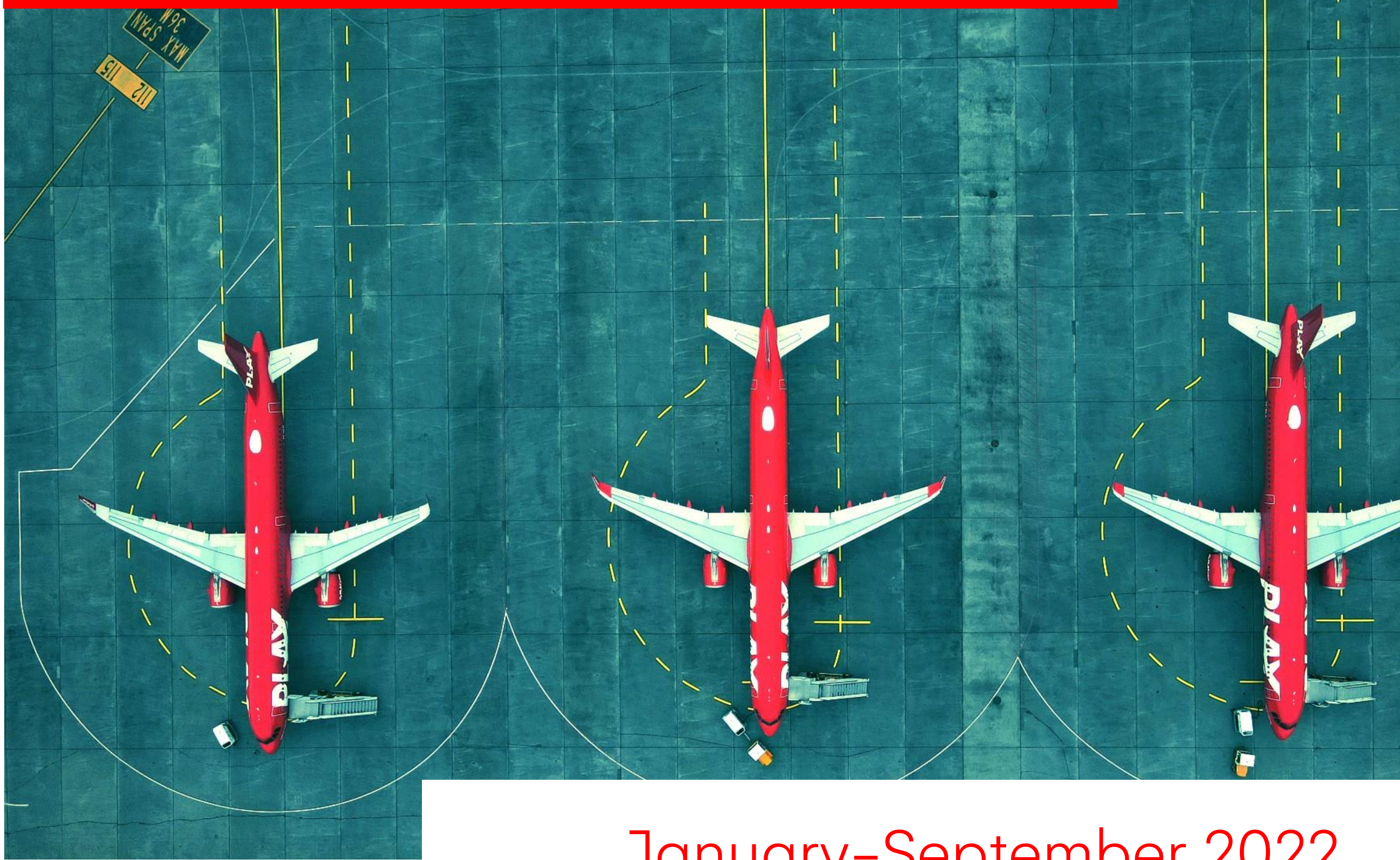
Interim Report



January–September 2022

Interim Report January – September 2022

Highlights of operations in Q3

- In July, PLAY carried approx. 110 thousand passengers and the load factor was 87.9%
    - July was the first month of full operations for PLAY following the ramp-up to the spring, with six aircraft operating to 22 destinations on both sides of the Atlantic
    - On-time performance (OTP) was 79% (arrivals) which was very satisfactory given the number of brand-new destinations and the difficult situation at many airports that struggled with staff shortages causing delays for many airlines

