

Proposal by the Board of Directors of Billerud AB (publ) (“Billerud”) to the Annual General Meeting of Shareholders 2007 regarding the introduction of the Long Term Incentive Programmes and transfer of shares under the programmes

I. Introduction of long term incentive programmes (“LTIP 2007”)

Background

The Billerud Group has had an incentive programme in place with convertible debt securities and call options to employees, which will expire in June 2007. During 2007, the call options, which Stora Enso, being the then majority shareholder, had offered the executive management of Billerud in 2002 in connection with Billerud’s listing, matured. On its Capital Markets Day in November 2006 Billerud introduced a set of revised financial targets. As a consequence of this, the Board now proposes that an incentive programme comprising all employees is introduced, with, as it is called, share matching (the “Share Match Programme”), as well as a long term incentive programme with, as it is called, performance shares (the “Performance Share Programme”) comprising a maximum of 69 managers and key employees in Billerud, classified in two categories, identified as essential to the future development of the Billerud Group. The underlying basic principles for compensation under the Performance Share Programme are that the compensation shall be dependent on the creation of long term shareholder value and the fulfilment of Billerud’s financial objectives.

a) Share Match Programme for all employees

The Board of Directors proposes that the Share Match Programme for all employees with a permanent employment within the Billerud Group as per May 16, 2007 is implemented and on the following conditions.

The implementation of the Share Match Programme will mean that the participants take direct ownership by investing in Billerud shares. For each Billerud share the participant invests and locks in to the Share Match Programme (the “Originating Share”), the participant is granted the right (“A Right”) to at a future date (exercise period) acquire one Billerud share (“Matching Share”) for an exercise price equal to 40 % of a calculated average of the volume-weighted closing price for the Billerud share at the Stockholm Stock Exchange for the four trading days following Billerud’s announcement of its first quarter report in the year 2007 (the “Reference Price”).

Notification to acquire Originating Shares shall be made at the latest the sixth calendar day following the above four trading days for determination of the Reference Price.

The right to acquire Originating Shares and thus the granting of A Rights is conditional upon permanent employment as of May 16, 2007 and is different for each employment category in accordance with the conditions below.

(i) Performance Share Programme Category 1 (maximum of 9 persons) (see below in b))

Persons in this category are offered to acquire Originating Shares to a maximum calculated number based upon 10% of their fixed salary as per yearend 2006 divided by the closing price for the Billerud share per March 13, 2007 (SEK 103.50) (the "Closing Price"), resulting in allotment of a number of A Rights corresponding to the number of Originating Shares acquired.

(ii) Performance Share Programme Category 2 (maximum of 60 persons) (see below in b))

Persons in this category are offered to acquire Originating Shares to a maximum number based upon 7.5% of their fixed salary as per yearend 2006 divided by the Closing Price, resulting in allotment of a number of A Rights corresponding to the number of Originating Shares acquired.

(iii) All other employees with a permanent employment (maximum of 2,350 persons) who does not fall within (i) or (ii) above

Persons in this category are offered to acquire a maximum number of 150 Originating Shares resulting in allotment of a number of A Rights corresponding to the number of Originating Shares acquired.

A requirement for a person in category (i) – (iii) above to exercise an A Right is that the person remains employed within the Billerud Group during the period up to and including the day for the announcement of its first quarter report in the year 2010 and that no Originating Shares have been transferred. The exercise of A Rights is, in addition to the conditions mentioned above, not subject to any performance conditions.

b) Performance Share Programme for managers and key employees

The Board of Directors proposes that the Performance Share Programme for managers and key employees is implemented and on the following conditions.

The Board's main objective with the proposal 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.

The implementation of the Performance Share Programme will mean that the participants take direct ownership by investing in Billerud shares. For each Originating Share the participant invests in, the participant is granted an A Right in accordance with the Share Match Programme above, as well as rights ("B, C and D Rights"; of which B and C Rights are divided into two series) to acquire additional Billerud shares at a future date (the "Exercise Period"), conditional upon fulfilment of certain performance conditions ("Performance Shares").

