, President and Chief Executive Officer>: I'm sorry, Benoit, I missed your question?

<Q - Benoit Laprade>: I'm just curious to see if you were also building log inventory at mills that are curtailed for now?

<A - J. Barrie Shineton, President and Chief Executive Officer>: That are indefinitely curtailed, no we're not.

<Q - Benoit Laprade>: Okay. Thank you.

Operator
Thank you. And our next question comes from Paul Quinn from RBC Capital Markets. Please go ahead.

<Q - Paul Quinn>: Yeah, thanks. Good morning, guys. Just a couple questions, one on the operating rate, I guess 60% in Q4 and you're suggesting 20% is due to the curtailment of Huguley and Jefferson, which suggests to me, by my grade eight math, that 20% is due to lower production. Just wondering how much of that is due to the wet weather in the South or whether you're taking sort of rotating production outages at all the mills?

<A - J. Barrie Shineton, President and Chief Executive Officer>: Good morning, Paul. I actually knew those numbers some time prior to the Board meeting and I can't remember them now, but your arithmetic is right. The two indefinitely curtailed mills take about 20% of our capacity out. The weather-related curtailments were actually a relatively small percentage of the remaining curtailment, as I recall. It wasn't significant. I think Robin gave you some numbers, you can probably go back and work those numbers and get to your answer or maybe she can quicker, since your arithmetic isn't that good.

<Q - Paul Quinn>: Okay. Maybe I'll just ask another one. In terms of the sales strategy, you're pointing out to increased sales to home centers and sort of industrial customers. How has that changed over time, so maybe give us a sort of percent sales into those areas in 2008 versus 2009 or the reverse?

<A - J. Barrie Shineton, President and Chief Executive Officer>: I'm going to decline to give you any numbers on that, Paul, but this is a long-standing sales strategy. This isn't any change that I would take credit for. We've had this bias in our sales for a long time and we continue to work in that direction and we just think it's worked a bit in our favor as we go into this kind of very difficult market.

<Q - Paul Quinn>: Okay. So without giving numbers, is it a material shift between the years or is it just a continuation of the program that's been ongoing for the last five years?

<A - J. Barrie Shineton, President and Chief Executive Officer>: Well if you want to go back five years it's a significant shift, yes.

<Q - Paul Quinn>: All right. That's all I had. Thanks, guys.

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

Operator
Thank you. And our next question comes from Pierre Lacroix from Desjardins Securities.

<Q - Pierre Lacroix>: Yes, thank you very much. Good morning, Barrie. Just want to get a sense how fast, you're running at 60% of operating rates, how fast can you bring the operating rates to 80%, let's say, how many months or what is the timing?

<A - J. Barrie Shineton, President and Chief Executive Officer>: Norbord's indefinitely curtailed mills, I'll talk about Norbord. The indefinitely curtailed mills are going to take a long time to bring back on and we'll have to plan for that well in advance of turning the key, if you like.

We have issues with hiring labor and putting working capital into the mills to start it. The decision ultimately would be base on how strongly we felt about pricing and order files. I don't see making that kind of decision with our indefinitely curtailed mills anytime soon. With respect to mills that are running on with partially curtailed shifts, we can bring that capacity back on fairly quickly, not instantaneously, but fairly quickly.

<Q - Pierre Lacroix>: Okay. Otherwise said, you can bring the capacity from 60% to 80% relatively quickly, but the remaining 20% will be tougher because it's idle mills, right?

<A - J. Barrie Shineton, President and Chief Executive Officer>: You said that much more eloquently than I did. Thanks.

<Q - Pierre Lacroix>: Thank you. Just one last, you mention in the report at some point you mention that superior operating performance and prudent balance sheet management will allow you to access private and public markets whenever it's needed. Can you expand a little bit on that comment you did in the release and do you mean that you are looking for acquisitions more actively right now or what do you mean by that?

<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>: Pierre, it's Robin. That's a statement that we typically have in our MD&A, more of a generic statement just saying that we believe we will have access to capital markets when we need it. There's nothing in particular that drew that comment out this year. We're always looking at our debt maturity profile, as all companies are, which we're pretty comfortable with. We have a bond maturity in 2012, another one in 2017 and our bank lines are 2011, so we believe we'll have access to the markets when we need them.

<Q - Pierre Lacroix>: Okay. It doesn't mean that you are especially active on looking at acquisitions?

<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>: It does not mean that.

<Q - Pierre Lacroix>: Are you?

<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>: I can't comment on any specific opportunities obviously, Pierre, but you shouldn't be reading anything into it. It's a statement just simply saying we believe we'll have access to the markets when we need it.

<Q - Pierre Lacroix>: Okay. Thank you very much. Have a good day.

<A - J. Barrie Shineton, President and Chief Executive Officer>: But I would say, Pierre, that we always say and we'll continue to say that we are interested in growing the Company and in this part of the cycle we would likely see that by acquisition.

<Q - Pierre Lacroix>: Okay. Thank you very much.

Operator
Thank you. And our next question comes from Richard Skidmore from Goldman Sachs. Please go ahead.

