

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

Stockholm, 3 December 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:	7 December 2018
Deadline for voting:	17:00 (CET) 4 January 2019
Quorum requirement:	At least 20 per cent. of the Adjusted Nominal Amount
Majority requirement:	at least sixty-six and two thirds (66 2/3) per cent. 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 4 January 2019 either by mail, courier or email to the Agent using the contact details set out in Clause 4.6 (*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 7 December 2018 (the "**Record Date**").

***Disclaimer:** The Request is presented to the Bondholders, without any evaluation, advice or recommendations from the Agent whatsoever. The Agent has not reviewed or assessed this Notice or the Request (as defined below) (and its effects, should it be adopted) from a legal or commercial perspective of the Bondholders 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 Bondholders are recommended to seek legal advice in order to independently evaluate whether the Request (and its effects) is acceptable or not.*

## **1. Background**

Icelandair Group initiated discussions with unsecured bondholders on the 3rd of October 2018 when it was clear that a revised EBITDA forecast for 2018, indicated a risk of non-compliance with the gross leverage covenants in the terms and conditions for the Bonds. Icelandair Group announced at the same time that the Company was reviewing a number of options, including requesting a temporary waiver of covenants from its bondholders, amending the financial covenants of the Bonds or a partial repayment of the Bonds or its other financial indebtedness.

On the 30th of October Icelandair Group published its Q3 2018 results and the EBITDA forecast for the year 2018 was updated to USD 80-90 million. Negative one-time event impact on revenues in the forecast was estimated to amount to USD 50-80 million. The same day a notice of written procedure was released to the stock exchange confirming that the Company was in breach of the Covenants and a request made to the bondholders to vote in favour of a temporary waiver of the breach throughout November 2018 in order to give more time for the discussions regarding a long-term solution to both parties. The voting period expired on 27 November 2018 with a sufficient number of votes obtained to resolve that the requests had been approved. The temporary waiver expired on 30 November 2018 which means that an Event of Default is continuing.

Despite the covenant breaches, Icelandair Group's financial position remains strong. At the end of September, the Company's cash and short-term investments amounted to USD 184 million, the Company's equity was USD 575 million, and the equity ratio was 36%. Furthermore, operating assets amounted to USD 674 million and prepayments on the balance sheet due to new aircraft amounted to USD 176 million. At the same time, the total interest-bearing liabilities amounted to USD 406 million of which secured debt amounted to USD 194 million. Icelandair Group's fleet included 33 passenger aircraft and 2 cargo aircraft, thereof 31 aircraft is fully owned and 4 aircraft are on an operating lease at the end of September 2018. 34 aircraft are free of liens on the balance sheet as of 30 September 2018.

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.

- A formal sale process of Icelandair Hotels and related real estates was initiated in the beginning of November with the objective to sharpen the focus on

Icelandair Group's core business: International aviation. The hotel operation consists of 21 hotels (1,844 rooms) and properties that house four of the hotels (17,700sqm). Extensive interest has been expressed by both Icelandic and foreign investors. The process is scheduled to conclude by end of first quarter of 2019.

- A new connection bank will be operated from May 2019 alongside the main connection bank in the Route Network which will improve utilization of aircraft and other resources. The new connection bank will increase opportunities further into Europe which are currently not possible.
- Focus on strengthening the Company's revenue management, with the implementation of a new revenue management system at an advanced stage. The priorities are increased automation and use of digital solutions and enhancement of ancillary revenue.
- Introduction of six additional B737MAX aircraft to the fleet, with positive impact on the Company's fuel cost and reduced maintenance expenses.
- Implementation of a new Company structure 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.

On the 5 November 2018 a release was sent to the stock exchange announcing that Icelandair Group had entered into a share purchase agreement (SPA) to purchase all shares in the airline WOW air. The acquisition was subject to an approval by Icelandair Group's shareholders, the approval of the Icelandic Competition Authorities and outcome of a due diligence. A date for a shareholder's meeting of Icelandair Group to decide on the agreement was set on 30 November 2018. A comprehensive analysis of WOW air followed, with advisors performing legal and financial due diligence, synergy and cash-flow analysis, brand analysis and advise on a future strategy. Following the analysis, it was clear that the main assumptions for the transaction were not in line with what had originally been assumed when the SPA was signed. A mutual announcement by Icelandair Group and WOW air was released on the 29th November stating that the transaction had been abandoned with both parties agreeing on the outcome.

In connection with the cancellation of the WOW air acquisition, Icelandair announced that the shareholder's meeting on 30th November would be held as planned, and that the agenda would include an authorisation proposal for the Board to increase the share capital of Icelandair Group in order to prepare the Company for further organic growth and to strengthen its financial position. The shareholder's meeting was held on 30th November, and the Board of Icelandair Group has been given authorisation to issue up to 625 million new shares (equal to 12.5% of the current number of outstanding shares) to existing shareholders in two offerings; in December 2018 and in March 2019. The comprehensive analysis of past weeks has shown that the marginal cost of organic growth is lower than that of acquiring another airline, and the Company believes that operational gains can be achieved without considerable investments.