A requirement for the exercise of the B-D Rights is that the participant remains employed within the Billerud Group during the period up to and including the day for the announcement of its first quarter report in the year 2010 and that the participant, during said period, has participated in the Share Match Programme and has retained all Originating Shares acquired. The Performance Share Programme is proposed to have a term up to and including 30 calendar days following the announcement of its third quarter report in the year 2010.

Participants in the Performance Share Programme

The Performance Share Programme comprises a total of maximum 69 persons divided into two categories.

Category 1: CEO, CFO, Snr Vice President Corporate Human Resources, Mill Managers and Business Area Directors (maximum 9 persons).

Category 2: Technical Director, Forestry Director, Management Teams of the Mills, Business Area Managers, Sales Office Managers and certain other executives (maximum 60 persons).

Performance conditions for the Performance Share Programme

The exercise of B-D Rights to acquire Performance Shares is, in addition to the conditions mentioned above, subject to the fulfilment of certain performance conditions. These performance conditions relate to the operating margin ("EBIT Margin") and the EBIT Margin in comparison to an industry average ("Peer Group EBIT Margin"), consisting of European companies in the packing-paper business as

defined by the Board as comparable to Billerud and also related to Billerud's total shareholder return ("TSR") in comparison to an index ("Peer Group TSR Index") consisting of listed Nordic companies in the paper industry as defined by the Board as comparable to Billerud. The performance conditions are different for participants in Category 1 and Category 2 and are measured based on financial objectives during the financial years of 2007, 2008 and 2009. The Billerud EBIT Margin shall exclude effects of external sale of timber.

Performance conditions for participants in Category 1

The exercise of B-D Rights for participants in Category 1 is conditional upon the following.

B and C Rights are divided into series B1 and B2 and C1 and C2 respectively. D Rights are in one series only.

The right to exercise B1 Rights is conditional upon the EBIT Margin for 2007 exceeding 7%. If EBIT Margin amounts to 11% or more, the participant has the right to acquire 0.5 Performance Share for every Originating Share whereas if the EBIT Margin should be lower than 11%, a linear reduction of the right to acquire Performance Shares shall be made.

The right to exercise B2 Rights is conditional upon the EBIT Margin for 2007 exceeding the Peer Group EBIT Margin, resulting in the right to acquire 0.5 Performance Share. If Billerud's EBIT Margin is lower than the Peer Group EBIT Margin, the participant will not be entitled to exercise said right.

The right to exercise C1 Rights is conditional upon the EBIT Margin for 2008 exceeding 8%. If EBIT Margin amounts to 12% or more, the participant has the right to acquire 0.5 Performance Share for every Originating Share whereas if the EBIT Margin should be lower than 12%, a linear reduction of the right to acquire Performance Shares shall be made.

The right to exercise C2 Rights is conditional upon the EBIT Margin for 2008 exceeding the Peer Group EBIT Margin, resulting in the right to acquire 0.5 Performance Share. If Billerud's EBIT Margin is lower than the Peer Group EBIT Margin, the participant will not be entitled to exercise said right.

The right to exercise D Rights is conditional upon Billerud reaching financial objectives related to Billerud's TSR during the financial years 2007, 2008 and 2009 ("Billerud's TSR 2007-2009") and exceeds Peer Group TSR Index. If Billerud's TSR 2007-2009 exceeds the Peer Group TSR Index with 10% or more, the participant has the right to exercise all D Rights, resulting in the right to acquire 1.0 Performance Share for each Originating Share. If Billerud's TSR 2007-2009 exceeds the Peer Group TSR Index, but with less than 10 per cent, a linear reduction of the right to exercise D Rights shall be made.

Performance conditions for participants in Category 2

The exercise of B-D Rights for participants in Category 2 is conditional upon the following.

