Fly PLAY hf.

CONSOLIDATED FINANCIAL STATEMENTS

2023

Fly PLAY hf. | Suðurlandsbraut 14 | 108 Reykjavík Iceland | Reg. no. 660319-0180

Contents

	Page
Endorsement and Statement by the Board of Directors and the CEO	3
Independent Auditors' Report	6
Consolidated Statement of Profit or Loss and Other Comprehensive Income	9
Consolidated Statement of Financial Position	10
Consolidated Statement of Changes in Equity	11
Consolidated Statement of Cash Flows	12
Notes to the Consolidated Financial Statements	13

Endorsement and Statement by the Board of Directors and the CEO

Fly Play hf. (the "Company" or "PLAY") is an Icelandic low-cost airline that operates a hub-and-spoke model between Iceland, Europe, and North America. The Company launched its services in June 2021 and was listed on the Nasdaq First North Iceland in July 2021. PLAY's primary goal is to make flying affordable for everyone. PLAY offers a safe and pleasant journey in new and comfortable Airbus aircraft to 38 destinations at year end.

The Consolidated Financial Statements for the year 2023 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and additional Icelandic disclosure requirements. The Financial Statements are presented in US dollars, which is the Company's functional currency. The Financial Statements have been audited by the Group's independent auditors.

Financial Year 2023

According to the Consolidated Financial Statement total loss for the year was USD 35.2 million. Equity at 31 December 2023 amounted to USD 2 million, including share capital in the amount of USD 6.8 million and share premium of USD 101.5 million. Reference is made to the Statement of Changes in Equity regarding the information on changes in equity. The average number of full time employees was 423 in the year 2023 (2022: total 252) thereof 200 men and 223 women and salaries and related expenses amounted to USD 44.0 million in the year 2023 (2022: USD 25.5 million). Number of key management is 7 thereof 2 women and 5 men.

The Company's revenue doubled in 2023 compared to 2022 and EBIT improved significantly. Capacity (measured in available seat kilometers) increased by 89% and unit costs decreased. PLAY has emphasised growing ancillary revenues which resulted in a 29% increase between years per passenger.

PLAY has entered into lease agreements for a total of 10 new aircraft since beginning operations. In 2021 the Group took delivery of three Airbus A321neo. In 2022 the group received five new aircraft with three of them going into active operations and the other two went into storage until joining the fleet in time for the summer schedule 2023. In 2023 further two aircraft were added to the fleet bringing the number of active aircraft used in operations to 10 in total.

PLAY’s load factor improved throughout 2023 and resulted in 83.4% for the full yearand 1.5 million passengers were flown in the year. PLAY had an 83% On-time performance in 2023. This on-time performance percentage means that out of 9,600 flights for the whole year of 2023, over 8,000 flights were on time.

EU Taxonomy Disclosure

The EU Taxonomy Regulation entered into force in Iceland on June 1, 2023 with Act no. 25/2023 on the provision of information on sustainability in the field of financial services and classification system for sustainable investments. The law was retroactive to January 1, 2023 and therefore applies to the entire fiscal year 2023.

The company's core business was not eligible according to the technical screening criteria that entered into force in the beginning of 2023, cf. delegated regulation EU 2021/2139. However, the airline industry has been integrated in a recent regulation update. Consequently, the Company’s eligible economic activity falls under 6.18 Passenger and freight air transport as disclosed in the following table.

	6.18 Passenger and freight air transport	Non-eligible activities
Turnover	100%	0%
CAPEX	100%	0%
OPEX	100%	0%

With the board approval of a Business Practices Policy, the Company is actively working towards aligning with EU Taxonomy Minimum Safeguards.

The Company will closely monitor the developments that take place and anticipates evolving its reporting with the EU Taxonomy when new insights are learned.

Endorsement and Statement by the Board of Directors and the CEO, contd.:

Share Capital and Resolutions

PLAY aims to deliver its shareholders a total return in excess of its cost of capital. While the group has a planned profitable growth path, the cash reserves are best utilised within the group. When a more moderate growth level is reached, the group aims to pay 50% of its after-tax profit to its shareholders in the form of dividends or share buy-back. Other factors which need to be considered and may affect these payments are factors like the group's earnings trend, financial position, and investment requirements. Dividends and share buy-back require a resolution by a shareholders' meeting following a proposal by the board of directors.

The Board of Directors proposes no dividend payment to shareholders in 2024 for the year 2023 and refers to the Financial Statement regarding the treatment of loss and other changes in equity accounts.

The number of shareholders at year-end 2023 was 1.990 (2022: 2,095). At year-end 2022 and 2023 the 10 largest shareholders were:

	31.12.2023		31.12.2022	
	Number of Shares in ISK thousand	Shares in %	Number of Shares in ISK thousand	Shares in %
Leika fjárfestingar ehf.	93,596	10.8%	93,596	10.9%
Birta lífeyrissjóður	81,686	9.4%	81,186	9.4%
Stoðir hf.	54,000	6.2%	54,000	6.3%
Stefnir - Innlend hlutabréf hs.	48,383	5.6%	33,471	3.9%
Stefnir - ÍS 5 hs.	41,503	4.8%	41,327	4.8%
IS EQUUS Hlutabréf	38,173	4.4%	32,909	3.8%
Lífsverk lífeyrissjóður	37,534	4.3%	37,534	4.4%
Fea ehf.	35,034	4.0%	35,034	4.1%
Eignarhaldsfélagið Mata hf.	31,938	3.7%	31,938	3.7%
Festa - lífeyrissjóður	27,137	3.1%	27,137	3.2%
	488,985	56.3%	468,132	54.4%
Other shareholders	379,458	43.7%	392,735	45.6%
	868,443	100.0%	860,868	100.0%

Issuance of new shares to strengthen the financial position and finance future growth

The Board of Directors will start a process to increase the share capital of PLAY to strengthen the Company's financial position. The proceeds from the equity increase will be used to finance future growth, ensure liquidity position and the Company´s ability to continue as a going concern.

