

**PROPOSAL BY THE BOARD OF DIRECTORS OF BILLERUD AB (PUBL) ("BILLERUD")
TO THE ANNUAL GENERAL MEETING OF SHAREHOLDERS 2010 REGARDING THE
INTRODUCTION OF THE LONG TERM INCENTIVE PROGRAM AND TRANSFER OF
SHARES UNDER THE PROGRAM (ITEM 18 ON THE AGENDA)**

a) **INTRODUCTION OF LONG TERM INCENTIVE PROGRAM ("LTIP 2010")**

1.1 Background

The 2007 Annual General Meeting decided to introduce a long term incentive program for Billerud and transfer of shares under the program. The program consisted of (i) a long-term incentive program for all employees featuring so-called share matching, and (ii) a long-term incentive program with so-called performance shares, for managers and key employees of the Billerud Group. The Long Term Incentive Program from 2007 ("LTIP 2007") will expire during 2010. As a result, the Board of Directors now proposes a new Long Term Incentive Program ("LTIP 2010").

Compared with previous program, LTIP 2010 contains no right to acquire Billerud shares with a discount during an exercise period after a vesting period. Instead, the participants are allotted a certain amount Billerud shares free of charge, after a three year vesting period, provided that certain conditions are fulfilled. The performance conditions are based on similar conditions as those for LTIP 2007. The underlying basic principles for compensation under the program are that the compensation shall be dependent on the creation of long term shareholder value and the fulfillment of Billerud's financial objectives.

1.2 LTIP 2010 in brief

The Board of Director's main objective with the proposal of LTIP 2010 is to strengthen Billerud's capability to retain the best talent for key leadership positions. The aim is further to stimulate the managers and key employees whose efforts have direct impact on Billerud's result, profitability and value growth, to increased efforts by aligning their interests and perspectives with those of the shareholders.

LTIP 2010 comprises a total of maximum 90 managers and other key employees within the Billerud Group divided into two categories, identified as essential to the future development of the Billerud Group. To participate, the participants must own Billerud shares. The Billerud shares could be previously held or purchased in the market in conjunction to the notification of participation under the program. Thereafter, the participants will be allotted Billerud shares, free of charge, after the vesting period, commencing on the day when the LTIP 2010 agreement is entered into and ending in conjunction with the publication of Billerud's first quarter report for the year 2013, provided that certain conditions are fulfilled.

The Board of Directors intends to propose to future annual general meetings to adopt long term incentive programs with principles similar to those of the now proposed LTIP 2010.

1.3 Participants in LTIP 2010

LTIP 2010 comprises a total of maximum 90 persons divided into two categories.

Category 1 consists of CEO, CFO, Snr Vice President Corporate Human Resources, Technical Director, Production Director and Business Area Directors (maximum nine persons).

Category 2 consists of Mill Managers, Forestry Director, Management Teams of the Mills, Business Area Managers, Sales Office Managers and certain other executives (maximum 81 persons).

1.4 Personal investment and allotment of share rights

To participate in LTIP 2010, the participants must purchase Billerud shares at market price on NASDAQ OMX Stockholm ("Saving Shares"). Previously held Billerud shares are also included in the Saving Shares.

Participants in Category 1 are offered to allocate Saving Shares not exceeding a number equal to 10% of the participant's base salary as per year end 2009 divided by the closing price of the Billerud share per December 30, 2009 (SEK 53.25) (the "Closing Price").

Participants in Category 2 are offered to allocate Saving Shares not exceeding a number equal to 5% of the participant's base salary as per year end 2009 divided by the Closing Price.

Saving Shares shall normally be purchased or allocated to the program during a period of approximately two weeks during May 2010, after the Annual General Meeting. In the event of new hires of managers and key employees after that period, an offer to participate might still be given under LTIP 2010 and purchases and allocations of Saving Shares be granted to those managers and key employees until the end of August 2010.

For each Saving Share that the participant invests in and locks in to LTIP 2010, the participant is, free of charge, allotted one (1) matching share right ("Matching Share Right") and three (3) performance share rights ("Performance Share Right") (together referred to as "Share Rights"). Provided that the conditions set out below in 1.5 and 1.6, respectively, are fulfilled, the Share Rights entitle to allotment of Billerud shares as described below. Allotment of Billerud shares, by virtue of the holding of Share Rights, is made after the publication of Billerud's first quarter report for the year 2013, however not earlier than three years after the LTIP 2010 agreement is entered into ("Vesting Period").

