

PLAY

Interim Report



January-June 2021

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Highlights of operations for the first half of 2021

- Raised USD 47.0 million in a private placement pre-Initial Public Offering (IPO) share offering from institutional investors, private equity firms and pension funds in April
- First A321neo aircraft delivered to PLAY on May 14
- Air Operators Certificate (AOC) issued by ICETRA on May 15
- PLAY's first A321neo aircraft arrived in Iceland on June 15
- PLAY's inaugural flight on June 24 to London Stansted followed by six other European destinations
 - Tenerife, Berlin, Alicante, Paris, Barcelona, and Copenhagen
- PLAY raised funds of USD 34.9 million through an IPO in June and is now traded on the Nasdaq First North Growth Market Iceland
- PLAY's second and third A321neo aircraft in final delivery process in June and were successfully delivered to PLAY in July

Birgir Jónsson, CEO

"I am immensely proud of all our achievements in the last months and especially impressed by our staff that made it all happen in an efficient and secure manner. We successfully launched a new airline in Iceland that has been well received by the market and created new jobs. I am also pleased to say that PLAY is on track to realizing our vision and objectives for the future. Our long-term goal is to make PLAY a strong and leading brand in our market, and our first months of operation are a very solid step in that direction. Based on ticket sales and the positive feedback that we have received from our customers, we believe there was a need for a new low-cost airline based in Iceland. Although affected by COVID-19, we are currently seeing positive demand trends and are cautiously optimistic going forward. We believe that we are in a great position to grow and adapt to the ever-changing market environment and travel demand."

Operational review

During the first half, PLAY's management focused on building the Company's organizational and technological infrastructure, attaining necessary approvals, and securing and preparing the fleet for the start of operations at the end of the quarter.

In April, PLAY raised USD 47.0 million through a pre-Initial Public Offering (IPO) private placement. Investors included private equity and pension funds.

In May, PLAY successfully secured the lease of three A321neo aircraft with favorable power-by-the-hour terms enabling PLAY to adjust capacity by demand. On May 15, PLAY received an Air Operator Certificate (AOC) from the Iceland Transport Authority (ICETRA) and launched ticket sales three days later. The immediate consumer interest was apparent, confirming management's assumptions of high interest for an Iceland-based low-cost airline. During the month, PLAY also hired several experienced and qualified individuals in the aviation sector, both for office and front-line roles. Our crewmembers received theoretical and practical training, and our pilots did extensive flight simulator training in London.

On June 15, PLAY's first aircraft (TF-AEW) arrived in Iceland with a fresh coat of paint after extensive entry-into-service maintenance checks. On June 24, PLAY operated its first scheduled commercial flight when it flew to London Stansted. Six other European destinations soon followed in June and July.

PLAY's second and third aircraft, TF-PLA and TF-PLB, underwent their final delivery checks before entry into service in Q3. All aircraft were successfully delivered on time, making PLAY's first summer schedule a success.

On June 25, PLAY successfully raised funds in the amount of USD 34.9 million through an IPO. There was eightfold oversubscription for the new equity. PLAY's shares were listed on the Nasdaq First North Growth Market Iceland on July 9.

Financial performance

The financials for the first half reflect the successful start of operations. The period was unusual as PLAY flew only three scheduled flights. Having raised new capital, PLAY holds a strong cash position. This allows the company to follow its business plan, which assumes unstable market conditions. Favorable terms on new aircraft leases further improve the financial position compared to initial estimates.

Loss amounted to USD 1.8 million for the first six months of 2021 compared to 1.1 million USD for the same period the previous year.

Income statement

Revenue for the first half was USD 43.4 thousand, of which USD 27.6 thousand was from airfare revenue and USD 14.4 thousand was from ancillary revenue. Expenses were mainly preparations for scheduled flight operations that amounted to three round trips in June, including the inaugural flight on June 24.

Total operating expenses in the first half of the year were USD 4.0 million, of which salaries and related expenses were USD 1.5 million, and other operating expenses USD 1.9 million. Salaries and related expenses were mainly related to administrative personnel. Capitalized salary expenses were USD 1.6 million.

Aviation expenses were USD 0.3 million. That includes costs from aviation operations, fuel cost, training, and transportation of the aircraft. Other operating expenses were USD 1.9 million, including marketing, IT, training and other personnel costs. All supporting functions, such as IT, are outsourced as much as possible in line with PLAY's business strategy.

Operating loss (EBIT) for the first half-year was USD -4.0 million. The period only includes three commercial round-trip flights. Expenses are mostly related to the start of operations and establishment of AOC. For that reason, both RASK and CASK are irrelevant for the period but will be reported going forward.

Depreciation and amortization are primarily depreciation on one aircraft lease. The aircraft was delivered on June 15. Investment items that have been capitalized and amortized are license fees, brand creation, and software development.

The foreign exchange gain of USD 1.1 million for the period is due to the strengthening of the Icelandic Krona against the US dollar. Funding is in Icelandic Krona, whilst the functional currency is US dollars, and financial statements are reported in US dollars.

Income tax from taxable loss is USD 1.2 million, which includes USD 0.5 million from the previous year. Deferred tax asset is recognized in financial statements as of January 1, 2021. It has not been recognized previously due to the uncertainty of its useful life.

Balance sheet items

Total assets amounted to USD 125.9 million. Total non-current assets were USD 44.2 million, of which USD 30.2 million is the lease for the initial aircraft. Operating assets were USD 0.9 million and comprised of capitalized maintenance parts, IT equipment, and other equipment. Receivables and deposits amounted to USD 3.2 million, relating to the three aircraft received, airport handling, and bank guarantees. The income tax credit was USD 1.2 million due to transferable loss.

