

PLAY

**Annual and
Sustainability
Report 2021**



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1.

Review of the Year 2021

CEO review

In June 2021, after a period of building a strong foundation, we successfully launched PLAY's commercial flight operations. We were very well received from day one, both in Iceland and in our other markets. We focused on building PLAY's corporate culture, organizational structure as well as our technological infrastructure. We are right on track to realize our objective of building a profitable company operating a hub-and-spoke network between Europe and North America.

During our first six months in operation, more than 100,000 passengers flew on more than 1,000 PLAY flights. Gaining the trust of such a large number of customers during a pandemic in a relatively small market is a significant achievement and should not be taken for granted. For that, we are humble and grateful.

Considering the challenging market environment and the performance of other start-up airlines in Europe and North America, we consider our achievements in 2021 to be very successful indeed, and a clear sign that we are on the right path.

Our achievement is due to our team, and we are incredibly proud of every single member. What guides us toward continued success is our very strong foundation, our digital infrastructure, and an exceptional team of people. We believe in safety, simplicity, sustainability, and of course playfulness. We work hard and are disciplined, but we also have fun and enjoy life at the same time. It is this attitude that has result-

I look forward to working with my colleagues to meet new challenges and win many more victories

ed in a relaxed, professional, and attentive customer-focused service culture.

We have positioned PLAY in an excellent strategic place to benefit from the post-COVID-19 growth in aviation and tourism in the coming years. The addition of the transatlantic market to our network in the spring of 2022 opens a new market as we connect our European cities to the U.S. cities of New York, Boston, Washington D.C. and Orlando.

This expansion has received widespread and positive attention across our markets. We are encouraged to see that our strategy of offering the most competitive fares in the market, achievable by our low-cost base, and having a digital-first marketing and sales strategy is working precisely as planned.

PLAY operated in a relatively small market during 2021. We served several point-to-point destinations between Iceland and mainland Europe using three A321neo aircraft. We have signed agreements for additional three aircraft that we will receive in spring 2022, ahead of the network expansion.

Favorable conditions in the global aviation market enabled us to lock in long-term cost savings and operational efficiencies, and secure brand-new aircraft critical to our future success and efficient operation. Due to favorable lease terms, PLAY had the flexibility to adjust its schedule and offer flexible terms in line with flight demand fluctuations. This has ensured that the negative developments of COVID-19 have not derailed PLAY's long-term plans, and we remain focused on building our transatlantic hub-and-spoke network efficiently and securely.

On a very positive note, we have seen consumer confidence begin to return to the market. We see strong future bookings building a clear trend towards a scenario that could be expected in a typical non-pandemic year. Our passengers are already booking flights for next summer and have also resumed booking trips on short notice as they are support-



Birgir Jónsson,
Chief Executive
Officer

ed by PLAY's flexible policies. There is a pent-up appetite for international travel in our markets, and PLAY is well prepared to fulfill this demand.

We have built a truly great international team of people within PLAY, a team that is ambitious, and professional with a strong drive to succeed. 2021 was a year of many major milestones and victories for PLAY. As we close a very eventful first year of operations, we are deeply grateful for how our customers have received us, and we are proud of our initial success.

I look forward to working with my colleagues to meet new challenges and win many more victories. I can feel that the team is full of energy and completely focused on reaching new heights in the future.

Who we are



PLAY is a new low-cost airline based in Iceland that launched operations in June 2021, operating between Iceland and Europe.



Our long-term goal is to make PLAY a strong and leading brand in the markets we serve, and in our opinion, 2021 was a solid step in that direction.



Our employees are the center of our business and together we are one team. Our workforce consists of professional enthusiasts with a great attitude. We encourage open communication and seek to create an environment where our people can evolve and grow within the company.



PLAY is an Airbus A320neo Family operator. The A320 Family is the newest generation of narrowbody aircraft with lower fuel consumption and a smaller environmental and noise footprint than older generation aircraft. The A320 Family has size and range flexibility, allowing PLAY to reach small and larger markets close by and far away, so it perfectly fits PLAY's network.



We focus on safe, digital, sustainable and efficient practices. To succeed we have defined our core with the following:

- Simplicity
- Discipline
- OTP (On-Time Performance)
- Low prices
- Playfulness
- Sustainability

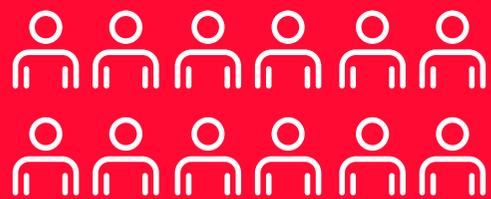
Key Figures

	Q4 2021	2021
1. Operating statistics:		
Number of flights	533	1,023
Percentage of arrivals ontime	95.1%	96.1%
Passengers flown in thousands	57.7	101.1
Available seat kilometers (ASK) (millions)	247.4	487.2
Revenue passenger kilometers (RPK) (millions)	146.1	256.4
Stage length (km)	2,422	2,483
Load factor	59.0%	52.6%
Seats available in thousands	102.3	196.4
Seat factor	56.3%	50.7%
2. Income statement:		
Operating revenue in \$ millions	9.6	16.4
Operating expenses in \$ millions	22.5	41.1
EBIT in \$ millions	-12.9	-24.7
EBIT margin	-134.2%	-150.0%
Net operating results from period in \$ millions	-10.8	-22.5
3. Balance sheet:		
Total assets in \$ millions	204.1	204.1
Total liabilities in \$ millions	136.7	136.7
Total shareholders equity in \$ millions	67.4	67.4
Equity ratio %	33%	33%
Capital expenditure in \$ millions	2.6	17.0
Cash and cash equivalents in \$ millions	51.7	51.7

	Q4 2021	2021
4. Share information:		
Share price at year-end	23.2	23.2
Earnings per share in \$ cents	-2.9	-6.1
5. Key statistics:		
Airfare per passenger	120.3	115.9
Ancillary per passenger	46.4	46.2
Yield per passenger	167.0	167.2
CASK* (incl. fuel) in \$ cents	9.1	8.4
CASK* (excl. fuel) in \$ cents	6.7	6.6
RASK in \$ cents	3.9	3.4
Number of employees	131	131
Employees per aircraft	44	44
Number of aircraft	3	3
CO ₂ per RPK (grams CO ₂ per RPK)	87.2	111.8
CO ₂ emissions in tonnes from jet fuel	12,741	28,664

*Cost per available kilometer

PLAY at a glance



101,100

Flown passengers



95%

On-time performance

Travelers from Iceland
48%



Travelers to Iceland
52%



aircraft in operation

44

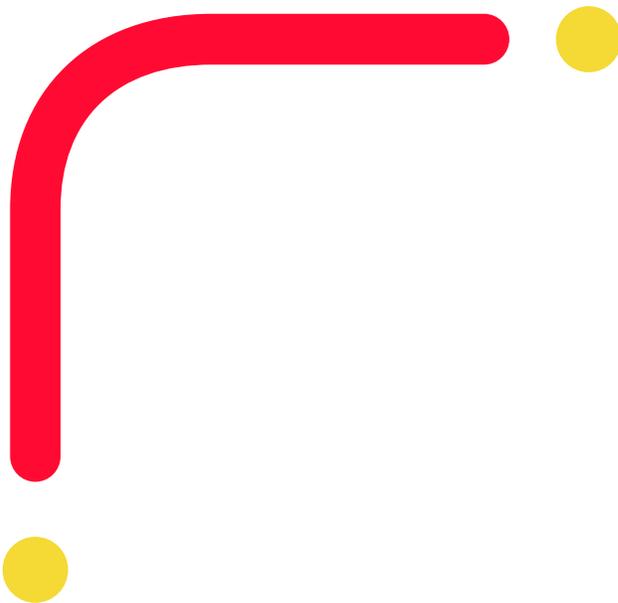


FTE per aircraft



25

Destinations launched

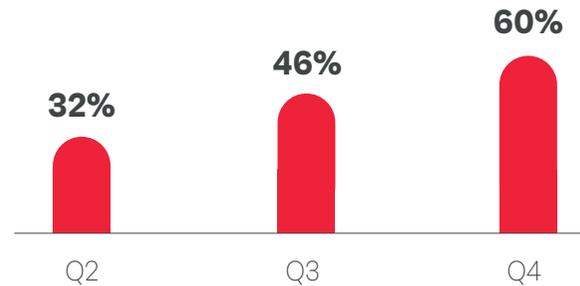


Positive demand trends despite challenging conditions

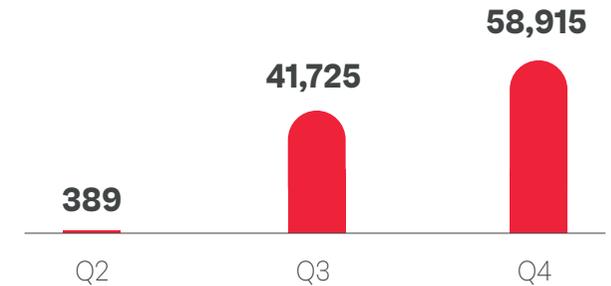
Despite a challenging external environment during the year, we saw positive trends throughout the year on the demand side of the business with improving load factor and unit revenue.

Higher load factor also resulted in lower carbon emission per revenue passenger kilometer, which is one of our key performance indicators and an important indicator when it comes to measuring the sustainability of our operations.

