

PLAY

Interim Report



January–June 2022

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PLAY's Q2 results were impacted by record high fuel prices while the operation was ramped up for summer 2022. The hub-and-spoke network is now up and running with positive effects on the business, including improved aircraft utilization, unit cost declining below our target of USD 4 cents, higher load factor and improved unit revenue. Forward bookings for the remainder of the year are tracking ahead of last year.

Highlights of operations in Q2

- › In April, PLAY carried approx. 36.7 thousand passengers and the load factor was 72.4%
 - › PLAY's first flight to the U.S. was operated on April 20 to Baltimore/Washington D.C. The launch of the U.S. operation was a great success and a significant milestone, with one of PLAY's long-term goals reached
 - › PLAY launched services to Dublin on April 28
 - › On-time performance was 91.7% (arrivals)

- › In May, PLAY carried approx. 56.6 thousand passengers and the load factor was 69.6%
 - › Eight new destinations in Europe and North America were added to PLAY's network: Prague, Boston, Lisbon, Gothenburg, Brussels, Stavanger, Malaga and Trondheim
 - › On-time performance was 88.9%, a great achievement by the team as the business transitioned from a point-to-point network to a hub-and-spoke network facilitating connections between Europe and the U.S.

- › In June, PLAY carried approx. 87.9 thousand passengers and the load factor was 79.2%
 - › Capacity measured in available seat kilometers (ASKs) in June was 379% higher than in January 2022. For comparison, the total number of ASKs to and from Keflavik International Airport, excluding PLAY, increased by 176% during the same period
 - › A 55% increase in passenger numbers from the previous month
 - › The inaugural flight to New York was on June 9
 - › PLAY's sixth aircraft, an Airbus A320neo, arrived in Iceland at the end of June

- › On-time performance was 79.1% which, although not up to PLAY's usual high standards, was still more than satisfactory given the steep ramp-up in operations and the difficult situation at European airports that struggled with staff shortages and subsequent delays

“As we close the second quarter of 2022, we see a growing demand in the market and a great response to our new hub-and-spoke network. The end of the quarter was a landmark for us as we started operating our full hub-and-spoke network using six aircraft. It’s great to see that our unit cost reduced dramatically as we reached this scale in our operations. All according to our plan. After a challenging winter 2021-22, due to COVID-19, it is good to see that the company has gained momentum, market share, and strength. The load factor increases month by month, and passenger numbers are growing.

April was an eventful month for PLAY as the first flight to the U.S. was operated to Baltimore/Washington D.C. In May and June, PLAY started flights to twelve new destinations in Europe and the U.S. The launch of the U.S. operation was a great success and a major milestone, with one of PLAY’s long-term goals being reached.

The financial position of PLAY continues to be strong, with a healthy balance sheet and cash position. As expected, and in line with our business plan, the financial results for the second quarter were negative. PLAY reached its cost target ahead of time, with ex-fuel CASK being under USD 4 cents due to effective cost control and increased economy of scale. This achievement is very important for us as we aim to offer the lowest fares in our markets. It also shows the underlying efficiency of our business model and is an encouragement to us as we work towards lowering our costs even further. Operating expenses excluding fuel were in line with expectations. Our healthy financial and cash position means the company is able to execute its business plan and prepare for future growth in 2023 and beyond.

PLAY is heading into the fall with strong booking trends. We expect that utilization will remain strong in the coming months with the extended network. Our mission for the future is clear. If we keep our focus, use available digital solutions, and, first and foremost, put our customers first, I know we will be successful in our efforts to build PLAY into a leading airline in our core markets.

The entire PLAY team has worked tirelessly towards the goal of launching the transatlantic operation as well as our many new destinations, and it has been great to watch all the pieces come together thanks to their hard work and professionalism.”

