

PLAY

Interim Report



January-September 2021

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PLAY continued to ramp up its operations and network during Q3. Inbound and outbound demand has been rising and bookings have been strong in the last weeks. Demand is expected to increase gradually during the next months and PLAY is preparing its launch of services to North America in spring 2022.

Highlights of operations in Q3

- › In July, PLAY carried approx. 10 thousand passengers and the load factor was 41.7%
 - › 96.2% on-time performance
- › In August, PLAY carried approx. 17 thousand passengers and the load factor was 46.3%
 - › Outbound demand increased following the decline of COVID-19 cases in Iceland
 - › 98.0% on-time performance
- › In September, PLAY carried approx. 15 thousand passengers and the load factor was 52.1%
 - › Ticket sales increased in September and there was a significant decline in the number of passengers who changed their bookings due to COVID-19
 - › 96.2% on-time performance
- › PLAY signed a Letter of Intent with a major aircraft lessor for two A320neo that are scheduled for delivery in spring 2022
- › PLAY signed an agreement with GE Capital Aviation Services (now AerCap), a major international aircraft lessor, for three A320neo and one A321NX narrowbody aircraft
 - › The aircraft are scheduled to be delivered between autumn 2022 and spring 2023
- › PLAY announced a recruitment drive to fill 100 cabin crew and 50 flight crew positions to support the airline's growth for 2022
 - › To-date nearly 5,000 applications have been received
- › PLAY added new destinations in Europe to its schedule and now has 16 destinations for sale
- › PLAY has carried approx. 68 thousand passengers to date
- › The financial results for Q3 were under expectations, due to the effect COVID-19 had on revenue, while operational cost was lower than expected.
- › PLAY holds a strong financial and cash position with an equity ratio of 29.2%
- › In October, the load factor was 67.7%, and 24,941 passengers flown

"As we close the third quarter, we see the company gaining momentum, strength and market share very quickly. COVID-19 slowed our growth trajectory in the summer with a predictably negative impact on our revenue, but that was something that we were prepared for and did not impact our plans for the long term.

We are very pleased to see the demand returning in the market as our load factor reaches 68% for October, a very impressive increase from the 52% we reported in September. Our cash position is better than we anticipated, our operational costs are in line with our business plan, and the company has very little interest-bearing debt. In these turbulent times, this is a very strong and enviable position for an airline to be in.

We expect positive developments in our financial results soon. However, PLAY is still in a startup phase, and our results will reflect that for some months or until we reach a certain scale in our operation and launch our hub-and-spoke network next spring.

The outlook for bookings is healthy for the coming months, which gives us ample reason for confidence going forward. The success of PLAY depends on our ability to compete in a very tough market against airlines that offer very competitive prices. We need to be profitable at a low price point to make sure that we are relevant and competitive in the market. To do this, we must take active steps to keep our costs down as much as possible.

To make sure that we are truly low cost from the beginning, we have made the decision to open a new office in Vilnius, Lithuania. This step gives us access to a larger pool of specialists, will reduce our salary cost and ensure an international focus in our operation. Our major markets will be in continental Europe, North America as well as Iceland, and we must meet our competitors on an equal playing field. Opening the Vilnius office now means that no layoffs or transfers of current positions are necessary. We are simply growing our support and administration functions in this new satellite office.

Our mission for the future is clear and if we continue to focus on our cost base, use all available digital solutions, and above all put our customers first, then I know that we will be successful in our quest to build PLAY into a powerful and leading company in our core markets. It is a real pleasure for me to have the honor of leading all the great people at PLAY in this mission, and I want to thank them all for their hard work and dedication over the past weeks and months."

Birgir Jónsson, CEO

Key performance indicators

Income statement, million \$	Q3 2021	YTD 2021	YE 2020
Operating income	6.71	6.75	0.00
Operating expenses	12.32	15.40	1.66
EBITDA	-5.60	-8.66	-1.66
Operating result - EBIT	-9.06	-12.39	-1.66
EBIT margin %	-135%	-184%	N/A
Results for the period before tax - EBT	-12.40	-14.72	-1.94
Net results for the period	-10.80	-11.97	-1.94
Assets	263.73	263.73	6.60
Liabilities	186.77	186.77	8.59
Equity	76.96	76.96	-1.98
Equity ratio %	29.2%	29.2%	-30.0%
Cash and cash equivalents	62.70	62.70	0.01
RASK US\$ cents	2.8	2.8	-
CASK US\$ cents	6.7	7.3	-
CASK ex fuel US\$ cents	5.5	6.2	-
ASK in millions	236.9	239.9	-
RPK in millions	109.8	110.8	-
Load factor %	0.5	0.5	-
Passengers flown (000s)	42.3	42.7	-
Stage length in (KM)	2,548.9	2,539.9	-
Airfare per passenger USD	113.7	113.1	-
Ancillary per passenger USD	45.1	45.0	-
Yield per passenger USD	158.8	158.1	-

