

*Denna kallelse till obligationsinnehavarna är endast utformad på engelska.*

Stockholm, 30 October 2018

**To the bondholders in:**

**ISIN: NO0010776982 – Icelandair Group hf.– up to USD 300,000,000 Senior Unsecured Callable Bonds 2016/2021**

## **NOTICE OF WRITTEN PROCEDURE**

**This notice has been sent via VPS (Norway) to persons registered in the Securities Account with VPS (Norway) as holders of Bonds. If you are a custodian or otherwise are holding Bonds on behalf of someone else, please forward this notice to the holder you represent at your earliest convenience.**

### **Key information:**

|   |   |
|---|---|
| Record Date for being eligible to vote: | 5 November 2018                               |
| Deadline for voting:                    | 17:00 27 November 2018                        |
| Quorum requirement:                     | At least 20%                                  |
| Majority requirement:                   | More than 50 % of the Adjusted Nominal Amount |

Nordic Trustee & Agency AB (publ) acts as agent (the "**Agent**") for the holders of the bonds (the "**Bondholders**") in the above mentioned bond issue ISIN NO0010776982 (with an aggregated amount outstanding of USD 190,000,000) (the "**Bonds**") issued by Icelandair Group hf. (the "**Issuer**"). In its capacity as Agent, and as requested by the Issuer, the Agent hereby initiates a procedure in writing, whereby Bondholders can vote for or against the Issuer's requests.

All capitalised terms used herein and not otherwise defined in this notice (the "**Notice**") shall have the meanings assigned to them in the terms and conditions of the Bonds (the "**Terms and Conditions**").

Bondholders participate by completing and sending the voting form, attached hereto as Schedule 1 (the "**Voting Form**").

The Agent must receive the Voting Form no later than 17:00 (CET) on 27 November 2018 either by mail, courier or email to the Agent using the contact details set out in Clause 5.6 (*Address for sending replies*) below. Votes received thereafter may be disregarded.

To be eligible to participate in the Written Procedure, a person must meet the criteria for being a Bondholder on 5 November 2018 (the "**Record Date**").

**Disclaimer:** *The Request is presented to the Holders, without any evaluation, advice or recommendations from the Agent whatsoever. The Agent has not reviewed or assessed this Notice or the Request (and its effects, should it be adopted) from a legal or commercial perspective of the Holders and the Agent expressly disclaims any liability whatsoever related to the content of this Notice and the Request (and its effects, should it be adopted). The Agent may assume that documentation and other evidence delivered to it pursuant the Request is accurate, correct and complete unless it has actual knowledge that this is not the case, and the Agent does not have to verify the contents of any such documentation. The Holders are recommended to seek legal advice in order to independently evaluate whether the Request (and its effects) is acceptable or not*

## **1. Background**

In February 2018, Icelandair Group published its financial statement for 2017 and EBITDA guidance for 2018 which was in the amount of USD 170-190 million. In the same statement the Company notified of certain challenging conditions which Icelandair Group would be facing, such as yield pressure and that the cost of airline operation was increasing, particularly fuel price and salary costs. Furthermore, the appreciation of ISK had negatively affected the margins. Due to higher costs in the aviation sector it was assumed that average fares would trend upwards in 2018.

In the beginning of July, Icelandair Group lowered its EBITDA guidance to USD 120-140 million. The main reasons for the updated forecast were firstly that the results for the second quarter of 2018 fell short of anticipations and secondly that the assumptions of higher average fares in the second half of the year were not foreseen to materialize despite the significant rise of fuel prices and salary cost.

In August 2018 it became clear that the estimated passenger revenues for 2018 would turn out to be lower than expected. The updated revenue forecast was based on two main assumptions. Firstly, the rise in average fares were going to be lower than foreseen in the second half of the year. Secondly, the structural changes of Icelandair's sales and marketing department, which were made in the summer of 2017, were not properly implemented and changes made with the Company's route network resulted in an imbalance between the frequency of European flights and North American flights, which in turn led to lower load factor and loss of revenue. Consequently, the EBITDA guidance was lowered to USD 80-100 million.

- The year 2018 is exceptional, with internal decisions deepening negative effects on revenue and profits which led to the resignation of the President and CEO of Icelandair Group. In recent weeks a number of measures have been taken to support further profitable organic growth and to build a strong Company for the future. Divestment of the Company's hotel operations to sharpen the focus on the core business; the international flight operations.
- The Company is currently working on changes on the route network for 2019 and onwards. A new connection bank will be operated from May 2019 alongside the main connection bank. With the new connection bank utilization of aircraft and other resources will improve. Furthermore, the new connection bank increases opportunities further into Europe which are currently not possible.
- The imbalance in the route network in 2018 has been corrected in the new flight schedule for 2019.