Birgir Jónsson, CEO

Key performance indicators

Operating statistics		Q2 2022	Q1 2022	Change	6M 2022
Number of flights	no.	1,339	486	176%	1,825
Number of operating destinations*	no.	22	10	120%	22
Number of aircraft in operation**	no.	6	4	50%	6
Percentage of arrivals ontime OTP	%	84%	91%	-7 ppt	86%
Passengers flown	000s	181	56	222%	237
Available seat kilometers (ASK)	mill	695	235	196%	930
Revenue passenger kilometers (RPK)	mill	519	150	247%	669
Stage length (km)	no.	2,788	2,466	13%	2,691
Load factor	%	75%	64%	11 ppt	72%
Seats available	000s	246	92	166%	339
Income statement					
Operating revenue	USD mill	32.5	9.6	22.9	42.2
Operating expenses	USD mill	46.9	23.0	24.0	69.9
EBIT	USD mill	-14.4	-13.3	-1.1	-27.8
EBIT margin	%	-44%	-138%	94 ppt	-66%
Net operating results	USD mill	-14.3	-11.3	-3.0	-25.6
Balance sheet					
Total assets	USD mill	-	-	-	316.3
Total liabilities	USD mill	-	-	-	273.8
Total shareholders equity	USD mill	-	-	-	42.5
Equity ratio	%	-	-	-	13.4%
Cash and cash equivalents	USD mill	-	-	-	39.5
Share information					
Share price at month-end	no.	-	-	-	16.2
Earnings per share	US cents	-	-	-	-4.6
Key statistics					
Airfare per passenger	no.	137	125	9%	134
Ancillary per passenger	no.	42	47	-10%	43
Yield per passenger	no.	179	172	4%	177
RASK	US cents	4.7	4.0	16%	4.5
CASK* (incl. Fuel & emissions)	US cents	6.8	9.5	-29%	7.5
CASK* (excl. Fuel & emissions)	US cents	4.0	7.9	-49%	5.0
CO ₂ per RPK (grams CO ₂ per RPK)	no.	71	84	-17%	74
CO ₂ emissions in tons from jet fuel	no.	36,643	12,661	189%	49,304

* Operating destinations during the quarter, 14 new destinations, 21 at end of quarter

** Operating aircraft during the quarter, 1 new operating lease and 1 on ACMI lease, 6th aircraft on operating lease added in Q3

Operational review

Course of business

During the Q2 2022, PLAY achieved its goal to operate an efficient transatlantic hub-and-spoke network, adding new aircraft and expanding the network to 21 destinations in summer 2022. The quarter was operationally successful and in accordance with our plans and objectives. The results reflect solid professionalism during a period of major operational ramp-up and strong passenger demand.

In April, PLAY carried 36,669 passengers, a 55% increase from the previous month. The load factor was 72.4%. The improvement in load factor was driven by strong demand around Easter and other public holidays in Iceland. PLAY's inaugural flight to the U.S. was on April 20 to Baltimore/Washington DC, a huge milestone as the event marked a new chapter in the company's history, allowing travelers on both sides of the Atlantic to connect via PLAY's hub in Iceland. The benefit of the transfer/VIA traffic was not fully realized in April as the inaugural flight was, as previously mentioned, on April 20. In addition to launching services to the U.S., PLAY launched services to Dublin on April 28.

On-time performance in April was 91.7%, a very satisfactory result during a period of ramp-up and challenging operational conditions for airports in Europe.

In May, PLAY carried 56,601 passengers, a 54% increase from April. The number of passengers in May essentially matched the total number of passengers PLAY carried during the whole of Q1 2022. The load factor in May was 69.6%. May is traditionally a challenging month in aviation as capacity ramps up for the peak summer season. It was very positive to see a strong load factor and a constant growth in passenger numbers.

Eight new destinations were added to PLAY's network in May: Prague, Boston, Lisbon, Gothenburg, Brussels, Stavanger, Malaga and Trondheim. On-time performance in May was 88.9%, an outstanding achievement considering 69% growth in available seat kilometers in May compared to April.

In June, PLAY carried 87,932 passengers, a 55% increase from the previous month. The load factor was 79.2% which was very acceptable given that the hub-and-spoke network was still being implemented during the month as New York, Mallorca, Bologna and Madrid were added to the network. On-time performance in June was 79.1%.