PLAY is preparing to transfer its share listing from the First North Growth Market Iceland to the Nasdaq Main Market in Iceland. The uplisting process, expected to conclude during the first half of 2024, marks a significant milestone in our journey.

Corporate Governance and Non-Financial Reporting

The Board of Directors has prepared a Corporate Governance Statement in compliance with the Icelandic Corporate Governance guidelines which are described in full in the Corporate Governance Statement in PLAY´s annual and sustainability report. The Board of Directors are composed of five members, thereof two women and three men.

Information on matters related to financial risk management is disclosed in note 29.

Endorsement and Statement by the Board of Directors and the CEO, contd.:

Statement by the Board of Directors and the CEO

We hereby confirm that the Consolidated Financial Statements for the year 2023, to the best of our knowledge, have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Further, in our opinion, the Consolidated Financial Statements and the Endorsement of the Board of Directors and the CEO give a fair view of the development and performance of PLAY´s operations and its position and describes the principal risks and uncertainties faced by PLAY.

The Board of Directors and the CEO have today discussed the Consolidated Financial Statements of PLAY for the year 2023 and confirm them by means of their signatures.

Reykjavik February 8, 2024

Board of Directors:

CEO:

Independent Auditor's Report

To the Board of Directors and Owners of Fly Play hf.

Opinion

We have audited the consolidated financial statements of Fly Play hf. for the year ended December 31, 2023 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of Fly Play hf. as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act.

Our opinion in this report on the consolidated financial statements is consistent with the content of the additional report that has been submitted to the audit committee in accordance with the EU Audit Regulation 537/2014 Article 11.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We are independent of Fly Play hf. in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Iceland, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Based on the best of our knowledge and belief, no prohibited services referred to in the EU Audit Regulation 537/2014 Article 5.1 has been provided.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Going Concern

Without modifying our opinion we draw attention to the Endorsement and Statement by the Board of Directors and the CEO and Note 2 to the consolidated financial statements, which indicate that the Company has incurred a net loss of USD 35.171 thousand during the year ended December 31, 2023. As stated in the Endorsement and Statement by the Board of Directors and the CEO and Note 2, these events or conditions indicate that uncertainty exists that may cast doubt on the Company´s ability to continue as a going concern.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Explanation of Key Audit Matter	Responses to Key Audit Matter
Measurement of lease liabilities for aircraft The Group has recognised lease liabilities of USD 273.061 thousand. Management has applied several judgements and estimates in applying IFRS 16 to its lease agreements for aircraft engines. The significant judgements include determining the appropriate incremental borrowing rates ("IBR") to use in discounting the lease liabilities.	In our audit of measurement of lease liabilities, we reviewed management´s accounting policies and schedules for IFRS 16 Leases and carried out the following substantive audit procedures: • Tested the completeness of the contracts accounted for as leases under IFRS 16. • Assessed the IBR used in discounting the lease liabilities as determined by management for appropriateness.

Key Audit Matters contd.

Explanation of Key Audit Matter	Responses to Key Audit Matter
We considered this to be a key audit matter given its significance to the consolidated financial statements and due to the estimates involved in measuring the lease liabilities and related right of use assets. Further information about lease liabilities can be found in note 25 in the consolidated financial statements.	• Inspected lease contracts to assess whether the relevant lease data inputs into management´s IFRS 16 calculations are accurate. • Performed a recalculation of the lease liability and right of use asset balance and the related interest expense and depreciation expense. • Traced lease payments as per management´s IFRS 16 calculations to appropriate supporting documentation. • Traced the commencement date to appropriate supporting documentation. • Assessed the adequacy of disclosures with reference to the requirements of IFRS 16 Leases.

Responsibilities of the Board of Directors and the CEO for the Consolidated Financial Statements
The Board of Directors and the CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act, and for such internal control as the Board of Directors and the CEO determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors and the CEO are responsible for assessing Fly Play hf.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors and the CEO either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The board of directors and the audit committee are responsible for overseeing Fly Play's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Fly Play's internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditor’s Report, contd.:

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements contd.

• Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a uncertainty exists related to events or conditions that may cast doubt on the Company’s ability to continue as a going concern. If we conclude that a uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors and the Audit Committee a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors and the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte was appointed auditor of Fly Play hf. By the general meeting of shareholders on March 7, 2023. Deloitte have been elected since the general meeting 2023.

Kópavogur, February 8, 2024

Deloitte ehf.

Eyþór Guðjónsson

State Authorized Public Accountant

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year 2023

	Notes	2023	2022*
Revenue			
Transport revenue	6	281,777	139,905
Operating expenses			
Aviation expenses	7	179,503	113,198
Salaries and other personnel expenses	8	43,975	25,451
Other operating expenses	9	24,996	13,216
		248,474	151,865
Operating profit (loss) before, depreciation, financial items and tax (EBITDA)		**33,303**	**(11,960)**
Depreciation and Amortization	10	53,989	31,825
Operating loss (EBIT)		**(20,686)**	**(43,786)**
Financial income and expenses			
Financial income		1,714	516
Financial expense		(27,404)	(13,950)
Foreign exchange		943	(518)
	11	(24,748)	(13,952)
Loss before tax (EBT)		**(45,434)**	**(57,737)**
Income tax	12,18	10,262	9,943
Loss for the year		(35,171)	(47,794)
Other comprehensive (loss) income			
Items that are or may be reclassified from equity to the income statement on later date			
Fuel hedges - effective portion of changes in fair value, net of tax		316	0
Fuel hedges - reclassified to profit or loss		(121)	0
		195	0
Total comprehensive loss for the year		(34,977)	(47,794)
Earnings per share			
Basic and diluted earnings per share in US cent	23	(5.2)	(8.4)

* The comparative information has been restated as discussed in note 2.