- In August, PLAY carried approx. 109 thousand passengers and the load factor was 86.9%
    - In August, PLAY launched ticket sales to Washington Dulles (IAD) with daily operations starting on April 26, 2023. This new connection is the company's fourth destination in the U.S.
    - OTP was 89.2%

- In September, PLAY carried approx. 92 thousand passengers and the load factor was 81.5%
    - PLAY announced a recruitment drive to fill 150 cabin crew positions and 55 flight crew positions for 2023 to support the company's growth in the coming year. This received great interest and more than 3,000 applied for the positions
    - OTP was 86%

“This was the first quarter where we had our full transatlantic operation up and running. Since the majority of our destinations were brand-new to our network, the PLAY brand was mostly unknown in these markets. I feel that it is a significant achievement for such a young company to have made an operational profit (EBIT) under these circumstances and that it is not something to be taken for granted. Our load factor in the quarter was very acceptable at 85% for a new market entrant and seeing that trend continuing into the winter months is a good sign.

We will not reach our previously stated target of achieving a positive operational profit in the second half of this year. We would have wanted to see a stronger outcome in the quarter, but we have been battling a challenging external market environment which has negatively impacted our financial performance. Fuel prices have continued to stay at high levels, and the general demand was lower than anticipated in late summer and fall. This was especially evident for passengers coming to Iceland as the Icelandic tourism industry seemed to be at maximum capacity with hotel and rental cars either fully booked or prohibitively expensive. We’re already seeing positive change in this regard for next year but also acknowledge that the continuing economic uncertainty in our markets will likely impact demand.

The takeoff for PLAY has been very successful in many ways but it must be said that the external business environment has made the financial takeoff heavier for us than we had hoped, i.e., fuel prices and other significant factors have not worked in our favor. Therefore, we are not satisfied with the financial performance of the company this year. We do, however, see many positive signs in our business, and we fully anticipate seeing a positive operational profit in 2023 as our revenue base matures and we become more established in our operation and markets.

The fabulous PLAY team is already hard at work preparing for our next expansion phase and is hiring people, receiving four additional aircraft, and adding new destinations to our network. I look forward to the future as we are already seeing PLAY grow into a strong and profitable low-cost airline with a growing revenue base and happy customers.”

Birgir Jónsson, CEO

Key performance indicators

Operating statistics		Q3 2022	Q2 2022	Change	9M 2022
Number of flights	no.	1,999	1,339	49%	3,824
Number of operating destinations*	no.	22	23	-4%	22
Number of aircraft in operation	no.	6	4	50%	6
Percentage of arrivals on-time OTP	%	85%	88%	-7 ppt	85%
Passengers flown	000s	310	181	71%	545
Available seat kilometers (ASK)	mill	1,069	695	54%	1,999
Revenue passenger kilometers (RPK)	mill	910	516	76%	1,574
Stage length (km)	no.	2,910	2,819	3%	2,831
Load factor	%	85%	74%	11 ppt	79%
Seats available	000s	367	246	49%	706

Income statement					
Operating revenue	USD mill	59.9	32.5	27.3	102.0
Operating expenses	USD mill	58.6	46.9	11.7	128.4
EBIT	USD mill	1.3	-14.4	15.7	-26.4
EBIT margin	%	2%	-44%	94 ppt	-26%
Net operating results	USD mill	-2.9	-14.3	11.4	-28.4

Balance sheet					
Total assets	USD mill	-	-	-	327.6
Total liabilities	USD mill	-	-	-	287.9
Total shareholders equity	USD mill	-	-	-	39.6
Equity ratio	%	-	-	-	12.1%
Cash and cash equivalents	USD mill	-	-	-	29.6

Share information					
Share price at month-end	no.	-	-	-	16.3
Earnings per share	US cents	-	-	-	-5.1

Key statistics					
Airfare per passenger	no.	149	138	8%	143
Ancillary per passenger	no.	43	47	-8%	43
Yield per passenger	no.	192	185	4%	187
RASK	US cents	5.6	4.0	38%	5.1
CASK* (incl. Fuel & emissions)	US cents	5.5	6.8	-19%	6.4
CASK* (excl. Fuel & emissions)	US cents	3.1	4.0	-24%	4.0
CO_2 per RPK (grams CO_2 per RPK)	no.	71	85	-17%	68
CO_2 emissions in tons from jet fuel	no.	57,901	36,642	58%	107,204

* 27 destinations on sale during the quarter

Operational review

Course of business

During Q3 2022, PLAY had its first full quarter of operating a hub-and-spoke network following a steep ramp-up in capacity during Q2 2022. The quarter was operationally successful and in accordance with our plans and objectives.