## 2. Request for amendment and restatement of the Terms and Condition

Considering the background and rationales set out above, the Issuer kindly request the following waivers and that the Terms and Conditions are amended and restated so that:

- (a) the Issuer shall (subject to a notice period of 10 Business Days), no later than 15 January 2019, redeem one third (1/3) of the outstanding Bonds at a price equal to 101.00 per cent. of the Nominal Amount together with accrued but unpaid Interest (on a pro rata basis, i.e. the number of Bonds to be redeemed from each Bondholder is the highest number of Bonds held by such bondholder dividable with the relevant percentage to be redeemed, for fraction results rounded down to the nearest number of Bonds);
- (b) the Issuer may (subject to a notice period of 10 Business Days) redeem all or only some (provided that if only some of the Bonds are redeemed, Bonds equal to at least 40 % of the Total Nominal Amount of the Initial Bonds shall remain outstanding after such redemption and the number of Bonds to be redeemed from each Bondholder is the highest number of Bonds held by such bondholder dividable with the relevant percentage to be redeemed, for fraction results rounded down to the nearest number of Bonds), of the outstanding Bonds, during the period from 1 February 2019 to (and including) 31 December 2019 at a price equal to:
  - (i) if exercised during the period from 1 February 2019 to (and including) 31 March 2019, 101.50 per cent. of the Nominal Amount together with accrued but unpaid Interest; and
  - (ii) if exercised during the period from 1 April 2019 to (and including) 31 December 2019, 102.00 per cent. of the Nominal Amount together with accrued but unpaid Interest.

For the avoidance of doubt, thereafter the bonds may be redeemed by the Issuer as set out in the current Terms and Conditions.

- (c) each Bondholder shall, between 30 June 2019 to (and including) 15 July 2019, by giving notice to the Issuer have the right to request that all, or only some, of its Bonds are repurchased at a price per Bond equal to 102.50 per cent. of the Nominal Amount together with accrued but unpaid Interest (the Bonds shall be repurchased by the Issuer no later than 31 July 2019);
- (d) Clause 12 (*Maintenance Test*) paragraphs (b) (ratio of Interest Bearing Debt to EBITDA) and (c) (ratio of Interest Bearing Debt and Aircraft Lease Liabilities to EBITDAR) of the Terms and Conditions shall be waived for each test date during the period from (and including) 30 September 2018 to (and including) 30 June 2019 (the "**Waiver Period**");
- (e) Clause 12 (*Maintenance Tests*) paragraph (e) shall be amended to read (additions in *underscored italics*): "Issuer's Cash must never be less than the lower of USD 100,000,000 50,000,000 or the outstanding amount under the Bonds", for each test date during the period from (and including) 30 September 2018 to (and including) 30 June 2019 (for the avoidance of doubt, thereafter the Issuer's Cash must never be less than USD 50,000,000); and

- (f) the Issuer will not make any Restricted Payments in accordance with Clause 13.2 (*Distributions*) during the Waiver Period provided however that such Restricted Payment can be made by any of the Issuer's Subsidiaries if such Restricted Payment is made to the Issuer or any of the wholly-owned Subsidiaries and, if made by a Subsidiary which is not directly or indirectly wholly-owned by the Issuer, is made on a *pro rata* basis.

Items (a) and (f) above shall be referred to as the "**Request**".

### **3. Consent**

We kindly ask the Bondholders to confirm that the Bondholders agree to the Request.

### **4. Written Procedure**

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

#### **4.1 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), 4 January 2019. Votes received thereafter may be disregarded.

#### **4.2 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. The Issuer and the Agent shall, in order to implement and effectuate the amendments, enter into amended and restated Terms and Conditions.

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.

#### **4.3 Voting rights and authorisation**

Anyone who wishes to participate in the Written Procedure must provide a power of attorney, proof of authorization or proof of holding satisfactory to the Agent evidencing that it is a holder of one or several Bonds on the Record Date (7 December 2018).

#### **4.4 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.

#### **4.5 Majority**

At least sixty-six and two thirds (66 2/3) per cent. of the Adjusted Nominal Amount for which Bondholders reply under the Written Procedure must consent to the Request.

#### **4.6 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)

#### **5. 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, 3 December 2018**

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

**As Agent**

**Enclosed:**

<b>Schedule 1</b>	Voting Form
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# 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

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

Enclosed to this form is the complete printout from our custodian/VPS, verifying our bondholding in the bond issue as of 7 December 2018, together with a duly executed power of attorney or other proof of authorisation or proof of holding.<sup>1</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: voting.sweden@nordictrustee.com

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<sup>1</sup> If the Bonds are held in custody other than in the VPS, power of attorney or other proof of authorization or proof of holding 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.