1.5 Matching Share Right

For each Saving Share that the participant invests in and locks in to LTIP 2010, the participant is, free of charge, allotted one (1) Matching Share Right, which entitles the participant to, free of charge, receive one (1) Billerud share, based on the conditions set out below:

- (i) the participant must remain employed within the Billerud Group during the Vesting Period; and
- (ii) all Saving Shares must be retained during the Vesting Period.

1.6 Performance Share Right

For each Saving Share that the participant invests in and locks in to LTIP 2010, the participant is, free of charge, allotted three (3) Performance Share Rights. The Performance Share Rights are divided into three series, series A-C. The allotment of Billerud Shares due to Performance Share Rights of series A-C requires that the conditions for the Matching Share Rights are fulfilled. In addition, allotment of Billerud Shares due to Performance Share Rights requires fulfillment of certain performance conditions. The performance conditions vary for the respective series and are based on financial goals during the financial years 2010-2012. The Board of Directors intends to present whether the conditions have been fulfilled in the annual report of 2013.

1.6.1 Series A

The performance conditions for the Performance Share Rights of series A relate to Billerud's average operating margin for the period 2010-2012 ("EBIT Margin"). The maximum level of allotment under the performance conditions is an EBIT Margin of 12% and the minimum level of allotment is an EBIT Margin of 8%.

If the EBIT Margin amounts to the maximum level of 12% or more, maximum allotment of one (1) Billerud share per Performance Share Rights of series A shall be made. If the EBIT Margin should be lower than 12%, but exceeding the minimum level of 8%, a linear reduction of the allotment of Billerud shares shall be made. If the EBIT Margin amounts to 8% or less, the Performance Share Rights of series A shall not entitle to allotment of Billerud shares.

1.6.2 Series B

The performance conditions for the Performance Share Rights of series B relate to Billerud's EBIT margin in comparison with the average operating margin for the period 2010-2012 for a peer group of certain selected companies ("Comparing EBIT-margin"). The peer group consists of companies and their business areas with businesses within the packaging paper and pulp industry that the Board of Directors has considered to be comparable to Billerud. The Board of Directors shall be authorized, in particular situations, to adjust the peer group's composition, which is composed by 80% respectively of DS Smith (Packaging exclusive Plastic), Gascogne, Korsnäs, SCA (Packaging), Smurfit Kappa (Packaging Europe), Stora Enso (Packaging) and Mondi (Bags and Specialties), and 20% of Södras pappersmassadel – Södra Cell.

If Billerud's EBIT-margin exceeds Comparing EBIT-margin, maximum allotment of one (1) Billerud share per Performance Share Rights of series B shall be made. If Billerud's EBIT-margin is the same or lower than Comparing EBIT-margin, the Performance Share Rights of series B shall not entitle to allotment of Billerud shares.

1.6.3 Series C

The performance conditions for the Performance Share Rights of series C relate to Billerud's total shareholder return for the period 2010-2012 ("TSR") in comparison with the total shareholder return for the period 2010-2012 for a peer group of certain listed Nordic companies ("Comparing TSR"), where the lowest and highest quotation of total shareholder return in the peer group shall be excluded when calculating the Comparing TSR. The Board of Directors shall be authorized, in particular situations, to adjust the peer group's composition which is composed by the listed Nordic companies in

the paper-packing business Holmen, M-Real, Norske Skog, Rottneros, SCA, Stora Enso and UPM. The maximum level of allotment under this performance condition is that TSR exceeds Comparing TSR by 10 percentage points or more and the minimum level is that TSR exceeds Comparing TSR.

If Billerud's TSR exceeds Comparing TSR by 10 percentage points or more, maximum allotment of 1 (one) Billerud share per Performance Share Rights of series C shall be made. If Billerud's TSR exceeds Comparing TSR, however with less than 10 percentage points, a linear reduction of the allotment of Billerud shares shall be made. If Billerud's TSR amounts to, or is less than Comparing TSR, the Performance Share Rights of series C shall not entitle to allotment of Billerud shares.