Consolidated Financial Statements of Fly Play hf. 2023 9 All amounts are in USD thousands

Consolidated Statement of Financial Position at 31 December 2023

	Notes	2023	2022*
Assets			
Intangible assets	13	14,195	12,561
Right-of-use assets	14	338,450	298,040
Operating assets	15	11,855	6,723
Aircraft deposits & security instalments	17	13,209	10,934
Deferred tax assets	18	26,290	16,027
Non-current assets		403,998	344,285
Inventories	19	180	819
Trade and other receivables	20	32,992	22,861
Prepaid expense		2,755	939
Cash and cash equivalents	21	21,606	36,234
Current assets		57,533	60,853
Total assets		461,531	405,139
Shareholders equity			
Share capital		6,797	6,740
Share premium		101,490	100,587
Other components of equity		1,160	13,844
Accumulated loss		(107,542)	(84,932)
Total shareholder equity	22	1,905	36,239
Liabilities			
Provisions	24	75,965	72,680
Lease liabilities	25	247,761	206,793
Non-current liabilities		323,726	279,473
Provisions	24	20,399	16,601
Lease liabilities	25	25,300	17,260
Trade and other payables	26	43,731	27,223
Deferred income	27	46,471	28,342
Current liabilities		135,900	89,427
Total liabilities		459,626	368,900
Total shareholders equity and liabilities		461,531	405,139

* The comparative information has been restated as discussed in note 2.

Consolidated Financial Statements of Fly Play hf. 2023 10 All amounts are in USD thousands

Consolidated Statement of Changes in Equity for the year 2023

	Share capital	Share premium	Other components of equity	Accumulated loss	Total equity
2022					
Balance at January 1, 2022	5,606	85,371	11,674	(35,254)	67,397
Loss and total comprehensive loss	0	0	0	(47,794)	(47,794)
Total comprehensive loss	0	0	0	(47,794)	(47,794)
Share capital increase	1,134	14,995	0	0	16,129
Stock options expense	0	0	507	0	507
Exercised stock options	0	221	(221)	0	0
R&D reserve transfers	0	0	1,884	(1,884)	(0)
Balance at December 31, 2022	6,740	100,587	13,844	(84,932)	36,239
2023					
Balance at January 1, 2023	6,740	100,587	13,844	(84,932)	36,239
Net result	0	0	0	(35,171)	(35,171)
Effective portion of fuel hedges	0	0	316	0	316
Fuel hedges - reclassified to P/L	0	0	(121)	0	(121)
Total comprehensive loss	0	0	(121)	(35,171)	(35,292)
Share capital increase	57	401	0	0	458
Stock options expense	0	0	183	0	183
Exercised stock options	0	502	(502)	0	0
R&D reserve transfers	0	0	(12,560)	12,560	0
Balance at December 31, 2023	6,797	101,490	1,160	(107,542)	1,906

Consolidated Financial Statements of Fly Play hf. 2023 11 All amounts are in USD thousands

Consolidated Statement of Cash Flows
for the year 2023

	Notes	2023	2022
Cash generated from (used in) operating activities			
Loss for the year		(35,171)	(47,794)
Adjustments for			
Depreciation and amortization	10	53,989	31,825
Net finance expense	11	24,748	11,424
Stock options		183	507
Income tax	12	(10,262)	(9,943)
		33,487	(13,982)
Changes in operating assets and liabilities			
Inventories, decrease (increase)		639	(537)
Trade and other receivables, increase		(12,226)	(16,201)
Trade and other payables, increase		15,682	35,755
Changes in operating assets and liabilities		4,095	19,017
Cash generated from operations before interest and taxes		37,582	5,036
Financial income received		1,714	516
Interest paid		(22,166)	(11,343)
Net cash generated from (used in) operating activities		17,130	(5,791)
Cash flows (to) from investing activities			
Deposits	17	(2,218)	(3,162)
Investment of operating assets	15	(6,320)	(3,501)
Investment of intangible assets	13	(4,430)	(3,971)
Net cash (to) from investing activities		(12,968)	(10,634)
Cash flows from financing activities			
Repayment of lease liabilities	25	(20,381)	(13,256)
Loans from shareholders		0	0
Proceeds from share issue	22	458	16,129
Net cash from financing activities		(19,923)	2,873
Decrease in cash and cash equivalents		(15,761)	(13,552)
Effect of exchange rate fluctuations on cash held		1,133	(1,945)
Cash and cash equivalents at beginning of the year		36,234	51,731
Cash and cash equivalents at year end		21,606	36,234
Investment and financing without cash flow effect			
Acquisition of right-of-use assets	14	(69,034)	(154,219)
New leases		69,034	154,219
Capitalized maintenance obligation under lease	25	(21,289)	(66,701)
New leases		21,289	66,701

Consolidated Financial Statements of Fly Play hf. 2023 12 All amounts are in USD thousands

Notes

1. **Reporting entity**

Fly Play hf. is a private limited company and domiciled in Iceland. PLAY is a low-cost airline which operates flights between North America and Europe. The registered office of the Company is at Suðurlandsbraut 14 in Reykjavík, Iceland. The Company is listed on the Nasdaq First North Iceland effective from July 9, 2021.

The Consolidated Financial Statements of the Company as at and for the year ended 31 December 2023 comprise the Company and its subsidiary (together referred to as "the Company" or "PLAY"). The subsidiary is PLAY Lithuania which is a private limited company and domiciled in Lithuania with its registered office at Lvivo g. 101, Vilnius. PLAY's ownership in PLAY Lithuania is 100%. The subsidiary provides technical and administrative support for the Company.

The Consolidated Financial Statements of the Company as at and for the year ended 31 December 2023 comprise the Company and its subsidiary (together referred to as "the Group" or "PLAY").

2. **Basis of preparation**

a. **Statement of compliance**

The Group´s Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for financial statements. The Consolidated Financial Statements comprise of the Company and its subsidiary.