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. In Q2 2022, PLAY's training team prepared newly-hired crew members for the upcoming season with extensive training. Getting ready to work on board an aircraft is a long and regulated process where the main focus is on safety. Flight crew working for PLAY all have previous experience flying Airbus A320 aircraft, and a large part of the cabin crew have previous experience working on board the A320 family. Crew members with no prior Airbus operating experience required further training before receiving their authorization to work on board the company's aircraft.

In Q2 2022, PLAY took delivery of two additional Airbus A320 aircraft that went through the rigorous process of aircraft acceptance by the PLAY technical team.

Preparing and launching fourteen new destinations, including three in the U.S., was successful. The operation of a hub-and-spoke network is far more complex than operating a point-to-point network,

so the smooth transition exceeded expectations, largely thanks to the professionalism and experience of PLAY's teams.

Fleet

At the beginning of Q1 2022, PLAY's fleet consisted of four aircraft, three A321neos and one A320neo.

In April, PLAY took delivery of one A320neo, and in June, PLAY wet-leased one A320neo to operate flights until its sixth aircraft was delivered at the beginning of July.

At the end of Q2 2022, PLAY's fleet consisted of five Airbus A320neo family aircraft, three A320neos and two A321neos, which an average age of 2.9 years.

PLAY has commitments to lease four additional aircraft from the Airbus A320neo family, taking the fleet to ten aircraft by summer 2023. PLAY expects to take delivery of two of these four aircraft before the end of 2022. However, both aircraft will be stored until the end of March 2023 at minimal cost to the company. PLAY does have the option of bringing these aircraft out of storage on short notice if it requires to do so for some reason.

The remaining two aircraft will be delivered in 2023, ahead of the summer season.

Network

During Q2 2022, PLAY ramped up operations for the peak summer season by adding fourteen new destinations to its network, including Baltimore/Washington D.C., Dublin, Madrid, Prague, Boston, New York, Mallorca, Brussels, Stavanger, Lisbon, Bologna, Gothenburg, Trondheim, and Malaga, and resumed seasonal service to Barcelona. As a result, capacity, as measured by the number of ASKs, increased by 379% between January 2022 and June 2022. For comparison, the total number of ASKs to and from Keflavik International Airport, excluding PLAY, increased by 176% during the same period.

On April 5, PLAY announced the addition of Liverpool in England and Geneva in Switzerland to its network.

The service to Liverpool will commence on October 7, 2022, and operate twice weekly on Mondays and Fridays. The service will enable Icelandic football and non-football fans to enjoy the great city of Liverpool and the residents of Liverpool to visit Iceland and travel beyond Iceland to destinations served by PLAY in North America.

The service to Geneva will commence on January 21, 2023, and operate weekly on Saturdays during the ski season. Geneva is known for being a gateway to some of the best ski resorts in the world.

Sustainability

PLAY has taken firm steps towards building a solid ground for its long-term sustainability journey. At PLAY, sustainability addresses the company's climate impact and actions as well as social topics and governance.

In March, PLAY released its Sustainability Report, which covers the company's sustainability strategy and the steps set to reach the sustainability objectives. PLAY received an award for its Sustainability

Report for the year 2021, presented by Festa Center for Sustainability, Iceland Chamber of Commerce, and Excellence Iceland (Stjórnvísí). This recognition was a great honor and a tribute to the hard work of the team. It marks a defining event in PLAY's sustainable journey and is a huge motivation.

Workplace Culture

PLAY continued to grow in Q2 2022. Cabin crew recruitment was finalized, and the focus was on onboarding and training the new employees. 130 new employees were onboarded: 85 cabin crew members, 23 flight crew members, and 22 office employees, thereof four in PLAY's Vilnius office.

PLAY celebrates diversity and keeps a focus on equality in all positions, with the gender ratio remarkably close to being equal in the company. PLAY's current employees are of seventeen different nationalities, with an average age of 32.5 years.

PLAY continues to work with Strategic Leadership Group, a global strategic consulting company, and implement ideas that emerged in workshops with PLAY's employees held in Q1 2022. Preparation is also underway for an annual appraisal training for all employees to be conducted in Q3 2022 regarding sustainability.