1.7 Terms and conditions for the Share Rights

In addition to what has been stated above, the following terms and conditions apply for both the Matching Share Rights and the Performance Share Rights:

- The Share Rights are intended to be allotted, free of charge, during May 2010. The Board of Directors is authorized to do allotments within the scope of LTIP 2010 due to new hires made after the first date of allotment, or in the case that Billerud is unable to launch LTIP 2010 during May 2010, however not later than August 2010.
- The participants are not entitled to transfer, pledge or dispose the Share Rights or perform any shareholder's rights regarding the Share Rights during the Vesting Period.
- Allotment, free of charge, of Billerud shares will take place after the publication of Billerud's first quarter report for the year 2013, however not earlier than three years after the LTIP 2010 agreement is entered into.
- Billerud will make no adjustments or compensations to the participants of LTIP 2010 due to dividend regarding the shares that the respective Share Right qualifies for.
- The maximum profit per participant is limited to an amount of SEK 200 per Share Right, equal to a maximum of 18 monthly salaries as regards participants in Category 1, and an amount equal to a maximum of nine monthly salaries as regards participants in Category 2. The calculation shall be done based on the salary on which the calculation of the number of Saving Shares that the participant has a right to purchase has been done (see item 1.4 above). In the event that the profit, when calculating the allotment according to LTIP 2010, should exceed this maximum limit of SEK 200 per Share Right, adjustment shall be made by consequently decreasing the number of Billerud shares that the participant is entitled to receive.

1.8 Detailed terms and administration

The Board of Directors, or a certain committee appointed by the Board of Directors, shall be responsible for determining the detailed terms and the administration of LTIP 2010, however within the scope of given frames and directions. In connection therewith, the Board of Directors shall be authorised to make the necessary adjustments to fulfil certain rules or market prerequisites in other jurisdictions. If delivery of shares cannot be accomplished at reasonable costs and with reasonable administrative efforts to persons outside Sweden, the Board of Directors shall be entitled to decide that the participating person may instead be offered a cash based settlement. The Board of Directors shall also

be entitled to decide on other adjustments in the event that major changes in the Billerud Group, the market or otherwise in the Billerud industry would occur, which would entail that resolved conditions for allotment and the possibility to use the Share Rights under LTIP 2010 would no longer appropriate.

1.9 Scope

In total, LTIP 2010 comprises a maximum of 86,600 Saving Shares, which can involve allotment of in total a maximum of 346,000 Billerud shares (a maximum of 86,600 due to the Matching Share Rights and a maximum of 259,800 due to the Performance Share Rights). An additional 109,000 Billerud shares are assigned for shares that can be transferred by Billerud in order to hedge certain costs, mainly social security costs. The maximum number of Billerud shares which are included in the LTIP 2010 are thus 455,400, which correspond to approximately 0.4 % of the number of outstanding Billerud shares.

1.10 Hedging

The LTIP 2010 leads to a certain financial exposure for Billerud, due to market price changes for the Billerud share.

In order to hedge the financial exposure for Billerud, the Board of Directors proposes that the Board of Directors shall have the right to decide on alternative methods for transfer of shares under LTIP 2010. The Board of Directors therefore proposes to have the right to decide to transfer own shares (under item b below) or to enter into so-called equity swap agreements with a third party in order to meet the requirements under LTIP 2010. The Board of Directors regards the first alternative to be the most cost efficient and flexible arrangement for the conveyance of Billerud shares and for covering certain cost, mainly social security cost.