The Consolidated Financial Statements were approved by the Board of Directors of Fly Play hf. on February 8, 2024.

b. **Basis of measurement**

The Consolidated Financial Statements are prepared on the historical cost basis except that derivative financial instruments are recognized at fair value. Further details of the Group´s accounting policies are included in note 33.

c. **Going concern**

The Group incurred a loss for the year 2023 amounting to $35 million (2022: $48 million) with the current ratio 0,42 at year end (2022: 0,68). The Board of Directors will start a process to increase the share capital of PLAY to strengthen the Company's financial position. The proceeds from the equity increase will be used to finance future growth, ensure liquidity position and the Company´s ability to continue as a going concern.

d. **Prior period adjustments**

Comparative figures have been adjusted to reflect earlier delivery of two aircraft which were previously recognized in the year 2023. Despite the aircraft did not go into active operations and no fixed payments were due until April 2023 the lease liability was present at year end 2022 and as such is now included in the comparative amounts.

The following table summarises the impact of the change discussed above:

Consolidated statement of profit or loss	**31.12.2022**
Depreciation and Amortization	281
Financial expense	(2,528)
Increase in loss for the financial year	(2,247)

Consolidated statement financial position	**31.12.2022**
Right-of-use assets	73,655
Provisions	(21,572)
Lease liabilities	(54,330)
Decrease in net assets	(2,247)

Consolidated Financial Statements of Fly Play hf. 2023 13 All amounts are in USD thousands

3. **Functional and presentation currency**

These Consolidated Financial Statements are presented in United States Dollars (USD), which is the Group's functional currency. All financial information presented in United States Dollars has been rounded to the nearest thousand unless otherwise stated.

4. **Use of estimates and judgements**

In preparing these Consolidated Financial Statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about assumptions and estimates that have a significant risk of resulting in a material adjustment within the next financial year are included in note 33(h) regarding determination of useful life of operating assets, 33(e) regarding recognition of deferred tax assets, 24 regarding Provisions and 25 regarding lease liabilities.

Determination of fair value is based on assumptions subject to management's assessment of the development of various factors in the future. The actual selling price of assets and settlement value of liabilities may differ from these estimates.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities. Where applicable, further information about the assumptions made in determining the fair value of assets or liabilities are in the notes to the relevant assets and liabilities.

The accounting policies set out in this note have been applied consistently to all periods presented in these Consolidated Financial Statements unless otherwise stated.

The Group has an established control framework with respect to the measurement of fair values. The Director of Treasury and Risk Management has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The Risk Committee regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

5. **Operating segments**

The Group operates as single operating segment at this time.

6. Revenue

Revenue is specified as follows:

	2023	2022
Airfare	192,652	105,627
Ancillary	76,976	29,686
On board sales	5,627	3,130
Cargo revenue	3,594	850
Other revenue	2,928	613
Transport revenue total	281,777	139,905

7. Aviation expenses

Aviation expenses are as follows:

	2023	2022
Aircraft fuel	89,131	61,776
Emissions permits (ETS)	10,948	8,720
Aircraft handling, landing and communication	59,003	31,107
Maintenance of aircrafts	13,815	5,277
Catering	1,814	1,868
Other aviation expenses	4,792	4,450
Aviation expenses total	179,503	113,198

8. Salaries and other personnel expenses

Salaries and other personnel expenses are specified as follows:

	2023	2022
Salaries	36,233	20,239
Accrued vacation	1,063	1,230
Pension fund contributions	3,630	2,124
Other salary related expenses	2,866	1,631
Stock options	183	507
Total salaries and other personnel expenses	43,975	25,731
Capitalized salary expenses	0	(279)
Salaries and other personnel expense total	43,975	25,451
Average number of full year equivalents	423	252
Employees at year end	477	323

9. Other operating expenses

Other operating expenses are as follows:

	2023	2022
Housing and office expenses	270	204
Marketing and sales expenses	9,251	5,326
IT cost	148	143
Travel and other employee expenses	9,090	3,743
Audit, legal and other professional services	5,386	3,687
Other operating expenses	851	112
Other operating expenses total	24,996	13,216

10. Depreciation and Amortization

The depreciation and amortization are specified as follows:

	2023	2022
Amortization of intangible assets, see note 13	2,795	2,087
Depreciation of right-of-use assets, see note 14	50,006	29,139
Depreciation of operating assets, see note 15	1,188	599
Depreciation and amortization total	53,989	31,825

Consolidated Financial Statements of Fly Play hf. 2023 15 All amounts are in USD thousands

11. Financial income and (expense)

Financial income (expenses) is specified as follows:

	2023	2022
Interest income on bank deposits	1,714	516
Interest expenses of lease liabilities	(20,644)	(10,596)
Other finance expenses and transaction fees	(6,760)	(3,355)
Net foreign currency exchange rate loss	943	(518)
Net financial expenses	(24,748)	(13,952)

12. Income tax

Income tax recognized in the income statement is specified as follows:

	2023	2022
Total tax expense recognized in the income statement	10,262	9,943

Effective tax rate

		2023		2022
Loss before income tax		(45,434)		(57,737)
Income tax according to current tax rate	20.0%	9,087	20.0%	11,547
Previously unrecognized	1.0%	454	0.8%	(449)
Non-deductible expense	(0.3%)	(120)	0.0%	0
Currency exchange	1.9%	842	(2.0%)	(1,155)
Effective tax rate	22.6%	10,262	19.9%	9,943

13. Intangible assets

Intangible assets and their amortization are specified as follows:

	Software and website	Long-term cost	Total
Cost			
Balance at January 1, 2022	5,733	5,805	11,537
Additions	3,823	148	3,971
Balance at December 31, 2022	9,556	5,953	15,509
Additions	4,394	36	4,430
Balance at December 31, 2023	13,949	5,989	19,939
Amortization and impairment losses			
Balance at January 1, 2022	567	294	861
Amortization	1,509	578	2,087
Balance at December 31, 2022	2,076	872	2,948
Amortization	2,191	605	2,795
Balance at December 31, 2023	4,266	1,477	5,743
Carrying amount			
January 1, 2022	5,166	5,511	10,677
December 31, 2022	8,047	5,375	12,561
December 31, 2023	9,683	4,513	14,195
Amortization rate	20-33%	10-20%	

There are no indicators of impairment of intangible assets at year-end.