B and C Rights are divided into series B1 and B2 and C1 and C2 respectively. D Rights are in one series only.

The right to exercise B1 Rights is conditional upon the EBIT Margin for 2007 exceeding 7%. If EBIT Margin amounts to 11% or more, the participant has the right to acquire 0.25 Performance Share for every Originating Share whereas if the EBIT Margin should be lower than 11%, a linear reduction of the right to acquire Performance Shares shall be made.

The right to exercise B2 Rights is conditional upon the EBIT Margin for 2007 exceeding the Peer Group EBIT Margin, resulting in the right to acquire 0.25 Performance Share. If Billerud's EBIT Margin is lower than the Peer Group EBIT Margin, the participant will not be entitled to exercise said right.

The right to exercise C1 Rights is conditional upon the EBIT Margin for 2008 exceeding 8%. If EBIT Margin amounts to 12% or more, the participant has the right to acquire 0.25 Performance Share for every Originating Share whereas if the EBIT Margin should be lower than 12%, a linear reduction of the right to acquire Performance Shares shall be made.

The right to exercise C2 Rights is conditional upon the EBIT Margin for 2008 exceeding the Peer Group EBIT Margin, resulting in the right to acquire 0.25 Performance Share. If Billerud's EBIT Margin is lower than the Peer Group EBIT Margin, the participant will not be entitled to exercise said right.

The right to exercise D Rights is conditional upon Billerud reaching financial objectives related to Billerud's TSR during the financial years 2007, 2008 and 2009 ("Billerud's TSR 2007-2009") and exceeds Peer Group TSR Index. If Billerud's TSR 2007-2009 exceeds the Peer Group TSR Index with 10% or more, the participant has the right to exercise all D Rights, resulting in the right to acquire 0.5 Performance Share for each Originating Share. If Billerud's TSR 2007-2009 exceeds the Peer Group TSR Index, but with less than 10 per cent, a linear reduction of the right to exercise D Rights shall be made.

Exercise price

An exercise price significantly below the current ordinary share price motivates the participants to perform even if the share price falls below the current level, thereby further aligning the participants' interests with those of the shareholders.

The exercise price at the exercise of B-D Rights to acquire Performance Shares is 50 % of the Reference Price.

c) Joint Terms and Conditions for LTIP 2007

Cap

The profit per A-D Right is capped to a maximum of SEK 150 per Right.

Participation

LTIP 2007 comprises managers and other employees in the Billerud Group in Sweden. In addition, a number of managers and other employees working in other countries will be invited to participate in the programme. If delivery of shares cannot be accomplished at reasonable costs and with reasonable administrative efforts to persons outside Sweden, the participating person may instead be offered a cash based settlement.

Exercise Period

Exercise Period, i.e. the period during which A-D Rights can be exercised for acquisition of Matching Shares and Performance Shares, respectively, is the day following the announcement of the first quarter in the year 2010 up to and including December 31, 2010.

Scope

In total, LTIP 2007 comprises, in addition to Originating Shares, a maximum of 500,000 Billerud shares, of which 405,000 is Matching Shares and 95,000 is Performance Shares. An additional 125,000 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 2007, correspond to approximately 1.2 % of the number of Billerud shares issued on the market.

Hedging

The LTIP 2007 leads to a certain financial exposure for Billerud, due to market price changes for the Billerud share.

In order to hedge the financial exposure, the Board proposes that the Board shall have the right to decide on alternative methods for transfer of shares under the Share Match Programme and the Performance Share Programme, respectively. The Board is therefore proposed to have the right to decide to transfer own shares (under item II) or to enter into an equity swap agreement with a third party (under this item I) in order to meet the requirements set out in the Share Match Programme and the Performance Share Programme, respectively.