Total current assets were USD 81.8 million, of which cash and cash equivalents were USD 42.1 million and account receivables USD 39.7 million, of which USD 34.9 million was related to the IPO equity offering settled at the beginning of July.

Total equity on June 30 was USD 87.1 million, equaling an equity ratio of 69.2%. Non-current liabilities amounted to USD 28.2 million, related to aircraft leases. Current liabilities are USD 10.6 million and consist of USD 2.1 million of aircraft leases. Deferred revenue was USD 3.8 million of sales liabilities.

Cash flow

Net cash flow from operating activities was USD -2.8 million for the first half-year. The cash position is more robust than estimated as terms on credit card settlements are more favorable than anticipated. This advantage stems from the solid financial position of the company and the successful start of operations.

The cash flow used on investment activities was USD -6.7 million for the first half of the year. USD -3.2 million was due to deposits paid on leased aircraft. Other investment amounts are investments in IT systems and infrastructure. Cash flow from financing activities was USD 50.4 million in the first half-year, of which USD 47.6 million in net proceeds from the private placement funds raised in April.

Risks and uncertainties

The aviation industry is heavily affected by economic cycles and often needs to react quickly to a changing economic landscape. The COVID-19 pandemic has shown that unequivocally.

The risks and uncertainties described below may have adverse consequences on operations and financial results. PLAY makes every effort to minimize the risk, and a comprehensive risk policy is under review.

Uncertainties related to the development of customer demand during the COVID-19 pandemic and the uncertain timing of the recovery of air traffic pose a threat to revenues. The ability to react to change in demand by adjusting its operating cost is key to minimizing the company's risk.

PLAY is exposed to currency risk since a large part of its cash position is in Icelandic Krona, while PLAY's operating currency is the US dollar. PLAY is therefore exposed to the fluctuation of the two currencies against each other.

The development of fuel prices may impact financial results negatively. PLAY is in the process of developing a fuel-hedging strategy as part of its risk policy and in line with the extent of operations. Currently, PLAY does not consider fuel prices to be an extensive threat due to the light flight schedule for the coming months and therefore has no hedging position and does not expect to hedge its fuel consumption in the near term. That does not exclude PLAY from doing so in the future.

Outlook

PLAY's first full operational month in July was a success. The main objective was to initiate safe and reliable operations with a strong focus on passenger satisfaction. However, frequent changes in governmental travel restrictions and new COVID-19 cases negatively influenced load factor in the short term.

Considering that PLAY began operations during a pandemic, adverse effects of COVID-19 were expected. A rise in COVID-19 cases in Iceland in mid-July mitigated a positive trend in demand from Iceland. Customers took advantage of PLAY's flexible terms and rescheduled travel dates in some number. For PLAY, this meant a transfer of income and load in time, without loss of revenue. However, only a few incoming passengers rescheduled travel dates. Load factor in July was 41.7%, and PLAY carried 9,899 passengers during its first whole month of flight operation.

PLAY's markets have been affected in different ways by COVID-19. Booking trends have also been less predictable than under normal circumstances. On a more positive note, August showed a promising trend as ticket sales increased and the outbound market recovered. Hence, PLAY marks an increase in outgoing passenger demand and is cautiously optimistic going forward.

In addition to being financially strong, PLAY has a sensible flight schedule, a controlled supply in the coming months of operation and has the flexibility to adjust its schedule in line with demand due to favorable power-by-the-hour lease terms on its aircraft. A short to medium term negative development of COVID-19 will therefore not derail its long-term plans.

Load factor in August was 46.4 % and PLAY carried more than 17,300 passengers. These numbers reflect increased demand from Icelandic customers following the decrease of new COVID-19 cases in the country. The load factor is expected to rise in September for the second consecutive month.

On August 20, PLAY applied for authorization to launch services to the United States from spring 2022. The application requests permission to operate scheduled and charter service from and via Iceland. This is an important milestone towards the hub-and-spoke operation (VIA model), scheduled for 2022, which will greatly upgrade our operations compared to our current point-to-point model.

Another significant milestone is that PLAY signed two Letters of Intent (LOI's) with two major international aircraft lessors. The first LOI signed was for two new A320neo aircraft manufactured in 2020. This coming winter, the aircraft will be fitted and painted as per PLAY's specifications and delivered in Q1 2022. The second LOI signed was for three A320neo and one A321neo aircraft, which will come into operation in spring 2023. All four aircraft will be delivered new directly from Airbus to PLAY through the lessor.

With these arrangements, PLAY is taking advantage of favorable terms in the current market. PLAY will add three aircraft to its fleet in spring 2022 in time for the change from a point-to-point business model to a hub-and-

spoke business model and launch operations to North America. The company is now in negotiations to lease the third aircraft in addition to the two A320neo aircraft coming in Q1 2022, thus bringing the 2022 fleet to six aircraft. PLAY is, therefore, on track to secure the seven aircraft to be added to the fleet in 2022-2023, on top of the existing three aircraft, as laid out in the company's business plan.

In addition to preparing the hub-and-spoke operation, our top priorities for the upcoming months are to enhance the digital customer experience and strengthen the company culture and internal infrastructure.

Enhancing the digital customer experience includes touch-free onboard sales, developing the self-service chatbot, launching a new booking engine, implementing enhanced self-service options at the airport, and more. These are significant steps towards PLAY's digital future and great customer service for years to come.

The focus on culture includes developing a dynamic and performance-driven corporate culture applying firm and precise goals. Additionally, the company's infrastructure will be strengthened to enhance low-cost operations and a cost-conscious approach even further.

To sum up, PLAY will evolve substantially when it grows into the hub-and-spoke model while the sales and marketing effort will shift focus to maximizing the possibilities and benefits that the VIA model entails.

General Information

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Financial Calander

Traffic Report for August will be published on September 7, 2021 and third quarter results will be released on November 2, 2021