In July, PLAY carried 109,956 passengers, a 25% increase from the previous month. The number of passengers in July was higher than all flown passengers in 2021. The load factor was 87.9% compared to a 79.2% load factor in June and 69.6% in May. This positive development was primarily due to the addition of the transatlantic hub-and-spoke model connecting cities in Europe and the United States. OTP in July was 79%, which was very satisfactory given the number of new destinations and the difficult situation at many airports that still struggled with staff shortages causing delays for many airlines.

In August, PLAY carried 108,622 passengers, a similar number to the previous month. The load factor was 86.9%. OTP in August was 89.2%, a testament to the professionalism of our operations team.

In August, PLAY launched ticket sales to Washington Dulles (IAD) with daily operations starting on April 26, 2023. This new connection is the company's fourth destination in the U.S., complementing its operations to Baltimore (BWI), Boston (BOS) and New York (SWF). PLAY will be the only low-cost carrier to connect Dulles International Airport to Europe.

In September, PLAY carried 92,181 passengers. The load factor was 81.5%. September is traditionally a challenging month in aviation with a drop in demand for holiday travel with a new school year and return to work so the market becomes more dependent on business traffic. However, PLAY's hub-and-spoke network has had a very positive effect on the business, including aircraft utilization and decline in unit cost. OTP in September was 86%.

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. PLAY's training team has prepared newly-hired crew members with extensive training. Getting ready to work on board an aircraft is a long and regulated process where the focus is on safety. Flight crew members 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 were given further training before receiving their authorization to work on board the company's aircraft.

The operation of a hub-and-spoke network is complex, far more complex than operating a point-to-point network. Thanks to the professionalism and experience of PLAY's teams, operation in Q3 2022 was smooth and successful.

Fleet

At the end of Q3 2022, PLAY's fleet consisted of six Airbus A320neo family aircraft, three A320neos and three A321neos, with an average age of 3.5 years.

PLAY has commitments to lease four additional aircraft from the Airbus A320neo family, expanding 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 needed for the operation, at minimal cost to the company. PLAY does have the option of bringing these aircraft out of storage on short notice if required. The remaining two aircraft will be delivered in 2023, ahead of the summer season.

Workplace Culture

PLAY continued to grow in Q3 2022 with 36 new employees onboarded.

PLAY celebrates diversity and keeps a focus on equality in all positions, with the gender ratio close to being equal in the company. For the second year in a row, PLAY received the Equality Scale from the Association of Women Business Leaders in Iceland. The Equality Scale is rewarded to companies with an even gender ratio in top management. The gender ratio in PLAY's Board of Directors and Executive Team is 50/50, with 6 men and 6 women. PLAY's current employees are of eighteen 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.

An employee engagement survey was conducted among all employees in Q3. The results were very positive with an average engagement score of 4.19 (out of 5). The satisfaction score was 4.17 and pride in working for PLAY was 4.36.

Financial performance

The financial results for Q3 2022 were positive but still heavily affected by external circumstances. Earnings before interest and taxes (EBIT) were positive by USD 1.3 million. Revenue was below expectations with lower yields than anticipated and underperformance of ancillary revenue. The expected increase in fares from the competition due to oil price didn't increase as expected, resulting in lower airfare revenue. Hotel and rental cars status in Iceland this summer affected Q3, resulting in more sales from connecting passengers (VIA) than expected. VIA passengers deliver lower unit revenue than direct passengers. Passengers to a greater extent booked carry-on baggage instead of check-in baggage due to the condition of airports, resulting in lower ancillary revenue. The opportunities lie in next-up digital development that allows PLAY to increase ancillary revenue sales, for example by adding more products on sale. Cargo revenue was underperforming due to amongst other reasons staff shortages at the airports. PLAY is seeing a positive increase each week with cargo operations being launched in its major markets.

PLAY's cost target of being under 4 US cents a unit (CASK excl. fuel), was more than achieved and was 3.1 US cents in Q3. This is due to strict cost control and increased economy of scale in the operations resulting in expenses being below expectations in all cost categories.

Net loss for the Q3 2022 amounted to USD 2.9 million compared to a net loss of USD 10.8 million for the same period last year when PLAY was in its initial phase of operations.

All in all Q3 results were positive but undeniably impacted by high fuel prices and underperforming revenue numbers in the later part of August and September.

Income statement

Revenue for the Q3 2022 was USD 59.9 million, of which USD 46.2 million was airfare revenue and USD 13.6 million was related to ancillary services and cargo. Revenue in Q3 was under expectations and mainly impacted by the reasons mentioned above.