Estimated costs and values of the LTIP 2007

The A-D Rights are not securities and cannot be pledged or transferred to others. An estimated value for each A Right and each B-D Right, respectively, can however be calculated. The Board has estimated the value of each A Right and each B-D Right to SEK 51.50 and SEK 44.00, respectively. The estimation is based on generally accepted valuation models using the closing price for the Billerud share on March 13, 2007, statistics on the share price development as well as projected dividends. The aggregate estimated value of all the 405,000 Matching Shares and 95,000 Performance Shares, based on an average fulfilment of the performance conditions for the B-D Rights of 40% and estimations on turnover of personnel, is approximately SEK 19.3 millions. The value is equivalent to approximately 0.4% of the market capitalisation for Billerud as of March 13, 2007.

The total estimated value as above, is treated as a staff cost in the profit and loss accounts and it is expensed over the first 36 months in accordance with IFRS 2 on share-based payments. In the profit and loss accounts social security costs will accrue in accordance with generally accepted accounting principles. The size of these costs will be calculated on the benefits derived from the difference between the

exercise price and the share price at exercise. The total cost of the Share Match Programme and the Performance Share Programme including social security costs equals approximately SEK 26.5 millions on complete participation, which is on annualized bases equivalent to approximately 0.7% of Billerud's total staff costs in financial year 2006. The maximum cost for the Share Match programme and the Performance Share Programme equals approximately SEK 50.3 millions, including SEK 24.3 millions in social security costs. This maximum cost is based upon the presumption that all rights to Matching Shares and Performance Shares are exercised, which inter alia implies complete participation and complete satisfaction of the performance conditions, and further that the Billerud share price almost doubles.

Effects on key ratios

On complete participation, Billerud's staff costs are expected to increase with approximately SEK 8.8 millions yearly. On a proforma basis, these costs equal a negative effect on Billerud's operating margin of approximately 0.1% and a decrease of earnings per share of approximately SEK 0.12.

Nevertheless, the Board 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 acquisition of Matching Shares and Performance Shares, exceed the costs related to the incentive programme.

The preparation of the proposal

The Board Compensation Committee has prepared the proposal for the LTIP 2007. At the Board meeting on March 26, 2007 the Board resolved to propose to the Annual General Meeting of Shareholders to decide on the current proposal for the LTIP 2007.

d) The proposal by the Board of Directors

Referring to the above-mentioned description, the Board proposes that the Annual General Meeting decides on long term incentive programmes (the LTIP 2007), basically based upon the below referred conditions and principles.

1. The duration of the Share Match Programme shall be approximately 3.6 years and shall comprise all employees with a permanent employment as per May 16, 2007. For each Billerud share the participant invests and locks in to the Share Match Programme the participant is granted a right, A Right, to

acquire one Billerud share (Matching Share) at a future date (exercise period). The exercise price for a Matching Share equals 40% of the Reference Price.

2. The duration of the Performance Share Programme shall be approximately 3.6 years with a measurement period of performance conditions during the financial years 2007, 2008 and 2009. The Performance Share Programme will comprise up to 69 managers and key employees identified as essential to the future development of the Billerud Group. For each Billerud share the participant invests and locks in to the Share Match Programme the participant is granted a right, A Right, to acquire one Billerud share for an exercise price equal to 40% of the Reference Price, and rights, B, C and D Rights, to acquire Billerud shares for an exercise price equal to 50% of the Reference Price, at a future date conditional upon fulfilment of certain performance conditions (Performance Shares).
3. The A-D Rights, to acquire Matching Shares and Performance Shares, shall be granted following the acquisition and the lock in of Originating Shares within the scope of the Share Match Programme and the Performance Share Programme, respectively.
4. The number of granted A-D Rights that finally can be exercised for the acquisition of Matching Shares and Performance Shares is conditional upon continued employment, the holding of Originating Shares and, for B-D Rights, on certain predetermined performance conditions, such as operating margin and total shareholder return compared to certain listed Nordic companies in the paper industry and European companies in the paper-packing business, respectively.
5. If delivery of shares cannot be accomplished at reasonable costs and with reasonable administrative efforts to persons outside Sweden, the participating person may instead be offered a cash-based settlement within the scope of the Share Match Programme and the Performance Share Programme, respectively.
6. The Board has the right to hedge the financial exposure by entering into an equity swap agreement with a third party in order to meet the requirements set out in the LTIP 2007.