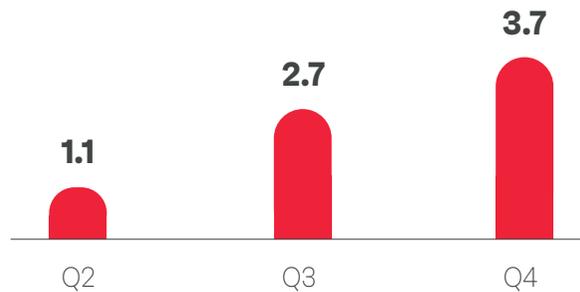
Load Factor



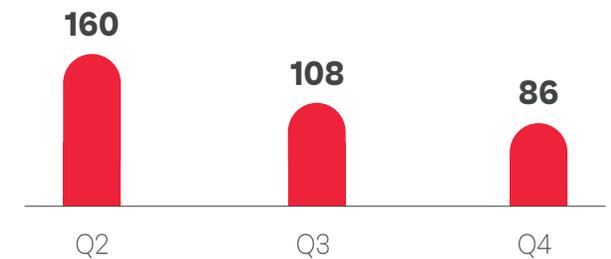
Sold Seats



Revenue per Available Seat Kilometer - in \$ cents -



Grams CO₂ per Revenue Passenger Kilometer



Source: Company data. Q2 only includes six flights at the end of June 2022

Financial Highlights



33%

Equity ratio



USD **-22.5** million

EBIT

USD **51.7** million

Cash position



6.6 \$ cents

CASK



2.9 \$ cents

RASK



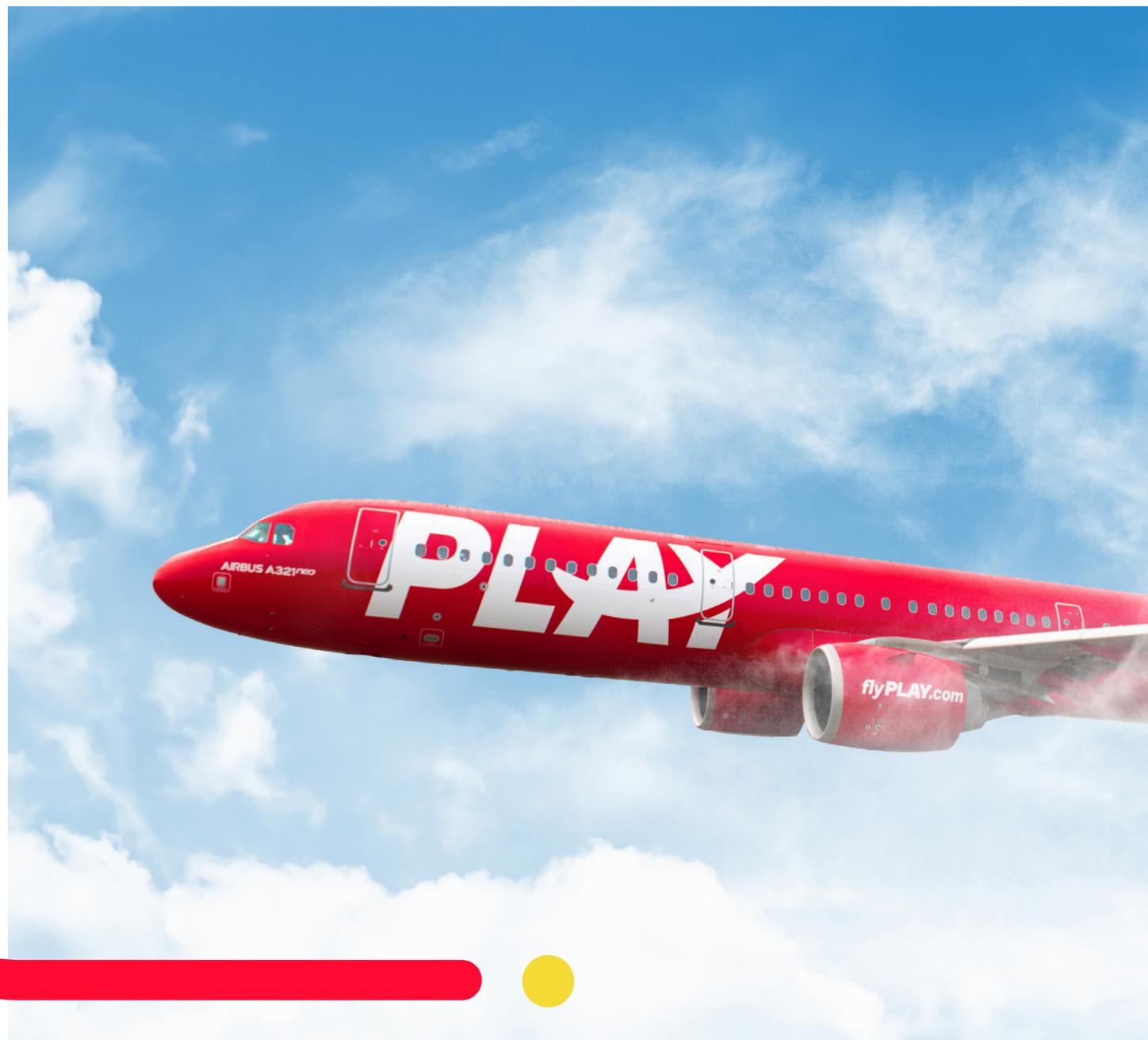
1.9

Current ratio

Major milestones in 2021

The year 2021 was very eventful and memorable for PLAY, with many significant milestones. The two most significant events were certainly the initial public offering (IPO), where PLAY raised funds of USD 34.2 million, receiving eightfold oversubscription, and of course, PLAY's inaugural flight on the 24th of June. We witnessed tremendous interest from consumers from day one and received interest from investors beyond our expectations.

Continued strict travel restrictions due to COVID-19, of course, impacted PLAY operations. Still, the focus was on offering our customers the best service and as much flexibility as possible, simultaneously adapting operations to constantly changing situations to secure connectivity between Iceland and Europe.



The start



Air operator certificate (AOC) issued

The Iceland Transport Authority issued an Air Operators Certificate (AOC) to PLAY on **May 15**.



Ticket sales launched

PLAY launched ticket sales on **May 18**, and immediate consumer interest was apparent.



Began operating scheduled flights

On **June 24** PLAY started operating scheduled flights when it flew its first flight to London. Soon after the first flight, services to six other destinations in Europe were launched, including Alicante, Barcelona, Berlin, Copenhagen, Paris and Tenerife.

Finance

\$46.7 million

Raised funds through pre-initial public offering.

In **April 2021**, PLAY raised USD 46.7 million in a private placement pre-initial public offering (IPO) share offering from institutional investors, private equity firms, and pension funds.

\$34.2 million

Raised funds through an initial public offering.

In **June 2021**, PLAY raised funds of USD 34.2 million through an IPO. There was eightfold oversubscription for the new equity. PLAY's shares were listed on the Nasdaq First North Growth Market Iceland on July 9.

Sales and Distribution

U.S. ticket sales launched

In December, PLAY launched ticket sales for flights to and from two destinations in the United States, Boston and Washington, DC. Flights to Baltimore/Washington International Airport (BWI) will begin on **April 20, 2022**, and flights to Boston Logan International Airport (BOS) will start on **May 11, 2022**. The launch was a significant milestone for PLAY. It opened a new chapter in PLAY's expansion. The reception after the launch was excellent and it received a lot of attention in all our markets. Immediately we saw a healthy flow of bookings coming from Europe, the U.S., and Iceland, which was positive considering that operations were months away, not starting until April/May.

A new booking engine launched

PLAY launched a new Internet Booking Engine (IBE), the first milestone in PLAY's ambitious digital roadmap. This first version of the new IBE has many of the same features and functionalities as the former booking engine, but brings the development and control of the platform closer to its stakeholders, updates the technical infrastructure, improves the user experience, and highlights the airline's playful brand.

Customer centricity and transparency were at the project's core, emphasizing a simple and accessible user-end experience and a smooth customer journey. PLAY's digital team worked closely with several differ-



ent departments throughout the airline to ensure that the new IBE serves all aspects of PLAY's operations.

Operation



New aircraft delivered, and future aircraft secured

In May, PLAY successfully secured the lease of three A321neo aircraft with favorable power-by-the-hour terms, which allowed PLAY to ramp up its operations gradually and adjust its schedule based on market demand and negative impacts of the COVID-19 pandemic. PLAY took delivery of the three aircraft in June and July.

In September, PLAY signed an agreement with GE Capital Aviation Services (GECAS) now AerCap, a major international aircraft lessor for three new A320neo and one A321NX narrowbody aircraft. The aircraft are scheduled to be delivered between autumn 2022 and spring 2023.

In November, PLAY signed an agreement with China Aircraft Leasing Group Holding (CALC), for two new A320neo aircraft. The aircraft are scheduled for delivery in spring 2022, in time for the change to a hub-and-spoke business model. The aircraft are new and will be delivered directly from Airbus.

By signing these agreements, PLAY took advantage of a favorable market environment, securing brand-new aircraft and locking in long-term operational cost efficiency that contributes towards PLAY's sustainability goals.

Organization



Fast growing team

In 2021, we hired and trained over 100 professionals. Our team grew from a small team of 38 employees to a fantastic team of 150 within a short period. We trained 80 experienced crew members who have delivered an outstanding performance during the first months of operations. Our whole team showed great spirit through COVID-19 and together we managed to get through the pandemic without any disruption of our operation.



Office in Lithuania

In December, PLAY opened a new office in Vilnius, Lithuania. PLAY's headquarters and current flight operations remain in Iceland, including all flight crew and cabin crew. The Vilnius office hosts various support and technical functions. We expect the satellite office to reach 15-20 employees in 2022. The new office location will expand our access to a larger talent pool of specialists in digital development, marketing, finance and customer service. The Vilnius 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.



Equality Scale award

In October, PLAY received the Equality Scale from the Icelandic Association of Women Business Leaders. The Equality Scale is awarded to businesses with an equal gender ratio in their executive-level positions. Since its founding, PLAY has focused on the issue of equality. PLAY's Board of Directors and executive team consisted of five women and six men, meaning the gender ratio was 45/55%. The ratio of the company's key management positions was 53% men and 47% women. There is still room for improvement, and we will continue to aim for gender equality and inclusion here at PLAY.



Took sustainability to the next level

To truly take sustainability goals and actions seriously, a company needs to have dedicated people focusing on the company's sustainability journey. In the last two months of 2021, PLAY accelerated its sustainability journey by setting clear sustainability strategic goals, and began implementing them.

Instead of adding to the world's problems, PLAY is ambitious about creating profit whilst being part of the solution. Our purpose is to offer safe, affordable, simple, and green flight options to all travelers.

2. j

Strategy and Market Environment

Our response to COVID-19

At PLAY, the safety of passengers and employees is a top priority. In Iceland, PLAY actively participated in a joint task force that government agencies and other aviation industry stakeholders established to discuss and coordinate responses to the pandemic.

As with other airlines, the COVID-19 pandemic greatly affected PLAY's sales and operations. The situation called for rapid changes in operations, including adapting to constantly evolving requirements for safe flights.

In 2021, there was a clear correlation between developments in COVID-19 infections and consumer booking behavior. When infection rates declined, the number of bookings increased, and vice versa. During surges in COVID-19 cases in Iceland and Europe, PLAY adjusted its schedule accordingly.

To increase our customers' confidence in purchasing tickets and traveling, PLAY introduced a special COVID-19 flexibility policy that allowed our customers to change their travel dates without paying a fee.

PLAY's service department provided constantly updated information about the latest changes in COVID-19 restrictions in destination countries and assisted passengers in adjusting and changing bookings and other arrangements. In November, PLAY launched a COVID-19 map on the website for up-to-date travel restrictions, which automated the flow of information and reduced the volume of COVID-19 queries.

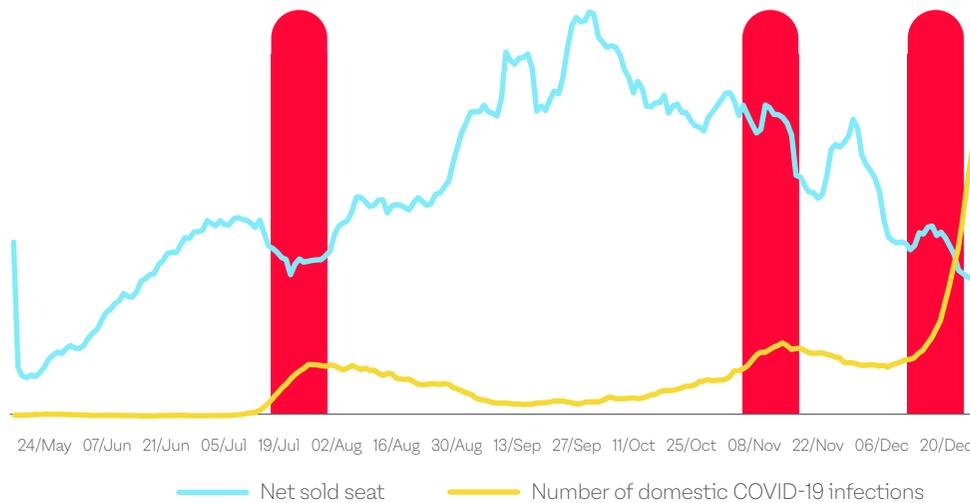


The airline market environment

The aviation industry was on the path to recovery in 2021. The spread of vaccinations against COVID-19 and reduced number of new cases had a positive impact on demand in spring and summer 2021.

However, a new wave of COVID-19 in Iceland and abroad and associated changes to travel restrictions did have a negative effect on passengers' booking behavior during the second half of 2021.