PLAY participated in the CRANET Research Network, the largest human research management (HRM), research conducted worldwide yearly. The results for PLAY were very positive, both regarding the level of HR management and equality. According to the results, PLAY has well-established procedures and systems in place with formalized recruitment processes and performance appraisals as well as focus on diversity and inclusiveness.

Financial performance

The financial results for the first half of 2022 were negative but in line with expectations when considering external circumstances. Earnings before interest and taxes (EBIT) was negative by USD 27.8 million, mainly because revenue was under expectations as the company ramped up its operations for summer 2022, which negatively impacted unit revenue, especially in May, and due to record high fuel prices. PLAY's low-cost structure proved effected as the company reached its target of ex-fuel CASK of USD 4 cents during the quarter. This was due to strict cost control and increased economy of scale in the operations. Revenue in the first half of 2022 was USD 42.2 million. It was impacted by the Omicron variant, in Q1 2022, and lower ancillary revenue than expected due to lower pick-up rate for cancellation protection and increased demand for carry-on bags rather than checked baggage.

Expenses were in line with expectations, with the exception of fuel cost. PLAY continues to hold a healthy financial and cash position, allowing the company to execute its business plan and prepare for further growth.

Net loss for the first half of 2022 amounted to USD 25.6 million compared to a net loss of USD 1.8 million for the same period last year when PLAY was just starting flight operations.

Income statement

Revenue for the first half of 2022 was USD 42.2 million, of which USD 31.9 million was airfare revenue and USD 10.3 million was related to ancillary services and cargo.

Total operating expenses before depreciation and amortization in the period were USD 56.4 million, of which salaries and related expenses were USD 11.3 million. Aviation expenses were USD 38.8 million. Aviation expenses include, amongst other items, fuel, aircraft maintenance and aircraft handling. Other operating expenses were USD 6.4 million, including marketing, IT, training and other personnel costs. Many supporting functions, such as IT and aircraft maintenance, are outsourced as much as possible in line with PLAY's business strategy. Operating loss for the period was USD 27.8 million.

Depreciation and amortization amounted to USD 13.5 million and are primarily related to aircraft leases of up to five aircraft and reserves. Investments relating to the delivery of aircraft, software development and salaries have been capitalized.

Around 50% of PLAY's revenue is in Icelandic Krona (ISK), whilst the functional currency and financial statements are reported in USD. Income tax, mainly due to taxable losses, is USD 6.1 million.

Balance sheet

Total assets amounted to USD 316.3 million. Total non-current assets were USD 245.6 million, of which USD 207.4 million is the right-of-use-assets for the five aircraft in operation on dry lease, with one aircraft in operation on wet lease in June. Operating assets were USD 4.7 million, comprised of IT equipment and other equipment. Aircraft deposits and instalments amounted to USD 9.6 million, relating to the six aircraft in the fleet, airport handling, and other bank guarantees. Deferred tax assets was USD 12 million, mainly due to transferable loss.

Total current assets were USD 70.7 million, of which restricted cash, cash and cash equivalents were USD 39.5 million. Accounts receivables and prepaid expenses were USD 30.8 million, primarily due to increased sales.

Total equity at the end of Q2 2022 was USD 42.5 million, equaling an equity ratio of 13.4%. Non-current liabilities amounted to USD 192.5 million, related to aircraft leases and reserves. Non-current liabilities have no external interest-bearing debt. Current liabilities were USD 81.4 million and increased between quarters mainly due to increased booking inflow. The current portion of aircraft leases and provisions was USD 22.8 million, and deferred income was USD 40.2 million.

Cash flow

Net cash flow used in operating activities was USD 0.9 million in the first half of 2022 excluding restricted cash of USD 6.3 million. Negative operating cash flow before adjusting for changes in working capital was USD 13.8 million for the first six months of the year, driven primarily by the effect of the COVID-19 pandemic on the business and ramping up of services. The positive contribution of working capital changes to operating cash flow was 16.8 million. The main driver behind the increase was deferred income and receivables related to forward bookings.