7. The Board is authorised to decide on detailed terms and conditions of the LTIP 2007.

Majority Requirement

The Board's decision regarding the introduction of the LTIP 2007 is valid where supported by shareholders holding more than half of the votes cast at the General Meeting of Shareholders.

II. Transfer of shares under the long term incentive programmes

Background

In order to implement the LTIP 2007 in a cost efficient and flexible manner, the Board has considered different hedging methods for the participants' acquisition of Originating Shares and the transfer of Matching Shares and Performance Shares under the programmes. Based on these considerations the Board intends to hedge the financial exposure related to the Share Match Programme and the Performance Share Programme, by way of entering into an equity swap agreement with a third party (in accordance with the resolution under item I above), or, provided that the Annual General Meeting of Shareholders resolves in accordance with this item on the agenda, by way of transfer of own shares. The Board further considers that the implementation and administration of the Share Match Programme and the Performance Share Programme, is facilitated by the acquisition by Billerud of the participants' Originating Shares by way of own repurchased shares.

Proposal

With reference to the background above, the Board of Directors proposes that the Annual General Meeting resolves on authorisation for the Board of Directors to resolve on transfer of shares under the LTIP 2007 in accordance with the terms and conditions set out below.

1. Transfer of shares acquired

The Board of Directors is authorized, until the time of the next annual general meeting, to resolve on transfer of the company's own shares on the following terms.

- a) Transfer may be made of a maximum of 905,000 shares to be transferred to participants in the LTIP 2007 in the form of Originating Shares, Matching Shares and Performance Shares.
- b) Right to acquire shares shall be granted to persons within the Billerud Group who are covered by the terms and conditions for the LTIP 2007.
- c) The right to acquire shares shall be exercised during the period the participant in the Share Match programme and the Performance Share Programme, respectively, has the right to acquire shares in accordance with the terms of the LTIP 2007, i.e. during certain periods within the period commencing on and including May 16, 2007 up to and including December 31, 2010.
- d) The participant in the LTIP 2007 shall pay for each share within 10 banking days from the day the participant has requested to exercise his or her right to acquire an Originating Share, Matching Share or Performance Share in reliance upon the A-D Right.
- e) The participant in the LTIP 2007 shall for each Originating Share pay a price equal to a calculated average of the volume-weighted closing price for the Billerud share at the Stockholm Stock Exchange for the four trading days following Billerud's announcement of its first quarter report in the year 2007.
- f) The participant in the LTIP 2007 shall for each Matching Share and Performance Share pay a price concluded from the terms and conditions of the Share Match Programme and the Performance Share Programme, respectively. Such price, and the number of shares, may be subject to recalculation as a result of intervening bonus issues, splits, preference issues, extraordinary dividends and/or similar actions in accordance with market practice.
- g) Further, the Board of Directors shall have the right, prior to the Annual General Meeting of Shareholders 2008, to convey a maximum of 125,000 shares of the total possession of 1,910,000 shares, in order to cover certain costs, mainly social security costs. Conveyance of the shares shall be effected at the Stockholm Stock Exchange 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 shares in accordance with the above proposal in order to meet the requirements of the approved incentive programmes.

Majority Requirement

The Board's proposal under item II above is valid where supported by shareholders holding no less than nine tenths of both the votes cast and the shares represented at the General Meeting of Shareholders. The Board's proposal pursuant to this item II is subject to that the Board's proposal regarding the introduction of the long term incentive programmes has been approved by the General Meeting of Shareholders (item I).

Stockholm in March 2007

THE BOARD OF DIRECTORS