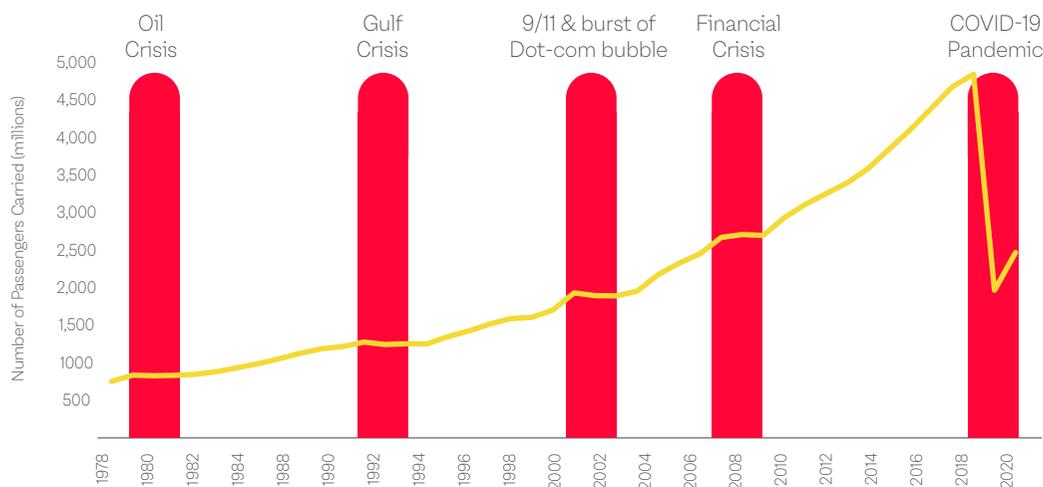
Number of sold seats by PLAY and number of COVID-19 infections in Iceland – Rolling 7 days



Global passenger traffic has proven resilient to external shocks in the past, and the consensus is that global passenger traffic will recover following the negative demand impact of the COVID-19 pandemic.

Developments in 2021 showed that passenger traffic started to recover, with global passenger traffic estimated to have grown by 25% in 2021 compared to 2020.

Global passenger traffic evolution 1978 – 2022¹

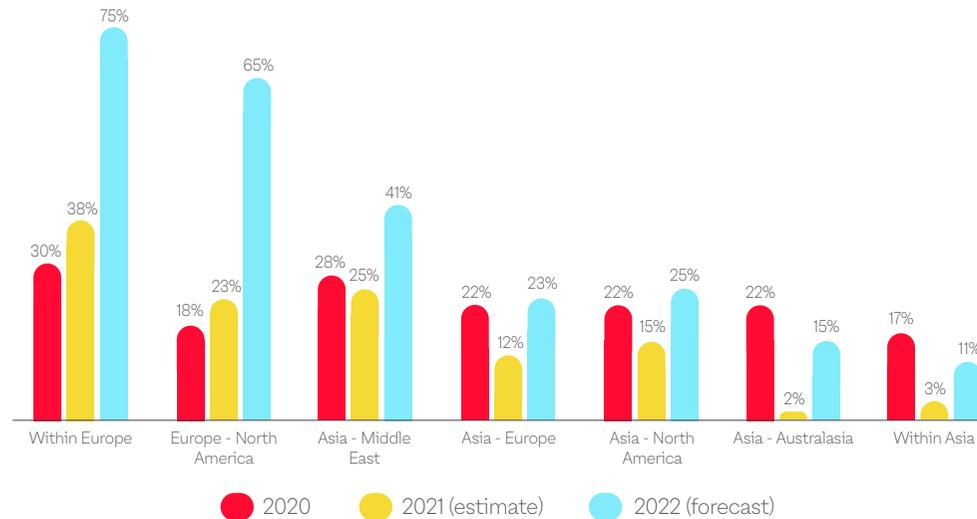


1. International Civil Aviation Organization (ICAO) and International Air Transport Association (IATA)

It is difficult to project when global passenger traffic will recover back to pre-pandemic levels, and the recovery will most likely be uneven between regions of the world based on the development of COVID-19 infections and associated travel restrictions.

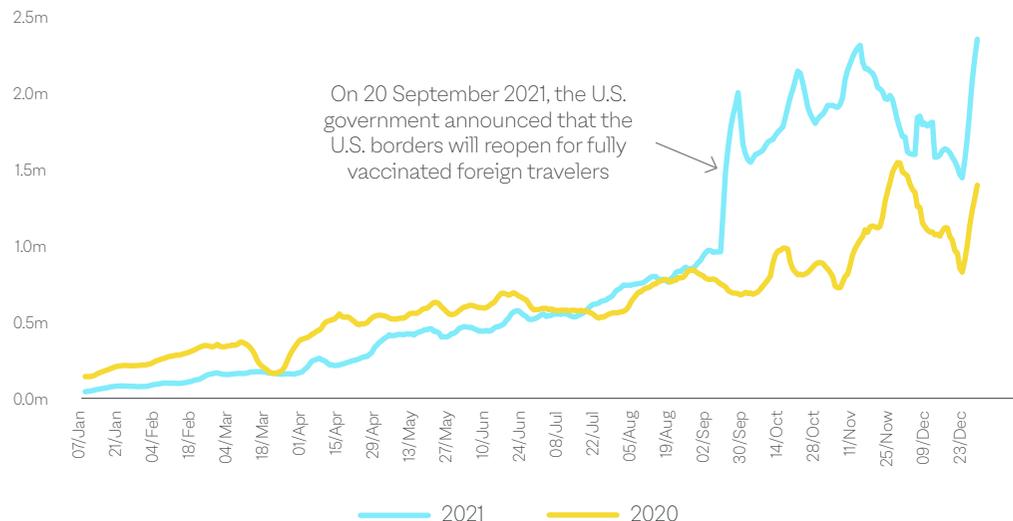
The International Air Transport Association (IATA) projects that Intra-Europe and Europe-North America traffic, both markets that PLAY will serve in 2022, will recover faster than other international markets.

Main International Routes (RPKs % of 2019 Levels)²



Passengers' search behavior shows considerable pent-up demand for travel when travel restrictions are lifted. For example, on 20 September 2021, when the U.S. government announced that the U.S. borders would reopen for fully vaccinated foreign travelers, there was an immediate spike in the number of searches for travel between the U.S. and Europe.

Searches on Skyscanner for Flights Between U.S. and UK/Germany/France/Netherlands/Ireland³



2. IATA
3. Skyscanner

Airbus A320neo family aircraft

Modern Fleet – PLAY's fleet consists of the Airbus A320neo family aircraft, which includes the A319, A320 and A321. All these types are narrowbody aircraft.

The A320neo family, are one of the most successful aircraft ever produced, with passenger seating ranging from 140 to 244 seats and flight range of up to 7,400 km.

Operating a single family of aircraft provides multiple operational and cost advantages:

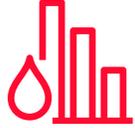
- All aircraft in the A320neo family are very similar. PLAY's flight and cabin crew only need to learn to operate one to be able to operate them all. A fleet that provides crew commonality enables us to stick to our core value of simplicity.
- Lower maintenance cost due to the similarities within the family and because all aircraft are equipped with the same engine type.
- The new engines in the Airbus A320neo family have nearly 50% less noise footprint.

Fuel Efficient Fleet – the Airbus A320neo family has the newest engine technology. That means fuel consumption per block hour is 15-25% lower than older generation aircraft. The low-cost business model with high seat density, high seat factor, and investment in the latest aircraft technology will help to minimize our operation's environmental impact, and enables a low emission rate measured in carbon emissions per passenger km.

 140 to 244
seats

 up to 7,400 km
flight range

 nearly 50%
less noise footprint

 15-25%
lower fuel consumption
per seat



Business insights

PLAY has prioritized strategic initiatives in the day-to-day business.

Real-time data monitoring, revenue management and ancillary revenue

One of the essential inputs to successfully manage revenue is data. With frequently updated and reliable data, PLAY's revenue management team can respond quickly to changes in the market environment. PLAY has its sales data updated every 15 minutes, enabling the revenue management team to observe every movement, intervene quickly, prevent revenue loss, spot revenue opportunities earlier and spot imbalances within the network.

Due to the COVID-19 pandemic, all historical data became unreliable as demand declined significantly and consumer behavior changed, as consumers booked their travel on shorter notice than before the pandemic. As a result, PLAY's revenue management team had to find new methods to manage PLAY's pricing and inventory. Prior to PLAY starting ticket sales, the revenue management team had the privilege of monitoring and learning from how other airlines around the world were responding to changes in demand during the pandemic.





With both older and more recently developed revenue management methods, such as dynamic pricing, PLAY has greater flexibility and more ways to manage flights and ancillaries in an ever-evolving environment.

PLAY can control pricing with many different strategies depending on what is suitable for every single market or each departure. The main task for our revenue management team is to find the right price point based on what the customer is willing to pay at any given time but to also maximize the revenue of each departure. Our systems are in constant development, and new methods are being implemented regularly.

PLAY believes that generating ancillary revenue is important to the long-term success of the business. With more competition and lower airfares, airlines need to look for more ways to generate revenue. From the very beginning, Play has emphasized ancillary revenue management by utilizing airfare pricing methods to a certain extent, based on demand, departure status, etc., at any given time.

Excellence by Digital Approach

PLAY's digital development strategy is to be progressive in customer-centric solutions that reduce business costs, increase revenue, and improve the overall customer experience.

A new Internet Booking Engine (IBE) which was launched in December 2021, lays the foundation for the airline's digital future. Customer centricity and transparency were at the forefront of the project, emphasizing a simple and accessible user-end experience and a smooth customer journey.

The new booking engine was the first step in PLAY taking control of its flagship store. Future stages include continuous development and improvement, and the implementation of new features such as bundles, stopover flights, and local payment options. PLAY will also continue to develop efficient self-service solutions for passengers to check-in online or modify their upcoming flight.

The focus of PLAY's customer journey emails is to provide informative and reliable communication about services and travel interest based on the passenger's unique travel interests. Promoting relevant and appropriately timed services increases ancillary revenue and provides a more tailored passenger journey.

Customer Excellence

PLAY's service strategy is to be a leader in digital solutions, self-service, and customer efficiency while offering warm and memorable service throughout the journey. The entire structure aims to provide seamless solutions and a comfortable and easy flow between the customer and our company. PLAY uses a multi-channel internal platform to communicate with customers, thus ensuring ultimate efficiency in response time, relying on automation and forms for customers to fill out. This ensures that no information is left behind or responded to inadequately.

For PLAY's disruption management, PLAY uses an automated self-service platform which is the go-to passenger disruption tool. This ensures that PLAY can offer customers a choice when it comes to their flight, offering hotels, vouchers, etc., through the same tool. The platform helps maintain customer satisfaction even during a disruption.

For the airport experience, PLAY focuses on easy and quick online check-in, efficient self-service baggage drop-off, and smooth boarding.



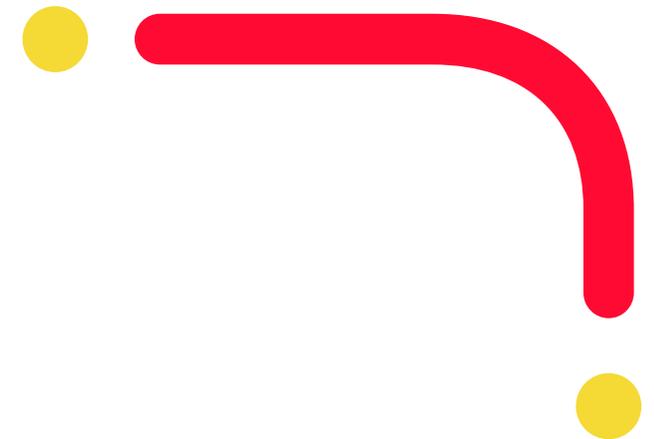
Sustainability

Sustainability goals and actions are essential for every company to succeed. Sustainability awareness has been spreading fast within the aviation industry, and PLAY celebrates that fact. Increasingly conscious customers, constantly changing laws and regulations on climate actions, and scarce environmentally-friendly travel alternatives are real challenges that PLAY is fully aware of and excited to take on.