Consolidated Financial Statements of Fly Play hf. 2023 16 All amounts are in USD thousands

Notes, contd.:

14. Right-of-use assets

Right-of-use assets and depreciation are specified as follows:

	Aircrafts	Other	Total
Balance at January 1, 2022	115,372	1,710	117,082
Additions	209,979	0	209,979
Depreciation	(28,757)	(383)	(29,139)
Indexed leases	0	118	118
Balance at December 31, 2022	296,595	1,445	298,040
Balance at January 1, 2023	296,595	1,445	298,040
Additions	90,323	0	90,323
Depreciation	(49,577)	(429)	(50,006)
Indexed leases	0	94	94
Balance at December 31, 2023	337,340	1,110	338,450

15. Operating assets

Operating assets and depreciation are specified as follows:

	Aircraft- and flight equipment	Other property and equipment	Total
Cost			
Balance at January 1, 2022	3,481	491	3,972
Additions	3,199	301	3,501
Balance at December 31, 2022	6,680	792	7,473
Additions	6,127	192	6,320
Balance at December 31, 2023	12,808	985	13,792
Depreciations			
Balance at January 1, 2022	104	47	151
Depreciation	441	158	599
Balance at December 31, 2022	545	205	750
Depreciation	897	291	1,188
Balance at December 31, 2023	1,441	496	1,938
Carrying amount			
January 1, 2022	3,377	444	3,821
December 31, 2022	6,136	587	6,723
December 31, 2023	11,366	488	11,855
Depreciation rate	10-20%	20-33%	

16. Insurance value

The insurance value of operating and right-of-use assets at year end 2023 amounted to USD 587 million (2022: 363 million).

17. Aircraft deposits & security instalments

The Group has paid aircraft deposits and security instalment in the amount of USD 13.2 million at year end 2023 (2022: USD 10.9 million).

Consolidated Financial Statements of Fly Play hf. 2023 17 All amounts are in USD thousands

18. Deferred tax assets

Deferred tax assets are specified as follows:

	2023	2022
Balance at January 1	16,027	5,939
Calculated income tax, recognized in the Income statement	10,262	9,943
Other items	0	146
Deferred tax at the end of the year	26,290	16,027

Deferred tax assets are attributable to the following:

	2023	2022
Intangible assets	(819)	(1,093)
Operating assets	(472)	(296)
Right-of-use assets	6,195	2,609
Stock options	193	0
Currency exchange difference	(92)	178
Carry-forward tax loss	21,285	14,629
Deferred tax assets at year end	26,290	16,027

Carry-forward tax loss at year end amounted to USD 106.4 million. Carry-forward tax loss can be utilized over 10 years from the date the loss is incurred.

Carry-forward tax loss are specified as follows:

Carry-forward tax loss from 2019 expires 2029	1,232
Carry-forward tax loss from 2020 expires 2030	4,432
Carry-forward tax loss from 2021 expires 2031	24,807
Carry-forward tax loss from 2022 expires 2032	48,155
Carry-forward tax loss from 2023 expires 2033	27,799
	106,424

Management has concluded that there will be sufficient taxable profit in the future to use the tax loss currently carried forward. The recognition of the deferred tax asset is based on the Group's forecast whereby there will by sufficient taxable profits to fully utilize current taxable losses.

19. Inventories

Inventories are specified as follows:

	2023	2022
Aircraft consumables	0	646
Other operation inventory	180	173
	180	819

20. Trade and other receivable

Trade and other receivable are specified as follows:

	2023	2022
Trade receivables	702	1,262
Credit card receivables	30,967	20,214
Other receivables	1,323	1,385
	32,992	22,861

21. Cash and cash equivalents

Cash and cash equivalents

	2023	2022
Cash	12,144	22,275
Marketable securities	506	7,369
Restricted cash	8,956	6,590
	21,606	36,234

Consolidated Financial Statements of Fly Play hf. 2023 18 All amounts are in USD thousands

21. Cash and cash equivalents, contd.:

Restricted cash is held in bank accounts pledged against credit cards acquirers and airport operators. The largest amount (USD 6.4 m.) is pledged against credit card claims and at the reporting date is restricted until the end of April 2024 but management expects it to be renewed. That amount is classified as restricted cash in the balance sheet. Other restricted cash amounts (USD 2.6 m.) which are pledged against airport operators, handling agents and the tax authorities.

22. Equity

Share capital

The Company's share capital at the end of the period amounted to ISK 868.4 million (USD 6.8 million). One vote is attached to each share of one ISK.

During the year the Company increased its share capital in the amount of ISK 7.6 million (USD 57 thous.) at the rate of ISK 8 per share resulting in a total of ISK 60.1 million (USD 458 thous.) to facilitate the exercise of share option agreements.

Share premium

Share premium represents excess of payment above nominal value that shareholders have paid for shares sold by the Company. The balance of the share premium account can be used to offset losses not covered by other reserves or to offset stock splits.

Other components of equity

At year end there were a total of ISK 36.6 million shares unvested or not exercised due to share agreements. A third of the shares will vest annually between 2025-2027. The options will be settled with equity.

The fair value of the options was determined using a Black-Scholes option pricing model. The fair value of the employees stock options is recognised as expense and included in salaries and related expenses. The average excercise price for all outstanding stock options is 13.5 per share. Volatility is 37.4% and the discount rate ranges from 2% to 6.5%.

Estimated remaining expenses due to active stock options is USD 341.1 thousand.

	Fuel hedges	Stock options	Stock options
Balance at December 31, 2022	0	1,283	1,283
Fuel hedges - effective portion of changes in fair value, net of tax	316	0	316
Fuel hedges - reclassified to profit or loss	(121)	0	(121)
Stock options charge for the year	0	183	183
Exercise of options	0	(502)	(502)
Balance at December 31, 2023	195	965	1,160

Consolidated Financial Statements of Fly Play hf. 2023 19 All amounts are in USD thousands

22. **Equity, contd.:**

Retained earning (Accumulated loss)

Retained earning (Accumulated loss) shows accumulated profit or loss of the Group after deducting contributions to the statutory reserve and dividend. Retained earnings can be distributed to shareholders in the form of dividends.