Operational review

Course of business

The COVID-19 pandemic, and associated travel restrictions, continued to impact the global aviation industry, as well as PLAY's business in Q3 2021. There were several positive changes to travel restrictions in Iceland and the countries served by PLAY in Europe during the quarter. But in the middle of July, the number of COVID-19 cases in Iceland started to rise as the Delta variant spread. This rise in the number of COVID-19 cases had a

negative impact on sales in July and August as the number of new sold seats started to decline. Passengers that already had booked their travel with PLAY took advantage of the flexible terms offered by PLAY and moved their trip to a later date, which transferred revenue and load in time. To respond to this negative trend, PLAY decided to adjust the schedule for September.

In July, the load factor was 41.7%, and PLAY carried 9,899 passengers during its first whole month of flight operation. In July, PLAY took delivery of its second aircraft, A321neo (TF-PLA), and the airline added five new destinations to the network in addition to London and Tenerife that were added in June. The new destinations were Berlin, Alicante, Paris, Barcelona, and Copenhagen.

In August, the load factor was 46.4%, and PLAY carried 17,296 passengers. PLAY took delivery of its third aircraft in August, A321neo (TF-PLB), the last aircraft in a three aircraft lease agreement with AerCap. In August, PLAY also applied for authorization to launch services to the United States in spring 2022. The application is an important milestone towards the hub-and-spoke operation (VIA-model), which will change the company's operations compared to its current point-to-point model.

In September, the load factor was 52.1%, and PLAY carried 15,223 passengers. The improved load factor reflects recovering demand in traffic both to and from Iceland. September saw a decline in the number of passengers who changed bookings due to COVID-19. The trend reflects the decrease in COVID-19 cases in Iceland, growing consumer confidence, and relaxing travel restrictions in Iceland and abroad. Inbound demand has also been rising as PLAY becomes a better-known brand in markets outside of Iceland.

Operational Excellence – Safe and Efficient Operation

Safety is PLAY's highest priority and the most critical factor when evaluating the operational excellence of the airline. The team has been dedicated to ensuring a safe launch of the operation. The focus has been on hiring experienced, qualified employees, a smooth ramp-up of the operation, and maintaining excellent cooperation with competent authorities. PLAY has already launched its first internal safety campaign and remains dedicated to preserving the industry's highest safety standard.

PLAY applied for an Air Operators Certificate (AOC) with the Icelandic Transport Authorities on July 9, 2019, and has since then focused on the airline's preparation with emphasis on a simple, efficient and reliable operation. The main priorities during the start of operations were on-time performance (OTP) and fuel efficiency. The airline's on-time performance is an essential factor and is one of the best measurements of the performance and health of PLAY's operation. PLAY's on-time performance in Q3 2021 was one of the best in the industry, at 96.9%.

PLAY is launching its operation at the same time as the customer becomes more mindful of the environmental impact of air travel. PLAY is dedicated to operating a fleet equipped with the latest technology and is currently only using the A320neo and the A321neo aircraft (neo stands for new engine option). The new engine option saves 15-20% of fuel compared to its predecessor, the current engine option (ceo). PLAY's fleet will only be equipped with this latest engine technology and therefore reduce CO2 emission by approx. 20% compared to the estimated emission of the older version. PLAY is also using all available efforts to reduce fuel consumption on its flights and uses proven industry fuel-saving procedures to the fullest.

PLAY has initiated a cost-saving forum where all departments will work towards efficient operation before the airline moves to the next phase in Q2 2022. This forum includes further fuel-saving initiatives and defining procedures to minimize any disruptions in the schedule related to the hub-and-spoke model scheduled in the spring of 2022.

Fleet

In Q3, PLAY signed a Letter of Intent that secures two A320neo aircraft that will join the fleet before summer 2022. Lease agreements for both aircraft will be signed in Q4 2021.

PLAY also signed an agreement with GE Capital Aviation Services (now AerCap) to lease three A320neo and one A321NX aircraft to join the fleet before the summer schedule 2023.

At the end of Q3, PLAY operated three A321neo on lease from AerCap with an average of 3.5 years.