At the end of 2021, we took our first steps towards sustainability where we focused on building a solid foundation to build on and expand upon. When we talk

about sustainability, we mean our environmental impact, climate actions, circularity, our people, communities where we operate, human rights, procurement processes, and high-quality governance. PLAY's guiding light in the sustainability journey is to constantly think about how the world is better off because PLAY is in it. PLAY seeks to profit by being part of the solution, not adding to the world's problem.

Please visit [chapter 5](#) for more details on our sustainability strategy, goals, and activities.



How We Create Value

How we use our business model and strategy to create value.

Business Model

- Low-cost culture** - emphasis on low-cost mentality and distribution model
- People** - competent and professional employees
- Financial** - strong shareholders and funding
- BI & Digital focus** - progressive in customer-centric solutions
- Outsourcing** - all non-core functions are outsourced
- Modern and efficient fleet** - the most efficient and eco-friendly aircraft
- Simple digital marketing** - strong and distinctive brand
- Natural resources** - commitment to minimize our effect on the environment



*OTP – On-Time Performance

Value creation

Market - serving our market and fulfilling customer expectations

People - being a future-proof company with focus on equal opportunities, support, and a safe and healthy culture

Shareholders - creating return on investment

Sustainability - raising awareness on sustainability in aviation. We are determined to utilize our operations to have a positive impact on all our stakeholders

Transparency - communicating openly with all our stakeholders

Reasons to Invest in PLAY

PLAY is positioned to capitalize on the growing Icelandic tourism market. A market that grew more than the world average before the COVID-19 pandemic, and is likely to do so in the future given what it has to offer.

- Between 2009 and 2019, international arrivals grew globally by compound annual growth rate (CAGR) of 5%. During the same period tourist arrival in Iceland grew by CAGR of 15%.
- Historically, leisure traffic has recovered faster from downturns than business traffic. Before the COVID-19 pandemic, 90% of passengers at Keflavik International Airport were traveling for leisure purposes.⁴
- Iceland is in a unique position given what it has to offer, i.e., open spaces, fresh air, untouched nature, etc.

PLAY has the right business model for the markets that we serve

- 80-90% of passengers traveling to and from Iceland, as well as across the Atlantic, are passengers traveling for leisure purposes.⁵
- Research has shown that price is the main factor that passengers look at when choosing an airline, especially leisure passengers.
- With the low-cost business model that minimizes unit cost, PLAY can offer low fares and be profitable.

4. ISAVIA

5. ISAVIA and U.S. International Trade Administration





PLAY has the right business model for the future

- The low-cost business model that calls for high seat density results in lower fuel consumption and carbon emissions per seat compared to legacy airlines that have lower seat density.

PLAY has the right fleet that fits its network

- The A320 family has size and range flexibility which allows PLAY to reach small and large markets, close by and far away.
- Crew commonality between various A320 Family aircraft sizes creates a competitive advantage.

PLAY has a clear strategy when it comes to business intelligence to optimize performance

- The creation of a live, event-driven and streaming data environment using modern cloud technology that enables real-time data-driven decision making.
- Key factor for timely and concise decision making and strategic planning.

PLAY has a strong financial position

- A strong liquidity position enables PLAY to react to growth opportunities and to weather negative changes in market demand.

PLAY has a clear strategy when it comes to business intelligence to optimize performance

PLAY is taking sustainability seriously

- Clear climate actions with measurable and timed goals on decarbonization initiatives and reaching carbon neutrality.
- Operate the most modern, young, and fuel-efficient aircraft which emit the least CO₂ in the industry.
- Strategies already created and clear goals set addressing the welfare of our employees and customers, circularity, being a responsible business and a future-proof company.
- We offer travelers one of the most environmentally friendly options when flying over the Atlantic Ocean.

For more details on sustainability, please visit *chapter 5* in this report.

3.

**Report
by the Board
of Directors**

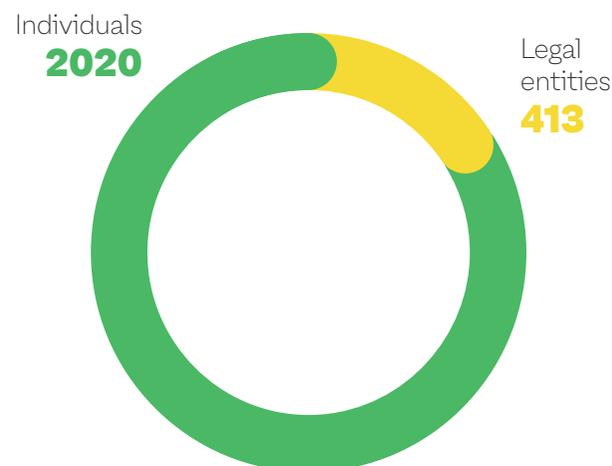
Distribution of shareholders

Number of shareholders at the date of the company's listing on July 9, 2021 was 4,525 and the number of shareholders on 31 December 2021 was 2,433. At the end of the year, the number of legal entities holding shares in the company was 413 and the number of individuals was 2020. The legal entities are pension funds, private equity funds, mutual funds, insurance companies and private investment companies.

The largest 20 shareholders in the company held 65% of issued shares combined. Please see table on the right for details.

A list of the 20 largest shareholders in the company is regularly updated and published on the company's website.

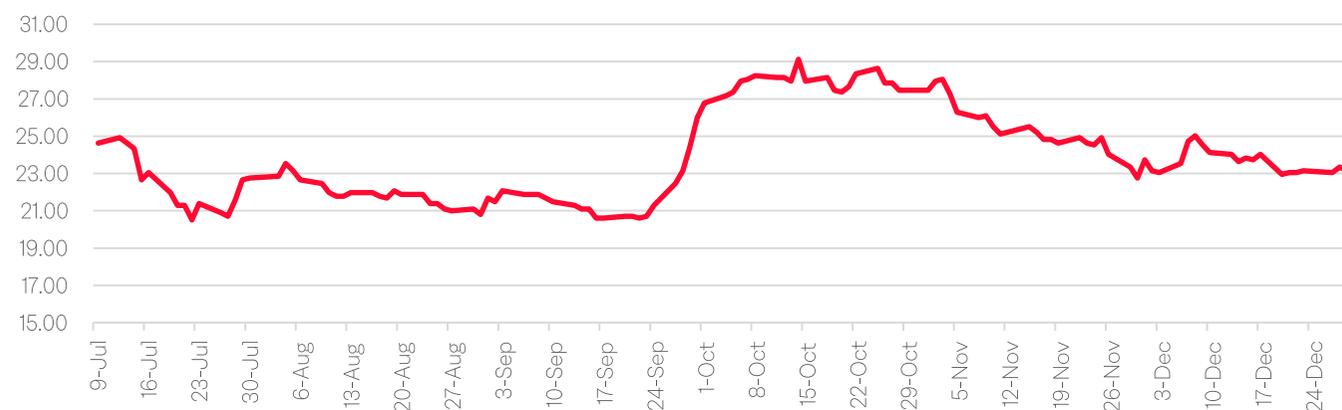
Number of shareholders Dec 31, 2021



Shareholders 31.12.2021

	Shares
Fiskisund ehf.	60,499,994
Birta lífeyrissjóður	59,947,641
Stoðir hf.	45,000,000
Akta Stokkur hs.	37,565,568
Arion banki hf.	28,495,165
Fea ehf.	28,184,920
Eignarhaldsfélagið Mata hf.	25,088,659
Lífsværk lífeyrissjóður	23,259,942
IS EQUUS Hlutabréf	21,881,798
Daía ehf.	21,102,362
Kjartan Páll Guðmundsson	12,500,068
Vátryggingafélag Íslands hf.	11,488,897
Akta HSI	11,373,457
Kvika - IHF hs.	11,189,639
IS Hlutabréfasjóðurinn	10,515,875
Gildur ehf	10,000,000
Alpha hlutabréf	9,755,082
Kvika banki hf.	9,476,277
Kvika - Innland hlutabréf	9,470,801
TM tryggingar hf.	8,648,542
Others	244,555,313
Total	700,000,000

Share price 2021



Financial review

In 2021, PLAY was in a startup phase, and the financial results reflect that and will continue to do so to a certain degree until the company reaches further economy of scale in the operation. 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 serious 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 operation, 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 salary costs, and ensures an international focus in the operation.

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 COVID-19 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 changing fee. PLAY did not start its cargo operations until after year-end 2021 and therefore reports no cargo revenue.

Income statement, million \$	Q4 2021	YE 2021
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 US 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, e.g., with various systems, admin costs, salaries and other personnel expenses. Salary cost was lower than expected due to employees being hired at a slower pace than anticipated. Salaries and other personnel expenses amounted to USD 8.6 million which included option contracts of one million in Q4.

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 costs and emissions trading costs are USD 8.8 million, representing over 21% of total operat-



ing costs. Prices of both 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 line maintenance are the largest non-fuel related cost items amounting to USD 5.8 million.

Sales, marketing, and distribution costs were USD 2.4 million and are relatively high because PLAY introduced a lot of new destinations for 2022 which required initial marketing costs.

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.

IT development of the booking engine and the salary of personnel and start-up related costs like registration of AOC and brand creation was capitalized and amounted to USD 10.7 million.

Income statement, million \$	Q4 2021	YE 2021
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

Balance sheet and financial position

PLAY's balance sheet totaled USD 204.1 million at the end of the year. PLAY took delivery of three aircraft for operation during 2021 and the right-of-use of assets were USD 117.1 million. Intangible assets were USD 10.7 million and are related to the start of operations and IT development as mentioned above. Aircraft deposits and other security installments were USD 7.8 million. Trades and other receivables were USD 6.8 million, USD 4.8 million of which is the acquirer's unpaid ticket sales to PLAY. 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 33% 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 have no interest-bearing debt. Current liabilities were USD 31.4 million and consisted of USD 15.1 million of aircraft lease and provisions and 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 8.1 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 million and was mainly due to the following factors:

- Deposits paid for aircraftft 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 and repayment of lease liabilities of USD 2.4 million.