- Further development of the new fare structure of Icelandair, which was introduced last spring, is in place with emphasis on increasing ancillary revenues.
- Six additional Boeing 737 MAX will be added to the three that were introduced this year. The Company's experience this year shows that the fuel consumption of the new aircraft is 27% lower per seat than that of the current Boeing 757 aircraft in the fleet.
- New Company structure has been implemented to further sharpen the focus within sales and marketing on one hand and customer experience on the other hand.
- Streamlining of flight operations with the integration of ground handling services and cargo operations into Icelandair and the termination of 13 management positions.
- Icelandair Group's financial position is strong with cash and short term investments amounting to USD 250.8 million at the end of June 2018 and net interest bearing debt totaling USD 92.5 million at the same time.
- As at the end of September 2018, Icelandair's fleet included 33 passenger aircraft and 2 cargo aircraft 31 are fully owned 4 is held on an operating lease and 34 are free of lines on the balance sheet, unencumbered

Icelandair's fleet strategy is flexible. A mix of older and newer aircraft creates capabilities to accommodate demand changes in an efficient way. Relatively strong demand is for used Boeing 757 and Boeing 767 which enhances downward flexibility. The Company has set itself the target of returning an average EBIT ratio of 7% per year for the long-term as of 2019. According to the Company's long-term projections the above factors, along with certain external factors such as higher fares in markets and the weakening of ISK, will increase the EBIT ratio in the scale of 8-10% percentage points.

With its strong balance sheet, flexible operations and outstanding staff, Icelandair Group is well positioned to take on the challenges facing the airline industry for the short term and take advantage of new opportunities that may present themselves in the coming months. The substantial available liquidity, excellent relationships with banks and key airline finance providers, a flexible fleet strategy, a strong leasing market and a large unencumbered asset base gives Icelandair Group many options from a financing perspective going forward. The Issuer is discussing long term solutions with certain Bondholders which is contemplated to result in certain amendments to the Terms and Conditions (the "**Long-Term Amendments** ") and in the meantime the Issuer is initiating this written procedure to temporarily waive any covenant breach under of Clause 12(b) and/or 12(c) of the Terms and Conditions while the discussions regarding the Long-Term Amendments are ongoing. The Issuer has informed the Agent, prior to sending this Notice, that it has obtained undertakings from Bondholders representing more than 50 per cent. of the outstanding Bonds to vote in favour of the Request (as defined below).

## **2. Waiver**

The Issuer hereby kindly requests the Bondholders to waive any breach of item (b)<sup>1</sup> and/or item (c)<sup>2</sup> of Clause 12 (*Maintenance Test*) of the Terms and Conditions for the test period ending on 30 September 2018 provided that the Condition (as defined below) has been fulfilled no later than 30 November 2018 (the "**Request**").

## **3. Conditions**

The waiver in Clause 2 above is given on the condition that the Issuer initiates a written procedure under the Terms and Conditions to amend the Terms and Conditions in accordance with the agreed Long-Term Amendments and has obtained voting undertakings from a sufficient majority of the Bondholders to vote in favour of the Long-Term Amendments (the "**Condition**") no later than 30 November 2018. If the Bondholders does not vote in favour of the Long-Term Amendments (notwithstanding the voting undertakings), the waiver shall automatically be withdrawn.

## **4. Consent**

We kindly ask the Bondholders to confirm that the Bondholders, subject to Clause 3 agree to the Request.

## **5. Written Procedure**

The following instructions need to be adhered to under the Written Procedure.

### **5.1 Final date to participate in the Written Procedure**

The Agent must have received the votes by mail, courier or email to the address indicated below no later than 17:00 (CET), 27 November 2018. Votes received thereafter may be disregarded.

### **5.2 Decision procedure**

The Agent will determine if received replies are eligible to participate under the Written Procedure as valid votes.

When a requisite majority of consents of the total Adjusted Nominal Amount have been received by the Agent, the Request shall be deemed to be accepted, even if the time period for replies in the Written Procedure has not yet expired.

Information about the decision taken under the Written Procedure will: i) be sent by notice to the Bondholders and ii) be published on the websites of a) the Issuer and b) the Agent.