PLAY fleet	#	Change from	Leased	Average fleet age
30.09.2021		31.12.2020		30.09.21
Current fleet				
Airbus A321neo	3	3	3	3.5
Future additional fleet				
Airbus A320neo	5	5	5	NA
Airbus A321neo	1	1	1	NA
Total	9	9	9	2.5*
Aircraft lessors: AerCap, GECAS and CALC. *At the end of Q2 2023 average fleet age will be 2.5 years				

Network

Due to the negative impact that the rise of COVID-19 cases in Iceland had on bookings in July and August, the company decided to adjust the schedule and reduce the number of seats on sale for September. In July, PLAY added one-off flights to and from Warsaw around Christmas and New Year to serve the Polish expatriates living in Iceland. In August, PLAY added Alicante to the winter schedule from December.

Sustainability

Starting the operation of an airline in the 2020s means sustainability is at the core of what we do. Environmental issues have been at the forefront in the last decade, which now is a point of parity in the airline industry, as important as safety or economic efficiency.

PLAY has been and will be in a unique position that allows the company to benchmark all decisions regarding operation against what is the most sustainable way of operating. From this position, the company can follow a clear path towards sustainability from the start. There is no need to unwind old habits. This is evident in choosing the most environmentally friendly aircraft on the market, monitoring the CO2 footprint closely as the company expands, and having the necessary countermeasures from day one.

At PLAY, we take sustainability seriously. We're focused on supporting the communities in which we operate. From the beginning, we've had a certified equal pay system in place, and we have signed a declaration of intent to have our executive board gender-balanced by 2027. We celebrate and encourage diversity in our workplace, for example, with new standards in our uniforms and grooming policy.

Culture and ways of working

PLAY continued to grow in Q3, and 63 new employees were welcomed on board, 41 cabin crew members, 12 flight crew members, and 10 office employees. The company's current employees are of 9 different nationalities, with an average age of 35.8 years. PLAY has focused on equality in all positions, and the gender ratio is remarkably close to being even in the company. Within the board and the executive team are six men and five women or a gender ratio of 55%/45%. Key management positions within the company are now 53% men and 47% women. In October, PLAY received the Equality Scale from the Icelandic Association of Women Business Leaders. The Equality Scale is awarded to businesses that have an equal gender ratio in their executive-level positions.

At PLAY, we celebrate diversity and do not discriminate based on sex, age, national origin, race, color, religion, disability, sexual orientation, gender identity, or other non-merit factors. Employees doing equal work shall receive equal pay regardless of gender or any other non-merit factors.

In September, Gallup conducted an employee engagement survey for PLAY. The results were very positive, with an engagement score of 4.24, job satisfaction score of 4.37, and pride 4.50, on a scale of 1-5. Even though there is always room for improvement, the results show that we are on the right track.

We have already started preparing for summer 2022 when we will double our fleet. We recently advertised for cabin crew and flight crew positions and have so far received five thousand applications.

Financial performance

The financial results for Q3 were under expectations, due to the effect COVID-19 had on revenue, while operational cost was lower than expected. PLAY holds a strong financial and cash position, allowing the company to follow its business plan, build its infrastructure and prepare for operations to North America in 2022.

Loss amounted to USD 12.0 million for the first nine months of 2021 compared to 1.1 million USD for the same period last year before PLAY started flight operations.

Income statement

Revenue for Q3 was USD 6.7 million, of which USD 4.7 million was airfare revenue and USD 2.0 million was related sales of ancillary services.

Total operating expenses in Q3 were USD 12.3 million, of which salaries and related expenses were USD 3.0 million. Aviation expenses were USD 7.2 million. That includes costs from fuel, aircraft maintenance and aircraft handling. Other operating expenses were USD 2.1 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 Q3 was USD -9.1 million.

Depreciation and amortization are primarily depreciation on three aircraft leases and reserves. Investment items that have been capitalized and amortized for the three delivered aircraft and start of operations are license fees, brand creation, software development and salary.

The foreign exchange loss of USD 2.6 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 1.6 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 263.7 million. Total non-current assets were USD 193.4 million, of which USD 171.1 million is the lease for the three aircraft in operation, capitalized maintenance parts and provision for maintenance cost of leased aircraft. Operating assets were USD 2.8 million and comprised of IT equipment and other equipment. Receivables and deposits amounted to USD 7.1 million, relating to the three aircraft in fleet, airport handling, and bank guarantees. The income tax credit was USD 3.1 million due to transferable loss.

Total current assets were USD 70.3 million, of which cash and cash equivalents were USD 62.7 million and account receivables USD 7.5 million.

Total equity at the end of Q3 was USD 77.0 million, equaling an equity ratio of 29.2%. Non-current liabilities amounted to USD 158.5 million, related to aircraft leases and reserves. Non-current liabilities have no interest-bearing bank loans. Current liabilities were USD 28.3 million and consist of USD 7.0 million of aircraft leases. Deferred revenue was USD 6.8 million of sales liabilities.