Dividend

No dividend was paid to shareholders during the year 2023. The Board of Directors proposes that no dividend shall be paid to shareholders during the year 2024 due to operations in the year 2023.

Capital management

The Board's policy is to maintain a strong capital base to sustain future development of the business.

23. **Loss per share**

The calculation of basic EPS has been based on the following net loss attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is the same as basic earnings per share as the effect of warrants would not dilute the earnings per share only decrease loss per share.

Basic loss per share

	2023	2022
Loss for the year attributable to equity holders of the Group	(35,171)	(47,794)
Weighted average number of shares for the year	6,760	5,717
Basic loss per share in US cent per share	(5.2)	(8.4)
Diluted loss per share in US cent per share	(5.2)	(8.4)

24. **Provisions**

Provisions for aircraft maintenance on leased aircrafts are as follows:

	2023	2022
Balance at January 1	89,281	29,906
Increases in provisions during the year	21,289	65,713
Utilization of provision during the year	(14,206)	(6,338)
Balance at December 31	96,364	89,281
Current provisions	(20,399)	(16,601)
Total non-current provisions	75,965	72,680

The expected timing of the outflows of economic benefits associated with the provisions at December 31, 2023, are as follows:

Used during 2024	20,399
Used during 2025	17,440
Used during 2026	22,898
Used during 2027	15,637
Used during 2028	10,097
Thereafter	9,894
Provisions for leased aircraft maintenance	96,364

Consolidated Financial Statements of Fly Play hf. 2023 20 All amounts are in USD thousands

25. Lease liabilities

The Group took delivery of and put into operation two Airbus 320neo aircraft during the year. The lease agreements constitute a lease under IFRS 16. The total number of aircraft in operation at year end were 10.

Lease liabilities are as follows:

	Average rate	Year of maturity	Aircraft	Real estate	Total
Lease payments in USD	5.6%	8-12 years	271,999	0	271,999
Lease payments in ISK, indexed	4.3%	5 years	0	1,061	1,061
Total lease liabilities			271,999	1,061	273,060

	2023	2022
Balance at January 1	224,053	90,456
New leases	69,034	146,794
Indexed leases	16	140
Payment of lease liabilities	(20,381)	(13,256)
Currency translation	339	(81)
Balance at December 31	273,060	224,053
Current maturities	(25,300)	(17,260)
Total non-current lease liabilities	247,761	206,793

Repayments of lease liabilities are distributed over the next 5 years as follows:

Repayments 2024	25,300
Repayments 2025	26,705
Repayments 2026	27,977
Repayments 2027	29,312
Repayments 2028	30,965
Subsequent repayments	132,801
Total lease liabilities	273,060

Cash flow from lease liabilites are as follows:

	2023	2022
Payment of principal portion of lease liabilities	20,381	13,256
Payment of interest expenses of lease liabilities	14,862	5,889
Total payments	35,243	19,145

Consolidated Financial Statements of Fly Play hf. 2023 21 All amounts are in USD thousands

26. Trade and other payables

Trade and other payables are specified as follows:

	2023	2022
Trade payable	19,585	9,467
Other payables	24,146	17,757
	43,731	27,223

27. Deferred income

Deferred revenues in the amount of USD 46.5 million are recognised among current liabilities in the statement of financial position. Deferred revenue is due to sale of unflown flights and outstanding gift certificates at year end. Revenues from passenger flights are recognized in the Consolidated statement of profit or loss when the relevant flight has been flown.

28. Derivatives used for hedging

Derivatives used for hedging are valued by a brokers quote. The Group uses forward contract to hedge a part of jet fuel purchases. All outstanding fuel hedge contracts are effective. The fair value changes of the hedge are accounted for in Other comprehensive (loss) income.

29 Financial risk management

Overview

The Group has exposure to the following financial risks: credit risk, liquidity risk and market risk. Market risk consists of interest rate risk, currency risk, carbon price risk and fuel price risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies, and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these Consolidated Financial Statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's Risk Management Committee is responsible for developing and monitoring the Group's risk management policies. The Committee reports regularly to the Board of Directors on its activities. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Based on these analysis the Group makes decisions about whether to use derivatives to hedge against certain types of risks.

a. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Exposure to credit risk is influenced mainly by the age of trade receivables, financial standing and individual characteristics of its customer.

Exposure to credit risk

The carrying amounts of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	Notes	2023	2022
Aircraft deposits & security instalments	17	13,209	10,934
Trade receivable and other receivable	20	32,992	22,861
Cash and cash equivalents	21	21,606	36,234
		67,807	70,029

The majority of financial assets are claims on financial institutions, credit card claims and cash, where the counterparty is a financially stable party with very low credit default risk. No impairment has been made on financial assets.

Consolidated Financial Statements of Fly Play hf. 2023 22 All amounts are in USD thousands

29 Financial risk management, contd.:

b. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Following are the remaining contractual maturities of financial liabilities at the reporting date, including estimated interest payments:

	Carrying amount	Contractual cash flows	Within 12 months	1-2 years	3-5 years	More than 5 years
31 December 2023						
Trade and other payables	43,731	43,731	43,731	0	0	0
Lease liability	273,060	356,003	40,280	80,344	79,673	155,707
Provision	96,364	96,279	26,787	45,847	16,335	7,310
	413,155	496,013	110,798	126,191	96,008	163,017
31 December 2022						
Trade and other payables	27,223	27,223	27,223	0	0	0
Lease liability	224,054	291,054	29,367	63,991	63,000	134,696
Provision	89,281	96,527	20,797	40,047	25,336	10,346
	340,558	414,804	77,388	104,038	88,336	145,042

c. Market risk

Market risk emerges from changes in market prices, such as foreign exchange rates, interest rates, carbon emission quota prices and fuel prices, as those changes will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Interest rate risk

The Group's financial instruments are all subject to variable interest rates. The Group does not currently hedge its interest rate risk.

Fuel price risk

The Group is exposed to fuel price risk due to purchase of fuel. The Group uses forward contract to hedge a part of jet fuel purchases. At year end 2023 the fair value for those contracts was positive in the amount of USD 195 thous. which is expected to materialize fully in the year 2024.