Hedging strategy

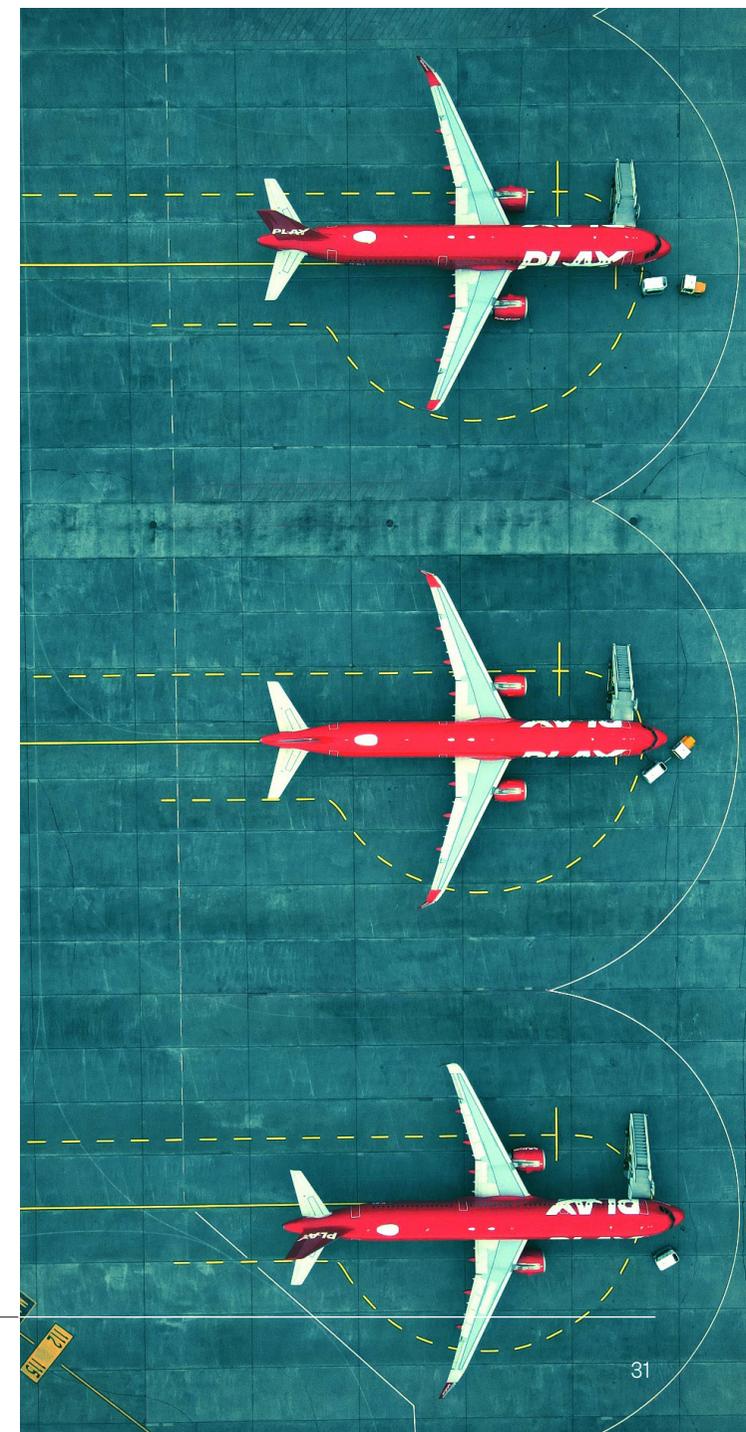
PLAY operates in an international and highly competitive environment sensitive to economic fluctuations and is exposed to a broad range of risks and opportunities. Risk management and risk assessment are of fundamental importance for ensuring PLAY's long-term sustainable profitability and growth. Structured 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 46.7 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 34.2 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 decid-

ing 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

- PLAY opened an office in Vilnius, Lithuania at the beginning of 2022 in order to have access to a larger talent pool but also as part of cost control.
- PLAY took delivery of the first A320neo from CALC at the beginning of 2022.
- PLAY signed a letter of intent for A321LR aircraft.
- PLAY added New York and Orlando as destinations to PLAY's network.

Emerging risks and uncertainties

The risks and uncertainties described below can potentially impact PLAY's business, financial results, and outlook over the next 12 months. PLAY does not intend this list to be comprehensive.

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 revealed that potential threat unequivocally. Uncertainties related to air traffic recovery threaten PLAY's revenue development and impact PLAY's business and market development plans.

The development of customer demand during the COVID-19 pandemic and the uncertain timing of air traffic recovery will remain a threat to revenue in 2022. A prolonged COVID-19 pandemic would deteriorate PLAY's cash funds, thus impacting the company's financial position.

PLAY can influence some key factors affecting revenue and operating loss, like adjusting its operating cost and flight schedule to respond to changes in demand. Factors beyond PLAY's control are mainly related to the duration of the COVID-19 pandemic, the measures to fight the pandemic, and the recovery of air traffic and demand.

Other general risk factors in the industry and business, such as fluctuation in jet fuel prices, carbon prices (emission rights), fluctuation in demand, currency exchange fluctuations, interest rate fluctuations, changes in ticket prices, and regulatory and tax-related changes, are also beyond PLAY's control.

Financial risk management aims to limit market risks with selected derivative hedging instruments used for this purpose. PLAY's policy is not to speculatively trade derivatives but use the instruments to hedge anticipated exposure and gain cash flow certainty. PLAY will reduce its exposure to market risk by using derivatives as any gains and losses arise, offsetting the underlying exposure.

Liquidity risk reflects PLAY's ability to fulfill its payment obligations associated with financial and operational liabilities when they are due. Liquidity risk management relies on a policy of minimum cash target levels deemed adequate under both normal and stressed conditions. We believe that a strong cash position is a vital foundation for PLAY's financial resilience and its ability to capture commercial opportunities as they arise. Therefore, we actively manage the safeguarding of our financial assets and monitor the viability of our banking, card acquiring, and hedging counterparties.

Competition is one of the critical risks to PLAY's business. Pricing decisions depend heavily on competition from other airlines. The airline industry is generally susceptible to fare discounting due to the low marginal costs of adding passengers to otherwise empty seats. New market entrants, mergers, acquisitions, consolidations, new partnerships, and pricing transparency in the air travel market could add to airline competition. Changes in competition in any of PLAY's key transport markets, including the Icelandic and the transatlantic markets, could, in general, affect PLAY's profitability.

Competition is one of the critical risks to PLAY's business

The aviation industry is affected by regulatory changes. Examples of such regulatory changes include emissions trading, noise regulation, other environmental regulation, and privacy and consumer protection regulations. PLAY is dependent on maintaining its air operating certificate (AOC) issued by the Icelandic Transport Authority (ITA) and the UK and US foreign operator licenses.

PLAY faces operational risks related to computer and communication systems, disruptions and interruptions in flight schedules, human resources, third-party services, fleet development, the risk of delayed delivery of aircraft, and compliance to aviation and securities regulations, among others.

Other potential external disruptions may, if they materialize, significantly affect the demand for air travel and PLAY's operations. These disruptions include but are not limited to geopolitical uncertainty, the threat of trade wars, terrorism, cyber-attacks, and pandemic risks (such as COVID-19). Similarly, airlines may be affected by natural disasters such as large-scale floods, earthquakes, hurricanes, or volcanic eruptions that cause disruptions to flight schedules. In extreme cases, these disruptions can lead to prolonged suspension of specific routes and closure of airports, affecting our hub.

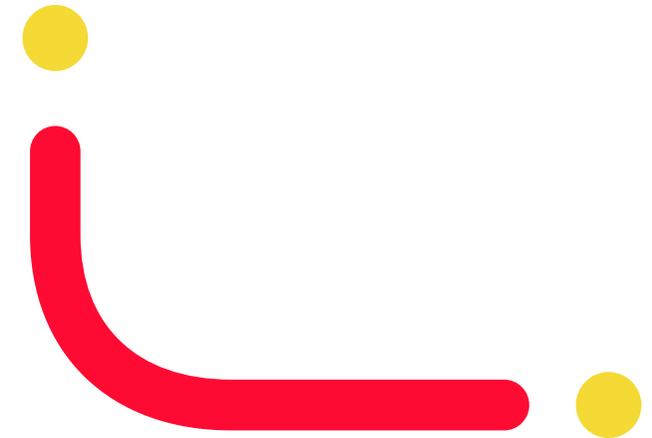
During COVID-19, the possibility of sudden airport closures and ground handling stops became a significant risk. PLAY's operational teams keep in close contact with all relevant airports to understand the risk potential and have defined diversion airports or contingency airports.

PLAY is dependent on information technology systems to enable and manage ticket reservations and other payments. PLAY needs to handle and protect data securely and is compliant with industrial standards and general data protection regulations (GDPR). Therefore, it is essential for PLAY to have its website functional, reliable, and secure.

An accident, incident, malfunction, or terrorist attack can adversely affect PLAY's reputation and customers' willingness to travel with PLAY. Possible revenue losses relate to passenger claims, repairs, or replacement of a damaged or lost aircraft and its temporary or permanent loss from service. In addition, any inci-

dent of that nature may have a substantial negative impact on PLAY's reputation and the public perception of the safety and reliability of PLAY's aircraft fleet, which in turn may cause air travelers to be reluctant to fly with PLAY's aircraft.

Over the last few years, there has been an increased focus and concern regarding climate change, greenhouse gas emissions, and environmental matters, both among governments worldwide and among the public. There is a risk that over time ecological regulations will become more stringent. Any new changes to current regulations could impose limitations on PLAY's operational flexibility, business model, and growth potential. They could impose new and significant additional costs, negatively impacting PLAY's prospects. Moreover, PLAY may experience reduced demand for its services if customers become more reluctant to travel by air because of the increased focus on the environmental impact of air travel.



Emerging uncertainty regarding reduced demand due to customers' increased focus on the ecological effects of air travel and changing laws and regulations regarding carbon emissions will affect all operating airlines that operate in the EU/UK and CORSIA compliant countries.



Risk management

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.

The Board is ultimately responsible for determining the nature and extent of the risks it is willing to take to achieve its strategic objectives, risk appetite, and maintaining PLAY's internal control systems and risk management.

PLAY's risk management team will not focus on risk avoidance but on identifying and managing an acceptable level of risk with the objective to minimize it. It will proactively identify, understand, and manage the risks inherent in PLAY's operations to support responsible, informed risk-taking concerning reporting reliability, compliance with laws and regulations, and flight safety.

Risk management is a dynamic and ever-evolving area. PLAY's Board of Directors and management recognize that they are responsible for controlling PLAY's assets and liabilities and protecting its employees, customers, stakeholders, and the environment against potential losses or harm. The focus should be on minimizing uncertainty in achieving our goals and objectives and maximizing the opportunities to achieve our vision.



Risk management is an integral part of PLAY's corporate governance arrangements and is being built into the management processes as part of PLAY's overall framework to deliver constant improvements

Risk management process and framework

PLAY's Risk Management Policy applies best practices in identification and evaluation as well as applying cost-effective risk control to ensure that risks are managed, eliminated, or reduced to an acceptable level. The policy and Risk Management system aligns with ISO 31000 standards and COSO methodology (Compliance and Reporting, Strategic, Operational).

As a recently established company, PLAY is in the process of implementing an Enterprise Risk Management (ERM) process to identify, evaluate, and manage risks and uncertainties. The Board of Directors defines the risk policy and PLAY's risk appetite. It has delegated to the Risk Committee the task of monitoring the adequacy and effectiveness of the risk management systems.

The Board of Directors shall discuss PLAY's leading risk factors. They shall adopt risk policies, risk appetite, and implementation of risk management and ensure that internal rules and policies for risk management are reviewed at least annually.

The Board has set the following risk appetite:

- **Low-risk appetite** for risks that impact safety and security for individuals (passengers and employees) and organizations
- **Moderate risk appetite** for risks that affect operational delivery or reputation
- **High-risk appetite** to pursue quality improvements and innovation



PLAY's Risk Committee shall protect and add value to the organization and its stakeholders through supporting PLAY's objectives. It will do so by improving decision-making, planning, and prioritization by a comprehensive and structured understanding of the business activity, volatility, and project opportunity or threat. The framework helps create an environment in which risk management is consistently practiced across the organization and where management takes informed decisions to reduce the possibility of surprises.

The components of PLAY's risk management are defined by PLAY's business model and strategy, organizational structure, culture, risk category, and dedicated resources.