Total operating expenses before depreciation and amortization in the period were USD 49.3 million, of which salaries and related expenses were USD 6.7 million. Aviation expenses were USD 39.5 million. Aviation expenses include, amongst other items, fuel, aircraft maintenance and aircraft handling. Other operating expenses were USD 3.1 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.

Depreciation and amortization amounted to USD 9.3 million and are primarily related to aircraft leases of six aircraft and reserves. Investments relating to the delivery of aircraft and software development have been capitalized.

Balance sheet

Total assets amounted to USD 327.6 million. Total non-current assets were USD 271.8 million, of which USD 232.9 million is the right-of-use-assets for the six aircraft in operation on dry lease. Operating assets were USD 5.2 million, comprised of IT equipment and other equipment. Aircraft deposits and instalments amounted to USD 10.1 million, relating to the six aircraft in the fleet, airport handling, and other bank guarantees. Deferred tax assets were USD 11.4 million, mainly due to carry-forward tax loss.

Total current assets were USD 55.8 million, of which cash and cash equivalents (restricted and unrestricted) were USD 29.6 million. Accounts receivables and prepaid expenses were USD 25.8 million, primarily due to increased sales.

Total equity at the end of Q3 2022 was USD 39.7 million, equaling an equity ratio of 12.1%. Non-current liabilities amounted to USD 215.8 million, related to aircraft leases and reserves. Non-current liabilities have no external interest-bearing debt. Current liabilities were USD 72.1 million and increased between quarters mainly due to increased booking inflow. The current portion of aircraft leases and provisions was USD 27 million, and deferred income was USD 24.3 million.

Cash flow

Net cash flow used in operating activities was negative by USD 1.7 million in Q3 2022. Positive operating cash flow before adjusting for changes in working capital was USD 10.6 million for the same period, driven primarily by increased operating revenue. Negative contribution of working capital changes was USD 8.8 million in the quarter mainly due to a decrease in deferred income and trade receivables at the end of Q3 compared to Q2. Paid finance income and expenses were USD 3.6 million.

Cash flow used on investment activities was USD 2 million, of which USD 0.5 million was due to deposits paid on leased aircraft. Intangible investments amounted to USD 1.5 million and were related to investments in IT systems and infrastructure.

Cash flow used in financing activities was USD 4.1 million which consisted of repayment of lease liabilities.

Cash and cash equivalents amounted to USD 29.6 million including restricted cash of USD 6 million at the end of Q3 2022.

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 this 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 26% of expected fuel consumption for Q4 2022 and 9% for Q1 2023.

Outlook

PLAY will not reach its previously-stated target of achieving a positive operational profit (EBIT) in the second half of the current year due to a challenging external market environment, driven mainly by high and volatile price of fuel. General demand for passengers coming to Iceland was also lower than anticipated in late summer due to the status of the Icelandic tourism industry which was at maximum capacity with hotel and rental cars close to fully booked. This resulted in more VIA sales than were expected with less revenue than direct passengers (to Iceland). Ancillary revenue was also lower than expected due to passengers' increased demand for carry-on bags rather than checked baggage because of the serious condition of baggage handling at airports in our markets. The above had a negative effect on PLAY's revenue. At the same time, fuel prices have continued to stay at high levels in the period.

PLAY is now seeing positive development in this as the capacity issues in the Icelandic tourism sector are largely solved since prepaid COVID vouchers (airfare, hotels) have decreased significantly will improve PLAY's booking status and the operational status at most airports is much better.

PLAY clearly sees a very strong booking trend to Iceland for the winter and next year. The Icelandic Tourist Board anticipated approx. 30% increase in passengers coming to Iceland next year compared to 2022 which will have a positive effect on PLAY's business. PLAY will soon launch a number of digital solutions and further strengthen its distribution channels that will increase ancillary revenues and improve online service. PLAY also sees strong booking activity from travel agents for passengers visiting Iceland next year, with bookings for 2023 already reaching similar numbers as for the current year.

PLAY's booking status for the winter remains good as mentioned above. In October, PLAY carried 92 thous. passengers with a load factor of 81.9% and OTP of 95%.

Guidance 2022

PLAY expects to carry around 800,000 passengers in 2022 and report revenue of approximately USD 140 million. PLAY's operating environment continues to be affected by the uncertainties mentioned above. The market price of fuel remains high, and the impact of inflation on demand and various cost items is challenging. PLAY will not foresee reaching its previously stated target of achieving a positive operational profit in the second half of this year

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