<Q - Richard Skidmore>: Hi, good morning, Barrie and Robin. Just a quick question for you, Barrie, just on the near term outlook in housing and how you're seeing that play out, you mentioned you're a little bit more optimistic going into '10 than you were in 2009, but the path might be a little bumpy. Can you just talk about what you're seeing currently over the next two to three or four months from your customers, specifically in the single family housing start side?

<A - J. Barrie Shineton, President and Chief Executive Officer>: Well I would start by answering your question, Richard, by saying that I'm the guy that's, I think, usually holding down the more pessimistic viewpoint on housing recovery. So I guess this is a little bit of a shift for me. I think the first half of 2010 will be very confusing and I think there will be a lot of mixed messages. I think there will be a lot of contradictory reports [on housing].

We have different views in our own office here about what 2010 will look like from a housing recovery point of view, but having said all of that, I think panel demand will be better and I'm optimistic somewhat that pricing and order files will be more robust as we go into 2010. But I still hold the view that I won't be speaking to you in a positive tone about housing until we're into 2011.

<Q - Richard Skidmore>: Okay. So maybe just to rephrase that, are you seeing anything that gives you confidence that housing is ticking up here with the normal seasonal building season coming in the next couple of months or is it still a little too early to tell?

<A - J. Barrie Shineton, President and Chief Executive Officer>: I think [2010] housing numbers will be better for the year. Our plan is based on 750,000 housing starts, which is still crap, of course, but it's 30% better than last year.

<Q - Richard Skidmore>: Yeah. And then just back to a question that was asked earlier about the capacity restarting, when you look at restarting capacity is that a function more of price or more of order files?

<A - J. Barrie Shineton, President and Chief Executive Officer>: I think for us it's order file first, I mean sustainable order file first, an order file that makes sense, which I guess has a price implication.

<Q - Richard Skidmore>: Okay. Thank you.

<A - J. Barrie Shineton, President and Chief Executive Officer>: You're welcome.

Operator
Thank you, ladies and gentlemen. [Operator Instructions] And our next question comes from Michael Boam from BlueBay. Please go ahead.

<Q - Michael Boam>: Hi. You sort of touched on margin to some degree. Your prepared comments mention that raw materials really hit a bottom in terms of the P&L during the third quarter. I just wondered if you could sort of talk to how you see margin, your margin over raw materials at least developing sort of through the early part of the year, is pricing moving to cover those increased costs still or not really at the moment?

<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>: Well, Michael, pricing has continued to move up so far this year. You can see that through the Random Lengths weekly reporting. I think North Central is currently at a price of $200 and South East is at $188 in the most recent Random Lengths print prices. So prices are clearly so far have sustained a bit of upward momentum.

With respect to input costs, I think what we said is they have hit bottom. We don't expect them to go lower and in fact we have seen a slight trend up in the fourth quarter and so far in the first quarter and it's primarily related to resin, which is the feed through from the higher oil prices that we've seen. So both sides of the equation are moving up. I can't really give you an indication of magnitude right now. If you just look at our input prices in the variance table for the fourth quarter versus the third quarter, overall for all key inputs they took $3 million out of our EBITDA in the fourth quarter, so we're not talking huge, huge numbers here.

<Q - Michael Boam>: Yeah.

<A - Robin E. Lampard, Senior Vice President and Chief Financial Officer>: With regards to the magnitude.

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

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

Operator
Thank you. And our next question comes from Daryl Swetlishoff from Raymond James. Please go ahead.

<Q - Daryl Swetlishoff>: Thanks. Barrie, can I ask you to speculate if we were to – what level of housing starts based on your knowledge of the indefinitely and maybe permanently closed capacity, what level of housing starts do you think we need to get back to a trend price of, I don't know, maybe $300 or so, what's Norbord's assessment of that?

<A - J. Barrie Shineton, President and Chief Executive Officer>: Daryl, I always thought it was your job to speculate, not mine. I'm looking forward to reading your comment on that question.

<Q - Daryl Swetlishoff>: So no guess, like we don't need – do you think, maybe to phrase it this way, do we need to see peak housing starts, I mean, what are we running at, 30% of peak right now, do we need to see the peak level of housing given all of the capacity that's been added or are you comfortable that we can get a decent price with a decent associated return with something like a million-and-a-half housing starts?

<A - J. Barrie Shineton, President and Chief Executive Officer>: I think the market will be a healthy market at a million-and-a-half housing starts.

<Q - Daryl Swetlishoff>: Okay.

<A - J. Barrie Shineton, President and Chief Executive Officer>: I think that our base line we still have a number of 7.4 billion square feet of capacity sitting out there, but the reality is I think when the dust settles and we're out of this recovery there isn't going to be that level of capacity in the industry. So there are some indefinitely curtailed mills in my view that will never start. How all of that shakes out, I don't want to – I mean I wouldn't speculate on this call anyway.

<Q - Daryl Swetlishoff>: Okay. Fair enough. Thank you.

OPERATOR
Thank you. There are no further questions at this time. Please continue.

J. BARRIE SHINETON, PRESIDENT AND CHIEF EXECUTIVE OFFICER
Thank you, Renee. Robin and Anita are available to respond to any questions any of you might have. I look forward to updating you in April when we report our Q1 results. Thanks very much.

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