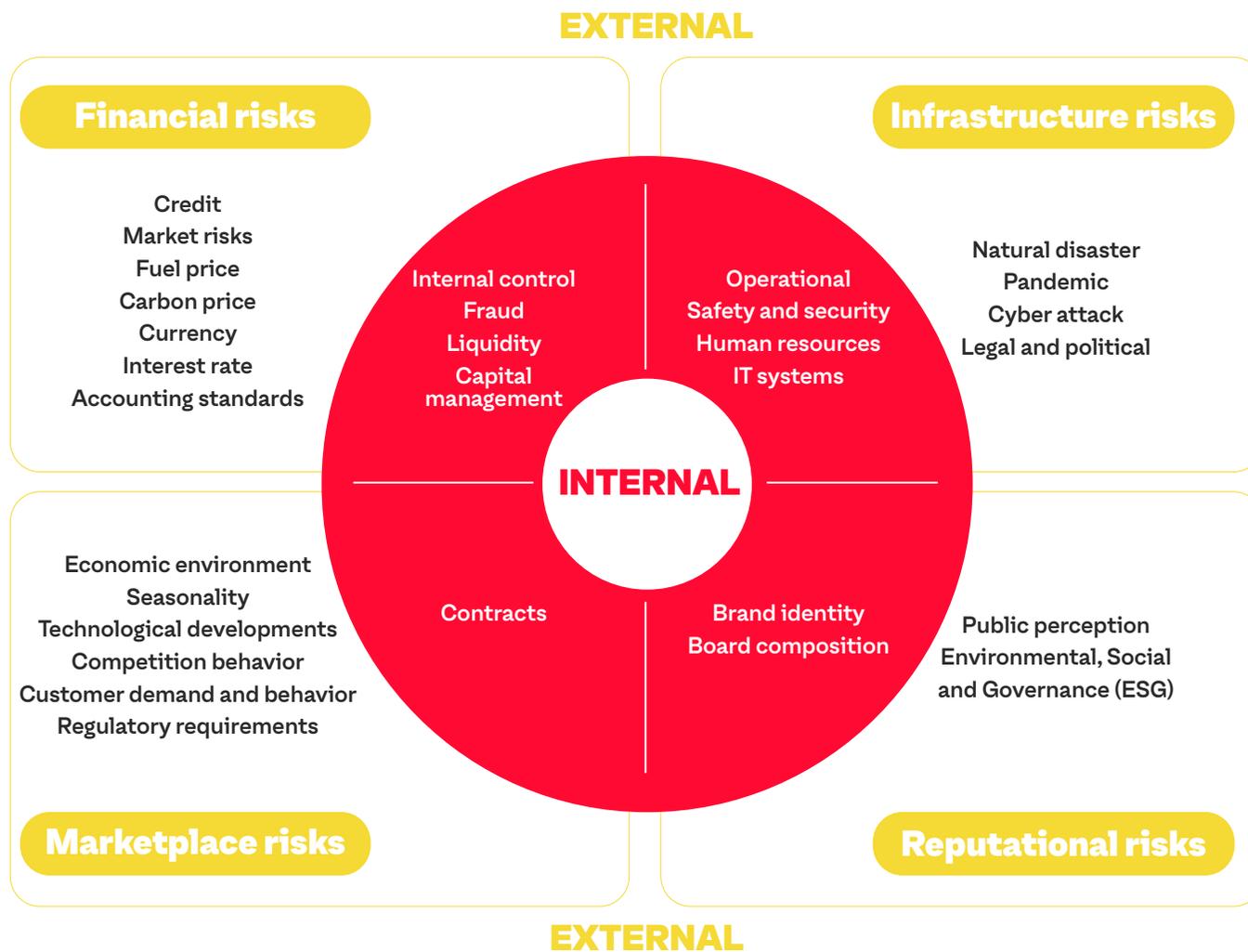
PLAY's risk management is a continuous and evolving process that integrates into the culture of PLAY.

PLAY's risk assessment process shall be an integral part of the organization's strategy process and objective operational setting; This enables a holistic view of risks and opportunities. PLAY's risk assessment includes the following phases:

- Identification of external and internal events affecting the achievement of objectives
- Analysis of identified risks
- Evaluation and prioritization of risks based on their significance and likelihood

As part of the ERM process, risks will be identified and collected in a risk register categorized into categories and identified as internal or external risks. Risks will also be analyzed for likelihood and impact using the qualitative approach.

The following are some of the risk factors that PLAY believes are crucial to its operations and industry.



Risks relating to PLAY

The order in which risks are presented below does not reflect the likelihood of their occurrence or the magnitude of their potential impact on PLAY's business, financial results, operations, cash flows, or prospects.

Financial risks

Uncertain economic and financial market conditions can affect jet fuel prices, carbon emission costs (UK/EU ETS and CORSIA credits, and carbon credits on voluntary market), interest rates, and currency exchange rates. There is no guarantee that liquidity and access to acceptably priced financing will always be sufficient or unaffected by external macroeconomic trends or financial market volatility, whether global or domestic. That, in turn, might have subsequent implications for loan covenants, PLAY's financing costs, the fair value of assets, and overall financial condition.

Credit risk (counterparty risk)

PLAY is exposed to credit risk. Credit risk is the risk of a financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is linked to trade receivables, investment in debt securities, bank deposits, and agreements with financial institutions related to hedging.

PLAY is aware of potential losses relating to credit risk exposure and seeks counterparties with established business experience and acceptable credit ratings to a reasonably practicable extent.

Liquidity risk and capital management

Liquidity risk reflects PLAY's ability to fulfill its payment obligations regarding financial and operational liabilities as they fall due. Liquidity risk management relies on minimum cash target levels considered satisfactory under normal and strained conditions. A strong cash position is fundamental to PLAY's financial strength and its ability to capture commercial opportunities as they arise. Therefore, we actively manage the safeguarding of our financial assets and monitor the viability of our banking, card acquiring, and hedging counterparties.

PLAY has agreements with acquirers that process customer credit card transactions. The acquirer bears the financial risk associated with tickets purchased for travel. According to the agreed terms and holdback period, the acquirer settles the cash related to the sale to PLAY. The acquirer may have liability if PLAY does not ultimately provide the air travel. PLAY's agreements allow acquirers to hold an amount of cash (referred to as a "holdback") equal to the total amount of advance ticket sales that the acquirer has processed, but for which PLAY has not yet provided the air travel. These holdback requirements can reduce PLAY's liquidity in the form of unrestricted cash and short-term investments by the amount of the holdbacks.

PLAY aims to maintain its cash and cash equivalents, highly liquid debt investments, and available credit facilities at a minimum of 25% of PLAY's annual fixed costs. PLAY's cash and cash equivalents amounted to USD 53 million at year-end. The level of cash substantially exceeds the liquidity policy given the estimated fixed operating cost.

In excess of 25%
of fixed annual operating expenses, a portion of excess cash will be invested in USD, either with buying USD on the spot market or using Non-Deliverable Forward agreements (NDA).

PLAY has formed a cautious cash management strategy that aims to achieve better returns than possible in a deposit account, investing, for example, in index-linked financial instruments.

Market risks

Jet fuel price

One of PLAY's larger material costs is jet fuel, and thus PLAY's financial performance can be materially affected by variation in the price and availability of fuel. Jet fuel can be subject to significant price volatility due to fluctuations in supply and demand and investor behavior through speculative trading. These are influenced by political unrest, terrorist attacks, and producer market strategies.

Therefore, both the cost and availability of fuel are subject to economic and political factors beyond PLAY's control. Any increase in fuel prices may have a material adverse effect on PLAY's profitability.

PLAY's risk 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 estimated fuel consumption for the above period. The hedging ratio is higher near term and decreases the further out the flight is, up to six months:

- 1-3 months 40-60%
- 3-6 months 20-40%

The strategy is a rolling strategy and executed monthly

The following table demonstrates the sensitivity analysis of changes in jet fuel prices at year-end on PLAY's total fuel cost (all other variables held constant).

	Effect on net income 2021 (USD)
For every 10% increase in jet fuel prices	(609,465)
For every 10% decrease in jet fuel prices	606,465

Carbon emissions price

Since the beginning of 2012, all airlines operating within Europe have been required to comply with the EU Emissions Trading Scheme (ETS), which commits them to secure carbon emissions permits or ETS credits in proportion to their carbon emissions. As of 2021, UK is not included in the EU ETS. The UK has established the UK Emissions Trading scheme for airlines operating within European destinations that fly to the UK.

PLAY is exposed to carbon emissions risk due to changing prices of ETS credits. 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. In terms of volume, carbon emissions are a fixed proportion of fuel consumption. In the form of ETS credits, carbon prices have increased significantly in the past few years, to the extent that the purchase of emissions rights can have material effects on operations. In July 2021,

the European Commission (EC) presented the Fit for 55 policy package, including revising the European Emissions Trading System (EU ETS). According to the current Directive, 2003/87 on the EU ETS, free allowances for new aircraft operators were only possible for aircraft operators that applied in 2015. However, according to the review of the Directive, allocation rules will change from 2023, enabling all operating aircraft operators to apply for free allocation. Therefore, PLAY expects to receive free allowances from 2024 for the operating year of 2023. Further changes due to the revision, according to the EC, are to tighten the EU ETS for aviation by linear reduction of free allowances and to phase it out by 2027 completely. It is essential to state that the changes mentioned above on future free allocations and the phase-out period have not yet been approved by the European Parliament or the EC, as it is still under discussion.

The following table demonstrates the sensitivity analysis of changes in ETS credit prices at year-end on PLAY's total ETS cost (all other variables held constant).

	Effect on net income 2021 (USD)
For every 10% increase in ETS credit prices	(239,648)
For every 10% decrease in ETS credit fuel prices	239,648

Foreign currency risk

PLAY's functional currency is the U.S. dollar (USD). PLAY is exposed to currency risk on sale, purchase, and borrowing denominations in other currencies. The most significant exposure will be in 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. The ISK cash flow is still in long position as PLAY completed a share offering that raised approximately \$83 million in new equity in 2021.

Other notable currency risk exposures include Euro (EUR) and 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 in the foreign exchange rate on future cash flows through matching inflows and payments in each currency to the extent possible.

The currency cash flow is currently in balance and creates a natural hedge, so PLAY's short-term policy is not to hedge currency cash flow. The policy will be re-evaluated once PLAY starts operations to the U.S. and the currency combination has changed.

Long term, PLAY will follow a policy of hedging 50-80% of the forecast net currency exposure 3-9 months forward.

Interest rate risk

PLAY does not have any interest-bearing debt.

Infrastructure risks

Operational

PLAY faces operational risks related to computer and communication systems, disruptions and interruptions in flight schedules, human resources, third-party services, fleet development, the risk of delayed delivery of aircraft, compliance to aviation and securities regulations, among others.

Delays and canceled flights occur for various reasons and impose increased costs on airlines. Possible causes include weather conditions, computer faults, accidents, labor unrest, delays by service providers, congestion, and unexpected maintenance.

Successful business performance depends largely on successful third-party service providers and an undisrupted supply chain mechanism, including a range of crucial suppliers, travel agents, air traffic control, ground services, maintenance support, IT service providers, etc. Interruptions due to any of these disruptions could seriously affect the profitability and performance of PLAY.

Human resources

To secure the necessary competence to carry out its business strategy, PLAY relies on key management members and other employees. There is no assurance that these employees will stay with the company. PLAY measures employee engagement and motivation regularly, which enables PLAY to monitor employee engagement on an ongoing basis.

Labor disputes and strikes

The airline industry is a labor-intensive industry. Most of PLAY's employees are unionized and are represented by several unions, each of which has its collective agreements on salaries and benefits. Each union contract comes up for renegotiation every few years, bringing a risk that the parties will not reach a satisfactory agreement, posing the risk of disruption through strikes.

Information technology and cyber risk

PLAY's operations are dependent on IT and other systems. Failure or disruption to IT or management systems, whether internal or external, could affect PLAY's ability to carry out its business operations and services to customers. Many factors that can cause such systems to fail are outside PLAY's control. PLAY makes every effort to minimize the risk of disruption to secure the company's business continuity.