Change in fuel prices by 10% on average during the year 2023 would have resulted in increase (decrease) on net income by USD 8.9 million. (2022: 6.2)

Carbon risk

Emissions permits (ETS credits) are mainly purchased using spot and forward contracts, and the carbon exposure is subject to the same risk management as jet fuel.

Change in ETS credit price by 10% during the year 2023 would have resulted in increase (decrease) on net income by USD 1.1 million. (2022: 0.9)

Consolidated Financial Statements of Fly Play hf. 2023 23 All amounts are in USD thousands

29 Financial risk management, contd.:

d. Currency risk

The Group is exposed to currency risk on sales, purchases, cash and cash equivalents and lease liabilities that are denominated in a currency other than the respective functional currency of the Group. The currency exposure is mostly in EUR, ISK and GBP. The Group's salaries and related expenses, representing around 18% of the Group's total expenses, are denominated in ISK. Sales in ISK constitute 29.1% of total sales (2022: 38.6%), EUR 21.7% (2022: 21.5%) and other currencies 12.0% (2022; 9.5%).

The Group's liquid exposure to currency risk is as follows:

2023	ISK	EUR	GBP	Other currencies
Trade and other receivables	8,247	8,533	1,358	2,015
Restricted cash	782	250	0	0
Cash and cash equivalents	2,507	492	748	492
Lease liabilities	(1,061)	0	0	0
Trade and other payables	(11,378)	(4,202)	(962)	(1,496)
Net currency exposure	(904)	5,073	1,144	1,011

2022	ISK	EUR	GBP	Other currencies
Trade and other receivables	5,674	4,438	1,838	898
Restricted cash	0	0	0	0
Cash and cash equivalents	21,861	1,695	1,456	1,204
Lease liabilities	(1,291)	0	0	0
Trade and other payables	(6,883)	(3,706)	(1,042)	(477)
Net currency exposure	19,361	2,427	2,252	1,625

The following exchange rates of USD applied during the year:

	Average rate		Year-end spot rate	
	2023	2022	2023	2022
ISK	0.0072	0.0074	0.0073	0.0070
EUR	1.08	1.05	1.11	1.07
GBP	1.24	1.23	1.27	1.20

Sensitivity analysis

A 10% strengthening of the USD against the following currencies at 31 December 2023 would have increased (decreased) pre-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. This analysis is performed on the same basis as for 2022.

	Profit (loss)	
	2023	2022
ISK	90	(1,936)
EUR	(507)	(243)
GBP	(114)	(225)
Other currencies	(101)	(162)

A 10% weakening of the USD against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant. This analysis is performed on the same basis as for 2022.

Consolidated Financial Statements of Fly Play hf. 2023 24 All amounts are in USD thousands

29 Financial risk management, contd.:

e. Classification and fair value of financial assets and liabilities

Financial assets and liabilities are classified as follows:

2023	Amortized cost	Fair value through P/L	Carrying amount
Aircraft deposits & security instalments	13,209	0	13,209
Trade receivables	31,669	0	31,669
Other receivables	1,128	195	1,323
Restricted cash	0	0	0
Cash and cash equivalents	21,606	0	21,606
Total assets	67,612	195	67,807
Trade payables	43,731	0	43,731
Total liabilities	43,731	0	43,731

Classification and fair value of financial assets and liabilities

2022	Amortized cost	Fair value through P/L	Carrying amount
Aircraft deposits & security instalments	10,934	0	10,934
Trade receivables	21,476	0	21,476
Other receivables	1,385	0	1,385
Restricted cash	0	0	0
Cash and cash equivalents	36,234	0	36,234
Total assets	70,029	0	70,029
Trade payables	27,223	0	27,223
Total liabilities	27,223	0	27,223

Fair value

Fair value information for financial assets and liabilities not measured at fair value is not included as the carrying amount is considered a reasonable approximation of fair value.

Consolidated Financial Statements of Fly Play hf. 2023 25 All amounts are in USD thousands

30 Related parties

Definition of related parties

The board of directors, managers and close family members and companies in which they own majority of the shares are considered to be related parties.

Transactions with related parties are on an arms length basis.

Transactions with management and key personnel

Salaries and benefits of management for their service to Group and the number of shares in ISK directly or indirectly in the Group held by management are specified below:

2023	Salaries and benefits	Number of shares in ISK thousand	Stock options expense
Einar Örn Ólafsson, chairman	58	93,596	0
Elías Skúli Skúlason, vice chairman	47	35,050	0
Guðný Hansdóttir, board member	32	0	0
María Rúnarsdóttir, board member	34	1,260	0
Valentin Lago, board member	27	0	0
Birgir Jónsson, CEO	375	6,250	0
Key management, seven members	1,797	9,503	183

Six of key management members have open stock option contracts at year end 2023.

2022	Salaries and benefits	Number of shares in ISK thousand	Stock options expense
Einar Örn Ólafsson, chairman	60	93,612	0
Elías Skúli Skúlason, vice chairman	46	35,034	0
Auður B. Guðmundsdóttir, board member	31	127	0
Guðný Hansdóttir, board member	31	0	0
María Rúnarsdóttir, board member	39	1,260	0
Birgir Jónsson, CEO	333	6,250	104
Key management, eight members (six at year end)	1,175	769	204

All of the seven key management members have open stock option contracts at year end 2022.

There were no other transactions with related parties other than shareholders during the year.

Notes, contd.:

31. Events after the reporting period

No events have arisen after the reporting period of these Consolidated Financial Statements that require amendments or additional disclosures in the Consolidated Financial Statements for the period ended 31 December 2023.

32. Other matters

The Financial Supervisory Authority (FSA) notified PLAY of a potential breach of Act 60/2021 on Actions against Market Abuse. PLAY is in dialogue with the FSA but the outcome remains uncertain.

33. Significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these Consolidated Financial Statements.

a. Currency exchange

Foreign currency transactions

Transactions in currencies other than functional currencies (foreign currencies) are translated to the respective functional currencies of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Foreign currency differences are generally recognized in profit or loss.