Cash flow used on investment activities was USD 5.1 million, of which USD 1.8 million was due to deposits paid on leased aircraft. Intangible investments amounted to USD 3.3 million and were related to investments in IT systems and infrastructure.

Cash flow used in financing activities was USD 5.1 million which consisted of repayment of lease liabilities and a share increase made to facilitate share option agreements.

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 showed unequivocally during the past two years, followed by the war in Ukraine.

The risks and uncertainties described below may have adverse consequences on PLAY's operations and financial results. PLAY makes every effort to minimize the risk in line with PLAY's risk policy.

The uncertainties related to the development of customer demand during the COVID-19 pandemic and the uncertain timing of the recovery of air traffic have diminished. The aviation industry is generally reaching its pre-COVID form. The ability to react to changes in demand by adjusting operating costs is key to minimizing the company's risk during such times.

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

The development of fuel prices may impact financial results negatively. Fuel prices and the price of emissions units have increased considerably in the past months. Due to increased inflation, there has been a general increase in the price of commodities, all of which affect PLAY's financial position. PLAY began implementing its fuel hedging policy in June. The policy is a short-term strategy, allowing a hedge of up to 60% of expected fuel consumption for up to six months rolling. Currently, PLAY has hedged 30% of expected fuel consumption for July to September and 15% of expected fuel consumption for October to December.

Outlook

Demand for air travel increased significantly during Q2 2022, which clearly shows that after more than two years of the COVID-19 pandemic, people are prepared to travel again. A strong indicator of this change of attitude is less take-up rate for cancellation protection and bookings made further into the future, which was much more common in Q2 2022 than in previous quarters.

After a steep ramp-up, PLAY's business has now stabilized. In other words, the business is now on a more normal path with seasonal variations in capacity. PLAY is heading into the fall with strong booking status, and the utilization is expected to remain high in the coming months with the extended network. However, increased economic and political uncertainty could negatively impact the demand during the remainder of the year.

As already announced, operations to two new destinations will begin in the coming months: Liverpool in England, starting in October 2022 and Geneva in Switzerland, starting in January 2023.

PLAY's priorities for the coming months are:

1. Adding new revenue streams by ramping up cargo operations and by further developing our digital services, distribution, and ancillary revenue opportunities
2. Continuing to monitor and react to the developments in the external environment, e.g., economic developments or COVID-19. Further adjustments in capacity will be implemented if necessary
3. Rolling out PLAY's expansion plan for spring/summer 2023 in which PLAY will operate ten aircraft, compared to six in summer 2022. The expansion plan will be announced in the coming months

Guidance 2022

Demand has somewhat normalized within the airline industry. PLAY expects to carry around 800,000 passengers in 2022 and report revenue of USD 150 – 160 million. PLAY's operating environment continues to be affected by the uncertainties mentioned above. The market price of fuel is at a historical high, and the impact of inflation on demand and various cost items makes it challenging to give specific guidance. That being said, PLAY estimates to report a positive EBIT during the second half of 2022 and continue to keep unit cost, excluding fuel and emission costs, under USD 4 cents.

General Information

Fly PLAY hf.
Sudurlandsbraut 14
108 Reykjavik, Iceland
www.flyplay.com

Board of Directors

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

Management Team

Birgir Jónsson (CEO)
Daníel Snæbjörnsson (CNO)
Georg Haraldsson (CIO)
Guðni Ingólfsson (COO)
Jónína Guðmundsdóttir (CPO)
Sonja Arnórsdóttir (CCO)
Þóra Eggertsdóttir (CFO)

For further information, please contact:

Chief Financial Officer, **Þóra Eggertsdóttir**, thora@flyplay.com
Director of Communications, **Nadine Guðrún Yaghi**, +354-7727334, nadine@flyplay.com
Investor relations: ir@flyplay.com

The latest financial information can be found on our website: <https://flyplay.com/investor-relations>

Financial reporting in 2022

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

September 7, 2022	Traffic Report - August 2022
October 7, 2022	Traffic Report - September 2022
November 7, 2022	Traffic Report - October 2022
November 3, 2022	3rd Interim Report - January - September
December 7, 2022	Traffic Report - November 2