PLAY is exposed to various types of attacks on its IT systems. Moreover, all of PLAY's services and prod-

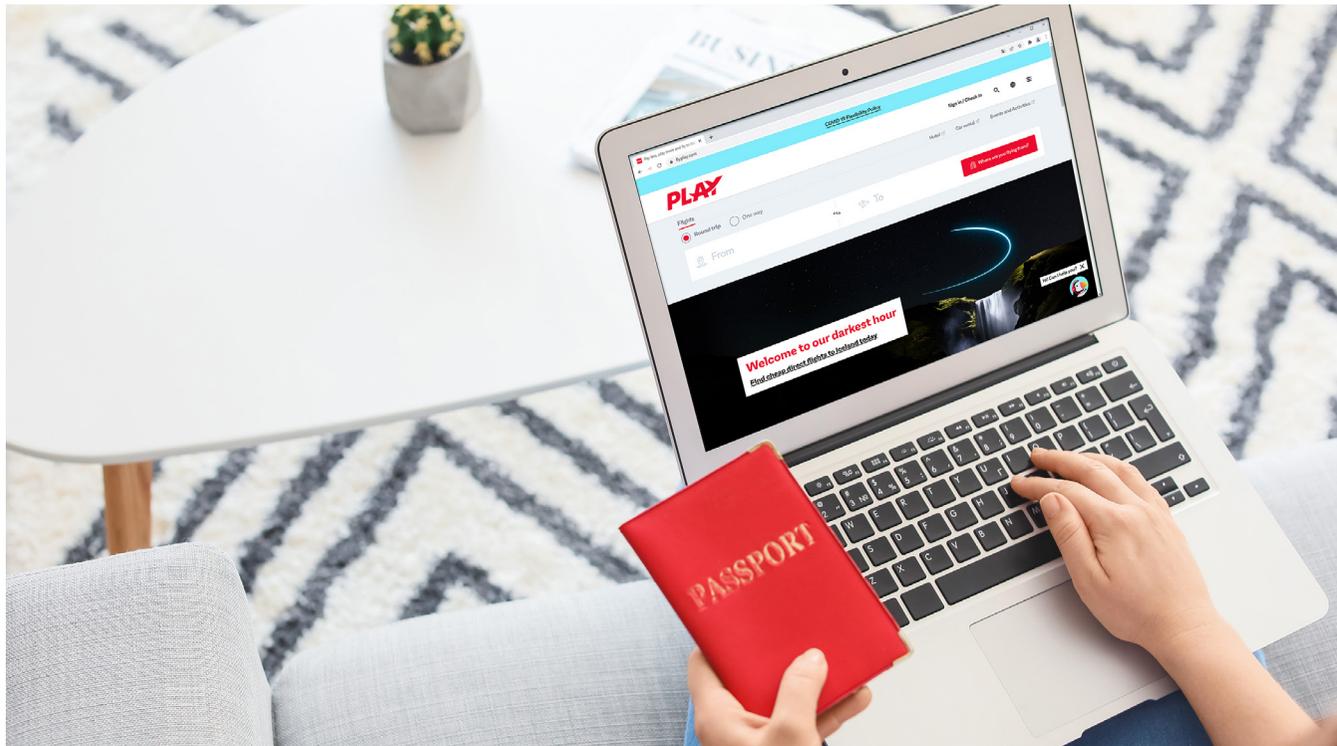
ucts are available online and subject to ongoing attempts at cyber-related fraud. There is always a risk that PLAY's cyber security measures might prove inadequate or inappropriate for preventing all attempts to attack its IT systems.

PLAY takes information security very seriously. To minimize the risk of cyber-attacks, exposed parts of the IT infrastructure have undergone security assessments performed by Syndis, a leading information security company. Furthermore, PLAY has an ongoing agree-

ment with Syndis to perform further evaluations and 24hr access to immediate support if an attack occurs.

PLAY needs to store and process personal information and other customer data to conduct its business. PLAY must comply with data protection and data privacy laws and regulations. Those laws and regulations impose stringent data protection requirements. They may impose high penalties for non-compliance, particularly regarding storing, sharing, using, processing, disclosing, and protecting personal information and other user data on its platforms. The main regulations applicable for PLAY are the General Data Protection Regulation (EU) 2016/679 ("GDPR") and the local law implementations of GDPR, including the Icelandic Act no. 90/2018 on Data Protection and the Processing of Personal Data. PLAY is working with a third-party consultant to facilitate compliance with GDPR regarding data storage and processing.

Any failure to comply with GDPR may result in public outcry and could negatively effect public trust in PLAY.



PLAY makes every effort to minimize the risk of disruption to secure the company's business continuity

The pandemic

The outbreak of the COVID-19 pandemic has dramatically impacted the airline industry and may continue to have a negative impact in the future. The outbreak of the COVID-19 virus was recognized as a pandemic by the World Health Organization in March 2020. Extraordinary health measures severely impacted the airline industry and imposed restrictions in Iceland and worldwide to combat this pandemic.

It is impossible to predict how long the COVID-19 pandemic will last. Thus, there is significant uncertainty about when current traveling restrictions and recommendations will be abolished, and the travel demand will return to a pre-COVID-19 level. Consequently, no assurances can be given that there will be a demand or available market for PLAY's flights when they are offered.

Marketplace risks

Economic environment

Several macroeconomic factors impact the air travel industry and, thus, will affect the demand for PLAY's services. For example, spending on leisure travel is discretionary, and economic conditions in PLAY's markets may significantly drive such demand. Adverse developments such as recession, increasing unemployment rates, increases in interest rates, or direct or indirect taxes could reduce consumers' disposable income and cause a significant reduction in demand for travel.

Seasonality

Before the outbreak of the COVID-19 pandemic, the commercial airline industry has historically been subject to seasonal variations where demand usually increases from May to October and decreases from November to April. If PLAY fails to predict these variations correctly and adjust accordingly, the company may be subject to over or under capacity, which in turn may affect PLAY's business, financial results, and performance negatively.

Competition behavior

PLAY operates within a highly competitive industry, and pricing decisions heavily depend on the actions of other airlines. The airline industry is exposed to discounting due to the "perishable" nature of aircraft seats and the very low marginal cost of flying an additional passenger. New market entrants, mergers, acquisitions, consolidations, new partnerships, and pricing transparency in the air travel market could add to airline competition. Changes in competition in PLAY's key transport markets, including the Icelandic and transatlantic needs, could affect PLAY's profitability.

Customer demand and behavior

A significant part of an airline's operating expenses is fixed costs that cannot be scaled against the number of tickets sold or passengers or flights flown. Such charges include the cost of the aircraft, employees, and overhead costs of administration and infrastructure systems. Consequently, PLAY's results from operations may be affected by negative deviations in demand as PLAY will often not be able to reduce costs accordingly.

Regulatory requirements

The aviation industry is subject to extensive regulations, and PLAY's business is subject to complex rules and regulations imposed both in the European Economic Area (EEA) and in Iceland. The regulatory regime includes safety and security standards such as requirements and procedures relating to, without limitation, certification and supervision, flight operations, weather conditions, aircraft performance and equipment, maintenance, flight crew, cabin crew, and transportation of dangerous goods. Moreover, detailed EU regulations also implemented in the EEA relating to airport slot allocations, flight compensation requirements, and air carrier liability will apply to PLAY as well as requirements relating to environmental approvals for aircraft and the reporting of emission levels.

Any changes to the regulatory environment in which PLAY operates can have a material adverse effect on PLAY's estimated costs, marketing strategy, business model, and ability to expand. That may negatively impact PLAY's activities and financial results. Suppose PLAY cannot comply with these extensive and complex regulations to which it is subjected, it faces risks of, among other things, having its AOC or permits revoked.

The passengers that PLAY carries are subject to numerous taxes and charges. These taxes and charges may be increased for several reasons, e.g., new security measures or environmental legislation. Taxes and charges on passengers are usually imposed by national legislation and may regularly be subject to adjustment.

Reputational risks

Environment, Social and Governance (ESG)

Sustainability is an essential focus for PLAY. That includes creating and implementing environmental and socially responsible strategies and goals, centralizing data collection to increase our reporting capabilities and transparency, and a continued commitment to the highest ethical standards. Greenhouse gas emissions (GHG) and their potential impact on climate change increase global regulatory focus. PLAY will monitor these factors very closely and take necessary action. Aviation is already included in the EU and UK Emissions Trading System (EU ETS and UK ETS). PLAY will take part in the voluntary period of the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), as the Icelandic Government has announced that Iceland will participate before the scheme is mandatory for all airlines.

Reputation

PLAY's reputation is vital for its business. Should PLAY's reputation be damaged, PLAY's customers and other stakeholders could lose trust in PLAY. Reputational damage could have a material adverse impact on PLAY's operations, earnings, and financial position.



Corporate governance

Regulatory framework

Fly Play hf. (“PLAY” or “the Company”) is an Icelandic public limited liability company domiciled in Reykjavik. In November 2019, the company changed its name to FLY PLAY ehf. and in April 2021, the Company’s corporate form was changed from private limited liability company to public limited liability company (changing its corporate designation from ehf. to hf.) In June, PLAY made its maiden flight, and in July, PLAY’s shares were listed on the Nasdaq First North Growth Market Iceland. At the end of 2021, the Company had **2,433** shareholders, with the ten largest shareholders holding **50%** of the shares.

Corporate Governance at PLAY is based on Icelandic laws and the Company’s Articles of Association. This chapter is written with reference to the Act respecting Public Limited Companies no. 2/1995, the Act on Financial Statements no. 3/2006, and the Corporate Governance Guidelines published by the Iceland Chamber of Commerce, Nasdaq Iceland, and SA Confederation of Icelandic Enterprise. As of the end of 2021 and based on the size of its operations, PLAY is not obliged to comply with certain disclosure requirements of the Financial Statements Act and Guidelines. However, this chapter goes a long way towards fulfilling such obligations and has been reviewed by the Audit Committee of the Company’s Board of Directors.

PLAY prepares its financial statements and interim reports in accordance with the Financial Statements Act and generally accepted accounting principles of Iceland. The Financial Statements are presented in US dollars, which is the Company’s functional currency. The Company has adopted and implemented International Financial Reporting Standards (IFRS) for the Financial Statements for the year 2021. No material changes in accounting principles are expected from this implementation nor any material effect on the Company’s financial position.

Further information with regards to PLAY’s corporate governance is available on PLAY’s website.

Governing bodies

A shareholders' meeting wields the supreme power in the Company. The Board of Directors is responsible for the business of the Company between shareholder’s meetings. An executive management team consisting of five executives is responsible for the day-to-day business, under the management of the CEO.

The governing bodies of PLAY pursuant to the Companies Act and the Articles of Association are the General Meeting of Shareholders, the Board of Directors (the “Board”), and the Chief Executive Officer (the “CEO”). The roles of the governing bodies are described below.



General Meeting of Shareholders

A shareholders' meeting wields supreme power over the affairs of a Public Limited Company in accordance with that which is decided in laws and the Company’s Articles of Association. All shareholders are authorized to attend a shareholders’ meeting and to speak there.

An Annual General Meeting shall be held before the end of August each year. Annual accounts and Auditors’ or Inspectors’ reports shall be submitted at an Annual General Meeting.

Shareholders’ meetings shall be convened with a minimum notice of three weeks and a maximum notice of four weeks. A shareholders’ meeting shall be convened by means of an advertisement in the national media, electronically or in another verifiable manner so as to ensure full and direct access to the notice of the meeting on an equal basis. Reliable media shall be used to ensure the effective dissemination of information to the public in the European Economic Area.

The following matters shall be taken for consideration at Annual General Meetings:

- A** The Company's Board of Directors shall report on the Company's operations during the past year and its financial status at year's end.
- B** The Company's Financial Statements for the past year of operations along with comments by the Company's Auditor shall be submitted for approval.
- C** A decision shall be made as to the handling of profit or loss and about dividend and contributions to a reserve fund.
- D** Election to the Company's Board of Directors.
- E** Election of an auditor or auditing firm.
- F** Decision on remuneration to the Board of Directors, and if applicable to sub-committees of the Board.
- G** The Board's proposal on remuneration policy.
- H** Proposals from shareholders to be included on the agenda.
- I** Debates and voting of other matters, lawfully tabled.

