

PLAY

FINANCIAL REVIEW



March 16, 2022

Financial review 2021

In 2021, PLAY was in a startup phase. The financial results reflect that and will continue to do so to a certain degree until the company reaches further economy of scale in its operations. This will already start to materialize with the launch of the hub-and-spoke network in spring 2022, at which point financial results are expected to improve.

The COVID-19 pandemic and the actions taken in response to its spread, including various government measures and travel restrictions, resulted in disruption to PLAY's operations and financial results. Since the start of operations, capacity measured in available seat kilometers (ASK) was 487.7 while revenue passenger kilometers (RPK) were measured at 259.6.

As PLAY aspires to be a truly low-cost airline, the absolute key initiative for the company is to keep cost levels down in all aspects of its operations, without risking the safety of our passengers. In this respect, the decision was made to open an office in Vilnius, Lithuania. This step gives PLAY access to a larger pool of talented specialists, reduces staff costs, and ensures an international focus in its operations.

PLAY's liquidity is strong after two successful funding rounds, a private placement in April and an IPO in June 2021, which amounted to USD 80.9 million in total. These funding rounds secured the company's financial position and will allow it to execute its business plan, build its infrastructure, prepare for operations to North America in 2022 and further expansion of the company.

Total loss amounted to USD 22.5 million in 2021, the first operating year of PLAY. The main contributing factors to the loss were less revenue than anticipated due to the COVID-19 pandemic and the rising price of ETS units. PLAY generated an EBIT of USD -24.6 million. Income tax from taxable loss is USD 5.9 million, which includes USD 0.5 million from the previous year. Foreign exchange rates had a negative impact on operating income, with a currency loss of USD 1.9 million. The effect was mainly related to the weakening of ISK against the USD.

Income statement, million \$	Q4 2021	YE 2021
Airfare	6.9	11.7
Ancillaries	2.7	4.7
Operating income	9.6	16.4
Fuel	3.3	6.1
ETS	2.7	2.7
Staff Cost	4.2	8.6
Distribution & marketing	1.3	2.4
Maintenance, materials & repairs	0.6	2.0
Airport, handling & en-route	3.3	5.8
Other expenses/(income)	2.0	5.1
Operating expenses	17.3	32.6
EBITDA	-7.6	-16.2
Depreciation and amortization	5.3	8.5
Operating result - EBIT	-12.9	-24.7
Financial income and expenses	1.1	3.8
Results for the period before tax - EBT	-14.0	-28.5
Income taxes	3.2	5.9
Net results for the period	-10.8	-22.5

Revenue

In 2021, the COVID-19 pandemic had a negative impact on demand, and therefore on revenues, in all markets in which PLAY operates. Total revenue was USD 16.4 million, with passenger revenue amounting to USD 11.7 million, representing over 71% of PLAY's total revenue. Ancillary revenue, which consists of revenues charged for bags, seat assignments, inflight sales, and other service fees, amounted to USD 4.7 million and represented 29% of PLAY's total revenue. Ancillary revenue per passenger was 47 USD, which was below management's expectations. This was in part due to PLAY's COVID-19 Flexibility Policy, which allowed customers to make changes to their flight without paying the standard change fee. PLAY did not start its cargo operations until after year-end 2021 and therefore reports no cargo revenue.

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Airfare	6.9	11.7
Ancillaries	2.7	4.7
Operating income	9.6	16.4

Operating and Financial Expenses

In 2021, PLAY's total operating expenses amounted to USD 32.6 million, and depreciation and amortization were USD 8.5 million. PLAY's unit cost, i.e., cost per available seat kilometer (CASK), was 8.46 cents. CASK, excluding fuel and ETS, was 6.65 cents.

Being a low-cost airline and due to the COVID-19 pandemic, emphasis was put on cost control from the very start of operations. Overall, PLAY was successful in keeping costs under control. Staff cost was lower than expected due to employees being hired at a slower pace than anticipated. Staff cost amounted to USD 8.6 million, which included expenses related to option contracts of one million in Q4.

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Fuel	3.3	6.1
ETS	2.7	2.7
Staff cost	4.2	8.6
Distribution & marketing	1.3	2.4
Maintenance, materials & repairs	0.6	2.0
Airport, handling & en-route	3.3	5.8
Other expenses/(income)	2.0	5.1
Operating expenses EBITDA	17.3	32.6
Depreciation and amortization	5.3	8.5
Operating expenses EBIT	22.5	41.1
Financial income and expenses	1.1	3.8
Total expenses	23.6	44.9

Fuel cost was under expectation despite high fuel prices, due to less consumption because of a lower load factor, focus on fuel-saving procedures and less production. Fuel cost and emissions trading cost were USD 8.8 million, representing over 21% of total operating expenses. Both prices of fuel and emissions units increased considerably during 2021 and had a negative impact on PLAY's financial results.