Foreign operations

In the Group's consolidated financial statements, the assets and liabilities of Group entities with a functional currency other than the USD are translated into USD at reporting date. Income and expenses are translated into USD at the average rate over the reporting period. Exchange differences recognised on translation are charged or credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

b. Revenue

Flight operations

Revenues from passenger flights are recognized in the income statement when the relevant flight has been flown. Sold gift certificates not used within twelve to forty eight months from the month of sale are recognized as revenue.

Other operating revenue

Revenue is recognized in profit or loss when the service has been provided or sale completed by delivery of products.

c. Employee benefits

Share-based payment arrangements

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at grant date. The grant date fair value of equity-settled share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

33. Significant accounting policies, contd.:

d. Finance income and finance cost

Finance income comprises interest income on funds invested, dividend income and foreign currency gains. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on unwinding of the discount on provisions, foreign currency losses, transaction fees, impairment losses recognized on financial assets, that are recognized in profit or loss and impairment of other financial assets and loans and receivables.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether currency movements are in a net gain or net loss position.

e. Income tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is expected tax payable on the taxable income for the period, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted at the reporting date. Deferred tax assets and liabilities are offset if there is legal authority to recover tax payable against tax assets and those belonging to the same tax authority.

The extent to which deferred tax assets can be recognised is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilised.

f. Inventories

Goods for resale and supplies are measured at the lower of cost and net realizable value. The cost of inventories is based on first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

g. Intangible assets

Recognition and measurement

Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses. Intangible assets are only capitalized if it is probable that future economic benefits associated with the asset will be generated and the cost can be measured reliably.

Subsequent expenditures

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

Amortization

Intangible assets are divided into long-term costs and software. Long term cost mainly consists of the acquisition cost of the operation, operating license and brand. The estimated useful lives for the current and comparative years are as follows:

Long-term cost	5-10 years
Software	3-5 years

33. Significant accounting policies, contd.:

h. Operating assets

Recognition and measurement

Items of operating assets are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use.

When parts of an item of operating assets have different useful lives, they are accounted for as separate items (major components) of operating assets.

Any gain and loss on disposal of an item of operating assets (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss.

Aircraft- and flight equipment

Aircraft and flight equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Subsequent expenditures

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Items of operating assets are depreciated on a straight-line basis in profit or loss over the estimated useful lives of each component. In the case of aircraft engines, the depreciation is calculated based on flown hours.

Operating assets are depreciated from the date they are installed and ready for use or in the case of assets which the Group builds itself, from the date that the asset is complete and ready for use.

The estimated useful lives for the current and comparative periods are as follows:

Aircraft- and flight equipment	5-10 years
Other property and equipment	3-5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

33. Significant accounting policies, contd.:

i. Financial instruments

Non-derivative financial assets

The Group initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets, including assets designated at fair value through profit or loss, are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such derecognized financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets at amortized cost

Financial assets at amortized cost are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, financial assets at amortized cost are measured at amortized cost using the effective interest method, less any impairment losses.

Financial assets at amortized cost comprise cash and cash equivalents, trade and other receivables and long-term receivables.

Cash and cash equivalents comprise cash balances and marketable securities with original maturities of three months or less.

Non-derivative financial liabilities

The Group initially recognizes debt securities issued on the date that they are originated. All other financial liabilities including liabilities designated at fair value through profit or loss are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

Derivative financial instruments

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss.

33. **Significant accounting policies, contd.:**

Hedge accounting

The Group applies hedge accounting for contracts that it enters into to hedge the cash flow of the Group related to forecasted future purchases and for which a hedging relationship has been determined for. Profit or loss of a derivative that has been determined as a hedging derivative is recognized as an increase or decrease in fuel purchases when the contract is settled. Unrealized profit or loss of a derivative which has been determined to be an effective hedge is recognized in other comprehensive income in accordance with hedge accounting for cash flow hedges taken into account tax effects.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for application of hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

Share capital

Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

j. **Impairment**

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events having occurred after the initial recognition of the asset, and that loss events had an impact on the estimated future cash flows of that asset that can be estimated reliably.

In assessing collective impairment of individual classes of financial assets the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other CGUs.

The recoverable amount of an asset of CGU is the greater of its value in use and its fair value less cost to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets or CGU.

Impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

33. Significant accounting policies, contd.:

k. Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Maintenance Reserves

With respect to the Group´s lease agreements, where the Group has a commitment to maintain the aircraft, provision is made during the lease term for the obligation based on estimated future cost of major airframe and certain engine maintenance checks by making appropriate charges to the profit or loss calculated by reference to the number of hours or cycles operated. Provisions are entered into the statement of financial position among non-current and current payables, as applicable.

l. Leases

At inception of a contract, the Group assesses whether a contract is, or contains a lease. A contract is, or contains a lease if the contract conveys the right of control the use of identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of lease in IFRS 16.

As a lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

Right of use assets

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased. Lease payments included in the measurement of the lease liability comprise the following: fixed payments, including in-substance fixed payments, variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date, amounts expected to be payable under a residual value guarantee and the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

33. Significant accounting policies, contd.:

m. Leases

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

n. Deferred income

Sold unused tickets and other prepayments are presented as deferred income in the statement of financial position.

o. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities (see Note 4).

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.
Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

33. Significant accounting policies, contd.:

p. Subsidiaries

Basis of consolidation

The Group's financial statements consolidate those of the parent company and its subsidiary as of 31 December 2023. The subsidiary has a reporting date of 31 December.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group "controls" and entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Transactions eliminated on consoldiation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Group.

q. New accounting standards issued but not yet effective

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2023. Their adoption has not had any material impact on the disclosures or on the amounts reported in these Consolidated Financial Statements.

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group’s financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

The following amended standards and interpretations are not expected to have a significant impact on the Group´s consolidated financial statements:

* Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

* Amendments to IAS 1: Classification of Liabilities as Current or Non-current

* Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7