1.11 Estimated costs and values of the LTIP 2010

The Share Rights cannot be pledged or transferred to others. An estimated value for each right can however be calculated. The Board of Directors has estimated the average value of each Share Right to SEK 37.20. The estimation is based on generally accepted valuation models using the closing price for the Billerud share on March 2, 2010, statistics on the share price development as well as projected dividends. The aggregate estimated value of all the 86,600 Matching Shares and 259,800 Performance Shares, based on a 59% fulfillment of the performance conditions and estimations on turnover of personnel, is approximately SEK 8,000,000. The value is equivalent to approximately 0.16% of the market capitalisation for Billerud as of March 2, 2010. The costs are treated as a staff cost in the profit and loss accounts and it is expensed over the first 36 months, i.e. the Vesting Period, in accordance with IFRS 2 on share-based payments. In the profit and loss accounts, social security costs will accrue in accordance with UFR 7 during the Vesting Period. The size of these costs will be calculated on the Billerud share price development during the Vesting Period and allotment of the Share Rights. Based on a theoretical assumption of a yearly increase of 10% of the share price and a Vesting Period of three years, the cost for LTIP 2010 including social security costs equals approximately SEK 12,000,000, which is on annualized basis equivalent to approximately 0.3% of Billerud's total staff costs for the financial year 2009. The maximum cost for LTIP 2010, based on the above assumptions, equals approximately SEK 35,000,000, including SEK 22,000,000 in social security costs.

1.12 Effects on key ratios

In the event of full participation in LTIP 2010, Billerud's staff costs are expected to increase with approximately SEK 4,000,000 annually. On a proforma basis for 2009, these costs equal a negative effect on Billerud's operating margin of approximately 0.05 % and a decrease of earnings per share of approximately SEK 0.04.

Nevertheless, the Board of Directors considers that the positive effects on the result, which are expected to arise from the increase of the shareholding by managers and other employees and which, in addition, may further be expanded by the shareholding in LTIP 2010, exceed the costs related to LTIP 2010.

1.13 The preparation of the proposal

LTIP 2010, which is based on the previous long term incentive program, has been initiated and prepared by the Board Compensation Committee together with external advisors. At the Board meeting on March 16, 2010 the Board of Directors resolved to propose to the Annual General Meeting of Shareholders to decide on the current proposal for the LTIP 2010.

1.14 The Board of Directors proposal

Referring to the above-mentioned description, the Board of Directors proposes that the Annual General Meeting resolves to adopt LTIP 2010.

1.15 Majority Requirement

A resolution to introduce LTIP 2010, in accordance with the Board of Directors's proposal, is valid where supported by shareholders holding more than half of the votes cast at the General Meeting of Shareholders.

b) TRANSFER OF SHARES UNDER THE LONG TERM INCENTIVE PROGRAM

1.1 Background

In order to implement the LTIP 2010 in a cost efficient and flexible manner, the Board of Directors has considered different hedging methods for the transfer of shares under the program. Based on these considerations, the Board of Directors intends to hedge the financial exposure related to LTIP 2010, by way of entering into an equity swap agreement with a third party (in accordance with the resolution under item 1.10 above), or, provided that the Annual General Meeting of Shareholders resolves in accordance with this item on the agenda, by way of transfer of Billerud's own shares held in treasury.

1.2 The Board of Directors proposal

The Board of Directors proposes that the Annual General Meeting resolves on transfer of shares under the LTIP 2010 in accordance with the terms and conditions set out below:

- (i) Transfer may be made of a maximum of 346,400 Billerud shares to be transferred to participants in the LTIP 2010.

- (ii) Transfer of shares shall be made free of charge at the time and in accordance with the conditions that the participants in LTIP 2010 are entitled to receive allotment of shares, i.e. after the publication of Billerud's first quarter report for the year 2013.
- (iii) Further, the Board of Directors shall have the right, prior to the Annual General Meeting of Shareholders 2011, to divest a maximum of 109,000 shares of Billerud's total own holding of Billerud shares, in order to to cover certain costs (primarily social security costs) and to fulfill Billerud's responsibilities under LTIP 2010. Divestment of the shares under this item, shall be effected at NASDAQ OMX Stockholm at a price within the price interval registered at each time for the share.

The reasons for the deviation from shareholders' preferential rights are that it is an advantage for Billerud to transfer and divest shares in accordance with the above proposal in order to meet the requirements of the approved incentive program.

Majority Requirement

A resolution to approve the Board of Directors's proposal under item b above is valid where supported by shareholders holding no less than nine tenths of both the votes cast and the shares represented at the Annual General Meeting of Shareholders. The Board of Directors's proposal pursuant to this item b is conditional on that the Board of Directors's proposal regarding the introduction of the long term incentive program has been approved by the Annual General Meeting of Shareholders (see item a above).

Billerud AB (publ)
The Board of Directors
March 2010