Aviation expenses were USD 18.3 million, including fuel and emissions. Handling, landing, air navigation, and maintenance are the largest non-fuel related cost items amounting to USD 5.8 million.

Distribution and marketing cost were USD 2.4 million and are relatively high because PLAY introduced of new destinations for 2022, which required initial investment in promoting these new destinations. Depreciation and amortization were USD 8.5 million, USD 7.5 million of which was related to right-of-use assets. Net financial expenses were USD 3.8 million. Currency loss was USD 1.9 million, and interest expenses of lease liabilities were USD 2.4 million.

Cost associated with the development of the new booking engine and start-up related costs such as registration of an AOC and brand creation were capitalized and amounted to USD 10.7 million.

Balance sheet and financial position

PLAY's balance sheet amounted to USD 204.1 million at the end of the year. PLAY took delivery of three aircraft in 2021, and right-of-use assets were USD 117.1 million. Intangible assets were USD 10.7 million and were related to the start of operations and IT development costs, as mentioned above. Aircraft deposits and other security installments amounted to USD 7.8 million. Trades and other receivables were USD 6.8 million, thereof is USD 5.1 million the acquirer's unpaid ticket sales. PLAY's cash position is strong, with cash and cash equivalents amounting to USD 51.7 million at year-end.

Shareholders' equity totaled USD 67.4 million, equaling an equity ratio of 32.9% and putting PLAY in a comfortable financial position. Non-current liabilities amounted to USD 105.3 million, all related to aircraft leases and maintenance reserves. Non-current liabilities include no interest-bearing debt. Current liabilities were USD 31.4 million, of which USD 15.1 million were aircraft leases and provisions. Deferred revenue was USD 7.1 million of sales liabilities.

Assets, million \$	YE 2021	YE 2020
Intangible assets	10.7	6.4
Right of use assets	117.1	0.0
Operating assets	3.8	0.0
Receivables and deposits	7.8	0.0
Tax assets	5.9	0.0
Non-current assets	145.3	6.4
Inventories	0.3	0.0
Trade and other receivables	6.8	0.2
Cash and cash equivalents	51.7	0.0
Current assets	58.8	0.2
Total assets	204.1	6.6

Equity and liabilities, million \$	YE 2021	YE 2020
Shareholders equity	67.4	-2.0
Lease liability	82.0	0.0
Non-current maturities of debt	23.3	0.0
Non-current liabilities	105.3	0.0
Related parties	0.0	7.2
Provisions	6.6	0.0
Lease liability	8.5	0.0
Trade and other payables	9.2	1.4
Deferred income	7.1	0.0
Current liabilities	31.4	8.6
Total liabilities	136.7	8.6
Total equity and liabilities	204.1	6.6

Cash flow

Net cash flow from operating activities

The majority of PLAY's cash inflows from operating activities are derived from passenger ticket sales. Net cash flows from operating activities are also affected by movements in working capital items.

Operating cash flows decreased by USD 10.9 million, primarily due to the following factors:

- Operating cash flows before adjusting for changes in working capital deteriorated by USD 15.2 million over the year. This was driven primarily by the significantly impaired underlying profitability of the business due to the COVID-19 pandemic.
- The positive contribution of working capital changes to operating cash flows was USD 6.4 million. The main driver behind the increase was deferred income and receivables related to forward bookings.

Net cash used in investing activities

Net cash used in investing activities decreased by 17.0 million and was mainly due to the following factors:

- Deposits paid for aircraft which amounted to USD 7.9 million
- Purchase of operating and intangible assets of USD 9.1 million

Cash flows from financing activities

The net cash from financing activities was USD 81.3 million. The cash inflow in 2021 was proceeds of the financing rounds and IPO which amounted to USD 80.9 million, loan from shareholders of USD 2.8 million and repayment of lease liabilities of USD 2.4 million.

Hedging strategy

PLAY operates in an international and highly competitive environment sensitive to economic fluctuations and is exposed to a broad range of risks and opportunities. Risk management and risk assessment are of fundamental importance for ensuring PLAY's long-term sustainable profitability and growth. Structured risk management minimizes risks and increases PLAY's financial stability.

PLAY's Board of Directors is responsible for setting the hedging policies, and the Chief Financial Officer and director of treasury and risk are responsible for implementing and maintaining the policies. PLAY monitors the effectiveness and reviews the implementation of all policies at appropriate intervals, at least yearly, considering their suitability, adequacy, and effectiveness.