A matter decided under the Written Procedure will be binding for all Bondholders, irrespective of them responding in the Written Procedure.

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<sup>1</sup> The ratio of Interest Bearing Debt to EBITDA for the Reference Period shall not exceed 3.5x

<sup>2</sup> The ratio of Interest Bearing Debt and Aircraft Lease Liabilities to EBITDAR for the Reference Period shall not exceed 4.0x

### 5.3 Voting rights and authorisation

Anyone who wishes to participate in the Written Procedure must on the Record Date (5 November 2018) in the debt register:

- (a) be registered as a direct registered owner (Sw. *direktregistrerad ägare*) of a Securities Account; or
- (b) be registered as authorised nominee (Sw. *förvaltare*) in a Securities Account, with respect to one or several Bonds.

### 5.4 Quorum

To approve the Request, Bondholders representing at least twenty (20) per cent of the Adjusted Nominal Amount must reply to the request under the Written Procedure in order to form a quorum.

If a quorum does not exist, the Agent shall initiate a second Written Procedure, provided that the relevant proposal has not been withdrawn by the Issuer. No quorum requirement will apply to such second Written Procedure.

### 5.5 Majority

More than fifty (50) per cent. of the Adjusted Nominal Amount for which Bondholders reply under the Written Procedure must consent to the Request.

### 5.6 Address for sending replies

Return the Voting Form, Schedule 1 by regular mail, scanned copy by e-mail, or by courier to:

**By regular mail:**

Nordic Trustee & Agency AB (publ)  
Attn: Written Procedure Icelandair Group hf.  
P.O. Box 7329  
S-103 90 Stockholm

**By courier:**

Nordic Trustee & Agency AB  
Attn: Written Procedure Icelandair Group hf.  
Norrandsgatan 23  
111 43 Stockholm

**By email:**

E-mail: [voting.sweden@nordictrustee.com](mailto:voting.sweden@nordictrustee.com)

## **6. FURTHER INFORMATION**

For further questions to the Issuer, regarding the request, please contact the Issuer at [bogi@icelandairgroup.is](mailto:bogi@icelandairgroup.is) or +358 40 590 4040.

For further questions to the Issuer's financial advisor, regarding the request, please contact [bond.syndicate@dnb.no](mailto:bond.syndicate@dnb.no) or +47 469 07 424 / +47 24 16 90 30.

For further questions to the Agent, regarding the administration of the Written Procedure, please contact the Agent at [voting.sweden@nordictrustee.com](mailto:voting.sweden@nordictrustee.com) or +46 8 783 79 00.

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**Stockholm**, 30 October 2018

**NORDIC TRUSTEE & AGENCY AB (PUBL)**

**As Agent**

**Enclosed:**

|                   |             |
|-------------------|-------------|
| <b>Schedule 1</b> | Voting Form |
|-------------------|-------------|

# VOTING FORM

## *Schedule 1*

For the procedure in writing in Icelandair Group hf. USD 300,000,000 Senior Unsecured Callable Bonds 2016/2021, NO0010776982.

The undersigned Bondholder or authorised person/entity votes either **For** or **Against** the Request by marking the applicable box below.

☐ **For** the Request

☐ **Against** the Request

|                      |                             |
|----------------------|-----------------------------|
| ISIN<br>NO0010776982 | Amount of bonds owned       |
| Custodian Name       | Account number at Custodian |
| Company              | Day time telephone number   |
|                      | E-mail                      |

Enclosed to this form is the complete printout from our custodian/VPS, verifying our bondholding in the bond issue as of [\*\*] 2018, together with a duly executed power of attorney or other proof of authorisation.<sup>3</sup>

We acknowledge that Nordic Trustee & Agency AB (publ) in relation to the Written Procedure for verification purpose may obtain information regarding our holding of Bonds on the above stated account in the securities register VPS.

\_\_\_\_\_  
Place, date

\_\_\_\_\_  
Authorized signature

**Return:**

Nordic Trustee & Agency AB (publ)  
PO Box 7239  
10390 STOCKHOLM  
Telephone: +46 8 783 79 00  
E-mail: sweden@nordictrustee.com

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<sup>3</sup> If the Bonds are held in custody other than in the VPS, power of attorney or other proof of authorization from the custodian confirming that (i) you are the owner of the Bonds, (ii) in which account number the Bonds are held, and (iii) the amount of Bonds owned.