Cash flow

Net cash flow from operating activities was USD -0.3 million for Q3. The cash flow used on investment activities was USD -7.1 million for the third quarter. USD -3.9 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 34.9 million in Q3, which consisted of proceeds from the IPO funding in June but settled in July.

Cash and cash equivalents amounted to USD 62.7 million at the end of Q3.

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 still pose a threat to revenues. The ability to react to change in demand by adjusting 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. 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.

Changes in company management

During Q3, the following additions were made to the company's management team:

- Steinar Þór Ólafsson was hired as Director Marketing
- Nadine Guðrún Yaghi was hired as Director Communications
- Tatiana Shirokova was hired as Director Sales & Distribution
- Jóhann Pétur Harðarson was hired as General Counsel
- Oddný Assa Jóhannsdóttir was hired as Director Accounting

Outlook

The next months will see the expansion of PLAY's network as new destinations in Europe and North America get added and focus on preparations for the hub-and-spoke operations starting in spring 2022. PLAY holds a strong financial and cash position which allows the company to follow its business plan, build its infrastructure and preparing for operations to North America.

As mentioned, the COVID-19 pandemic, and the associated travel restrictions, impacted the global aviation industry, as well as PLAY's business in Q3 2021. Booking trends have been less predictable than under normal circumstances, and changes to travel restrictions have created uncertainty for consumers. Although vaccination rates in the markets served by PLAY are increasing, the number of new confirmed COVID-19 cases is rising. Therefore, the uncertainty associated with the COVID-19 pandemic will remain for the foreseeable future. PLAY is well prepared to weather the uncertainty with flexible operations and a strong liquidity position.

In December, PLAY will open a new office in Vilnius, Lithuania. PLAY's headquarters and current flight operations will remain in Iceland, including all flight and cabin crew. PLAY is taking this step early in its growth stage, and there will be no layoffs in Iceland related to the opening of the new office. The company will simply expand partially in the new location. The Vilnius office will host various support and technical functions. A local General Manager has already been hired, and a recruitment drive for other roles begins soon. PLAY expects to reach about 15-20 employees in Vilnius within a few months.

Locating some of PLAY's administrative functions in Lithuania will ensure access to a larger talent pool of specialists in IT services, digital development, marketing, finance, and customer service. For example, PLAY's hub-and-spoke model will require a 24/7 service center that does not need to be based only in Iceland as most of the customers are non-Icelandic speakers. The service center for the Icelandic market will continue to be in Iceland. The new office also allows PLAY to develop a more international company culture and create relationships with new suppliers, service providers, and other partners at cost-effective and favorable terms.

PLAY is becoming an international company with operations in continental Europe and North America, as well as Iceland. PLAY is competing with airlines that have low-cost structures and access to specialist skills in the international market. Therefore, it is critical for PLAY to be able to meet the competition at an equal level. A low-cost mindset and a lean company structure are crucial for PLAY to offer low prices in a competitive market. The opening of the Vilnius office is a significant step to securing a low-cost foundation as the company enters the transatlantic market and prepares for future growth.

In addition to preparing the hub-and-spoke operation, our priorities for the upcoming months are to enhance the digital customer experience and strengthen the company culture and internal infrastructure. PLAY is developing a new Internet Booking Engine (IBE), laying the foundation for the airline's digital future. The first version of the new IBE, which will launch in December 2021, brings the development and control of the platform closer to its stakeholders, updates the technical infrastructure, improves the user experience, and increases revenue potential.

Events after the financial period

On October 12, PLAY announced that it would launch services to Gothenburg, Stavanger, and Trondheim from May 2022. On October 26, PLAY announced that it would launch services to Malaga and Palma de Mallorca from May/June 2022.

General Information

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Board of directors

Einar Örn Ólafsson, Chairman
Skúli Skúlason, Vice Chairman
Auður Björk Guðmundsdóttir
Guðný Hansdóttir
María Rúnarsdóttir

Management team

Birgir Jónsson (CEO)
Arnar Magnússon (COO)
Daníel Snæbjörnsson (CNO)
Georg Haraldsson (CCO/CIO)
Jónína Guðmundsdóttir (CPO)
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The latest financial information can be found on our website: <https://flyplay.com/investor-relations>

Financial reporting in 2021/2022

The publication dates of PLAY's financial reports in 2021/2022 are the following:

November 11, 2021	Traffic Report - October 2021
December 7, 2021	Traffic Report - November 2021
January 7, 2022	Traffic Report - December 2021
February 7, 2022	Traffic Report - January 2022
March 7, 2022	Traffic Report - February 2022
March 16, 2022	Release of Annual Report 2021