Following the COVID-19 outbreak, the activity level and fuel consumption were significantly lower in 2021 than initially planned. Uncertainty in demand for travel caused many airlines to stop hedging currencies and jet fuel until further notice to reduce the risk of over-hedging. PLAY's hedging strategies are conservative.

Fuel Price Hedging

PLAY's fuel price hedging strategy aims to protect against sudden and significant increases in oil prices. It also prevents PLAY from being disproportionately disadvantaged in the event of a substantial price fall, thus mitigating volatility in its operations.

The hedging policy allows a physical hedge (fixed price) covering estimated fuel usage based on sold tickets and estimated load factor for the next 1–6 months. The hedging ratio can vary between 20–60% of the estimated fuel consumption for the period. The hedging ratio is higher near term and decreases the further out the flight is. Market situation and cost of hedging may factor into hedge ratios from time to time.

Currency Hedging

PLAY's operational currency is the U.S. dollar (USD). PLAY is exposed to currency risk on sales, purchases, and borrowings denominated in other currencies. The most significant exposure will be on Icelandic krona (ISK), where cash inflows in ISK are expected to fall short of outflows due to various net cost-related items such as salaries and salary-related costs. Other notable currency risk exposures include the Euro (EUR) and the Scandinavian currencies. In addition to the cash flow, risk exposure of this kind affects the balance sheet.

PLAY seeks to reduce the impact of fluctuations on the foreign exchange rate on future cash flows by matching inflows and payments in each currency to the extent possible. The current cash flow is in balance and creates a natural hedge. Therefore, PLAY's short-term policy is not to hedge currency cash flow. The policy will be reevaluated once PLAY starts its hub-and-spoke model and the currency combination has changed. Long term, PLAY will follow a policy of hedging 50–80% of the net currency forecasted exposure, 3–9 months forward. Market situation and cost of hedging may factor into hedge ratios from time to time.

Policy of shareholder return and the Board's proposal for the distribution of profit

PLAY aims to deliver its shareholders a total return in excess of its cost of capital. While the company has a planned profitable growth path, the cash reserves are best utilized within the company. When a more moderate growth level is reached, the company 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 company'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 to the Annual General Meeting 2022 that no dividend be distributed for the fiscal year 2021.

Financing and Capital management

Financing

PLAY raised USD 47.0 million in a private placement pre-Initial Public Offering (IPO) share offering from institutional investors, private equity firms, and pension funds in April. PLAY then raised a further USD 34.9 million through an IPO in June and is now traded on the Nasdaq First North Growth Market Iceland. PLAY has no interest-bearing debt. In connection with aircraft transactions, the financing method is a very important factor that needs to be considered

together with residual value risks and financing costs. When deciding on whether to own aircraft or lease, the decision needs to be based on cost, risk, and flexibility.

Aircraft Fleet

PLAY currently operates a modern fleet of A321neo and A320neo aircraft. All of PLAY's aircraft are equipped with latest engine technology that minimizes fuel burn, emissions and noise. In 2021, PLAY took delivery of three A321neo aircraft, which are all on long-term lease. In 2022, PLAY will take delivery of three additional aircraft ahead of summer 2022, taking the fleet to six aircraft. PLAY has committed to leasing additional four aircraft that will be delivered in 2022 and 2023. All ten aircraft are on long-term leases with large international lessors.

Significant events after the accounting period

- › Opened an office in Vilnius, Lithuania at the beginning of 2022
- › Took delivery of the first A320N from CALC in March 2022
- › Signed a letter of intent for an A321LR aircraft
- › Added New York and Orlando as destinations to the network in 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)

Þóra Eggertsdóttir (CFO)

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

Financial calendar in 2022

January 7, 2022	Traffic Report – December 2021
February 7, 2022	Traffic Report – January 2022
March 7, 2022	Traffic Report – February 2022
March 16, 2022	Annual Report 2021
April 6, 2022	Annual General Meeting 2022
April 7, 2022	Traffic Report – March 2022
May 9, 2022	Traffic Report – April 2022
May 24, 2022	1st Interim Report January – March
June 7, 2022	Traffic Report – May 2022
July 7, 2022	Traffic Report – June 2022
August 8, 2022	Traffic Report – July 2022
August 26, 2022	2nd Interim Report January – June
September 7, 2022	Traffic Report – August 2022
October 7, 2022	Traffic Report – September 2022
November 7, 2022	Traffic Report – October 2022
November 25, 2022	3rd Interim Report January – September
December 7, 2022	Traffic Report – November 2022