One vote is attached to each ISK 1 of share capital. Shareholders may by means of a written proxy grant a third-party authority to attend shareholders' meetings and wield their voting right. The simple majority of votes will decide issues at shareholders' meetings unless alternative instructions are provided by law or PLAY's Articles of Association.

A shareholder has the right to have a matter addressed by the meeting if it falls within the competence of the General Meeting of Shareholders. The shareholder may demand a response in writing from the Board by the date announced on PLAY's website.

The minutes of the General Meeting of Shareholders and the voting results, if any, shall be made available to shareholders on PLAY's website.

Auditor

At the Annual General Meeting, an auditor or auditing company shall be elected for the Company. The auditor shall audit the Company's accounts and submit his conclusions to the Annual General Meeting. An Auditor may not be elected from the group of the Company's Directors or personnel. The operational and fiscal year is the calendar year. The Board of Directors shall have completed the preparation of the annual financial statements and submitted these to the Auditor no later than four weeks before the Annual General Meeting.

Board of Directors

The Board of Directors of the Company shall consist of five directors, elected at the Annual General Meeting for a term of one year at a time. An alternate director shall also be elected at the Annual General Meeting for a term of two years at a time. The Company's Board of Directors shall have ultimate authority in company dealings between shareholders' meetings. The signature of the majority of the Board of Directors obliges the Company.

Elections to the Board of Directors take place by majority vote, unless there is a legal requirement to the contrary, and shall normally be in writing if there are more candidates than are to be elected.

The two women and the two men who receive the most votes in board elections shall be considered duly elected, in addition to the candidate who receives the most votes out of the remaining candidates. The candidate that receives the most votes in the election to the alternate board shall be considered duly elected.

The Company's Board of Directors undertake company affairs and shall see to it that the Company's organization and activities be at all times in correct and good order. The Company's Board and the CEO undertake the administration of the Company.

The Board of Directors shall operate in accordance with the Board's rules of procedure set based on the Act on Limited Companies and the Corporate Governance Guidelines published by the Iceland Chamber of Commerce, Nasdaq Iceland, and SA Confederation of Icelandic Enterprise.

The Board's rules of procedure further stipulate the role and the tasks of the Board, the Chairman of the Board, and the CEO. The rules also detail the administration of Board meetings, conflict of interests, confidentiality, minutes of the meetings, and Board committees.

The Company's Board of Directors shall engage a General Manager/CEO and determine his terms of employment. The Board will also grant Power of Procurement of the following:

The Committees of the Board

The Board of Directors has established the three Board committees that each work in accordance with procedural rules applicable to their area of expertise.

- **The Risk Committee** shall act as an independent advisor on creating and following a risk policy and monitor material risk factors in the Company's operations. The members of the Risk Committee are Jón Þorsteinn Oddleifsson, Chairman, and Board members Einar Örn Ólafsson and María Rúnarsdóttir.
- **The Audit Committee** shall facilitate the quality of the Company's financial statements and other financial information. The committee shall also ensure that the Company's auditors are qualified and supervise processes with regard to accounting, financial risk monitoring, internal controls and auditing. The members of the Audit Committee are Jón Gunnsteinn Hjálmarsson (chairman) and Board members María Rúnarsdóttir and Elías Skúli Skúlason.

- **The Remuneration Committee** shall create a Company Remuneration Policy and carry out and monitor its implementation. The members of the Remuneration Committee are Atli Atlason (chairman) and Board members Auður B. Guðmundsdóttir and Guðný Hansdóttir.



Members of the Board and their independence and shareholding

The following individuals were elected to serve on the Board at the last Annual General Meeting, held on 12 April 2021.



EINAR ÖRN ÓLAFSSON
Chairman

Einar Örn Ólafsson is a shareholder in the Company through Fiskisund and is the chairman of the Board of Directors of PLAY. Einar is also the chairman of the Board of Terra hf. Einar was previously the general manager of Fjarðalax, CEO of Skeljungur and before that held various management positions in banking. Einar is also a significant shareholder and a board member of the majority owner of Stoðir hf., an investment company. Einar holds an MBA degree from NYU, Stern School of Business, and an industrial engineering degree from the University of Iceland. Einar Örn is considered to be independent from the Company and its management team but is not considered to be independent from large shareholders in the Company.



ELÍAS SKÚLI SKÚLASON
Vice Chairman

Elías Skúli Skúlason is a shareholder in the Company through FEA ehf. and is the vice chairman of the Board of Directors of PLAY. Elías Skúli has over 25 years of aviation and airline operations experience. Elías Skúli was one of the founders of Airport Associates (est. in 1997) and Bluebird Cargo (est. in 1999). At Bluebird Cargo, Elías Skúli served multiple key management roles, including CEO from 2007-2014. Elías Skúli is considered to be independent from large shareholders of the Company and its management team but is not considered to be independent from the Company.



AUÐUR BJÖRK GUÐMUNDSDÓTTIR
Board Member

Auður Björk Guðmundsdóttir is the COO of Info Capital ehf. Previously she was a managing director at Two Birds, a fintech company, from 2018 - 2022 and a managing director at VÍS Insurance from 2005-2018. Auður has extensive experience in marketing, management, and strategic planning. She holds an MBA degree from Reykjavik University, an AMP degree from IESE Business School in Barcelona and a BA degree in Communications, PR & Marketing from the University of South Alabama. In 2011-2012, Auður sat on the Board of Directors of Icelandair as an alternate member. She is currently a vice chairman of the Board of Directors of Iceland Post, member of the Board of Origo, Vörður Insurance and Icelandic Trademark Holding. Auður is considered to be independent from the Company, its management team, and large shareholders in the Company.



GUÐNÝ HANSDÓTTIR
Board Member

Guðný Hansdóttir is a shareholder in the Company through Dalía. Guðný has over 15 years of experience in the airline industry. Guðný served as a Managing Director of cabin crew for Icelandair. She served as VP of Human Resources at Air Atlanta for 5 years. Other previous positions include Foreign Marketing coordinator at Penninn Officeday, VP of Human Resources both for Skeljungur and Innnes. Guðný holds an MBA degree from the Florida Institute of Technology and a BS degree in Marketing from the same school. Guðný has been vetted through an eligibility assessment by the Financial Supervisory Authority in Iceland. Guðný sat on the boards of Parlogis and Mjöll Frigg. She is currently a board member of Frumherji and VÍS Insurance, as well as being on the Remuneration Committee and Auditing Committee of the latter. Guðný is considered to be independent from the Company, its management team and large shareholders in the Company.



MARÍA RÚNARSDÓTTIR
Board Member

María Rúnarsdóttir is an independent investor. María previously worked as the CFO of real estate company SMI ehf. and Korputorg ehf., a consultant at KPMG Consultants and CFO of Svar technologies. She was also one of the founders of MINT Solutions ehf. María currently sits on the board of numerous companies, including Arctica Finance hf., MINT Solutions BV., Umbra ehf., Uniconta Iceland ehf., NMR ehf., and EA14 ehf. María has an MBA degree from MIT (Massachusetts Institution of Technology) in the United States and a BSc degree in Business from Reykjavik University. María is considered to be independent from the Company, its management team and large shareholders in the Company.



SIGURÐUR KÁRI KRISTJÁNSSON
Alternate Board Member

Sigurður Kári Kristjánsson is an independent attorney at law and a partner of the law firm Lögmenn Lækjargötu, where he has practiced law since 2011. Sigurður Kári was a member of parliament from 2003-2009 and served intermittently as an alternate member of parliament until 2011. Sigurður Kári is considered to be independent from the Company, its management team and large shareholders in the Company.

CEO

The CEO or Chief Executive Officer (CEO) undertakes the main management of the Company's daily operations and represents the Company in all matters which pertain to ordinary operations. The CEO must obey the instructions of the Board of Directors. He is responsible for accounting and the engagement of personnel. The CEO shall grant Board members and special examiner or auditors all information they may request concerning the operation of the Company, which has to be granted according to law.

Management team



BIRGIR JÓNSSON
Chief Executive Officer

Birgir has extensive experience in international management and operations, including in airline operation, as CEO of Iceland Express and later Deputy CEO of WOW air. Birgir was Össur's Regional Director in Asia, based in Hong Kong. He lived and worked in Romania, Bulgaria and Hungary, where he was CEO of Infopress Group, one of the largest printing companies in Eastern Europe. He was CEO of Iceland Post and has also been involved in many projects in the field of restructuring and transformation across a diverse range of industries.

Birgir holds an MBA from the University of Westminster in London and a BA (Hons) from the University of the Arts London.



ÞÓRA EGGERTSDÓTTIR
Chief Financial Officer

Þóra is the CFO at PLAY and leads the division of Finance, which includes Legal. Þóra has over 17 years of experience working in finance, operations and business management. She also has a few years of aviation experience. Her latest position was Director of Regional Aviation within Icelandair and previously she worked as CFO and Director of IT at Air Iceland Connect. Prior to joining Air Iceland Connect she worked in a financial role within the energy sector and before that she worked for Morgan Stanley in Tokyo.

Þóra holds a bachelor's degree in Business Administration from Reykjavik University, a master's degree in Marketing from EADA University in Barcelona and an executive MBA from Reykjavik University as well as being a certified stockbroker.



ARNAR MAGNÚSSON
Chief Operations Officer and Founder

Arnar Magnússon is the COO and one of the founders of PLAY. Arnar has excellent leadership and management skills and over 14 years of experience within the aviation industry. Arnar worked for WOW air for six years before joining PLAY. He held various positions within the airline, such as VP of Operations/Accountable Manager and Director of Flight Operations. Arnar graduated as a licensed pilot from Oxford Aviation Academy in 2007 and worked as Chief Pilot, Captain and Training Captain for WOW air and as Captain for Ryanair.



GEORG HARALDSSON
Chief Commercial Officer/ Chief Information Officer

Georg Haraldsson is the CCO/CIO at PLAY and leads the division of Commerce, which includes Digital Development, Revenue Management, Sales & Marketing and Service Delivery. Georg has diverse experience. He worked as an Ecommerce and Distribution Manager for Iceland Express for 6 years and an Ecommerce Manager for Dohop for a year. Georg held the position of a Managing Director and Regional Sales Director in the Middle East for Marorka for a few years and as Product Director for Valka for a year. Then he held the position of a CCO at Iceland Travel for a year. For the last two years Georg worked as The Chief Information and Digital Officer at Pósturinn, the national postal service of Iceland.

Georg holds a bachelor's degree in Computer Science and a master's degree in International Business from the University of Reykjavik in association with IE Business School in Madrid.



DANÍEL SNÆBJÖRNSSON
Chief Network Officer

Daníel Snæbjörnsson is the CNO at PLAY. Daníel designs the network, focusing on optimizing PLAY's key resources, including fleet and slots, as well as monitoring market trends and searching for new destinations. Daníel has extensive experience within the aviation industry, having worked for both airports and airlines. Before joining PLAY, Daníel served as a manager within the network planning and scheduling team at Icelandair. From 2014 until 2019, Daníel was Vice President of Network Planning at WOW air. Before joining WOW air, Daníel co-founded Altitude Aviation Advisory, a UK based consultancy firm focusing on the aviation industry. Prior to that, Daníel worked as a consultant for AviaSolutions/GECAS from 2007 until 2013 and as an Aviation Analyst at Ascend Worldwide from 2006 to 2007, based in the UK. From 2004 to 2005, Daníel worked in operations at Íslandsflug and Air Atlanta Icelandic.

Daníel earned his bachelor's degree in Aviation Business Administration from Embry Riddle Aeronautical University. He later received a master's degree in Air Transport Management from Cranfield University. He holds an Icelandic Private Pilot's License.



JÓNÍNA GUÐMUNDSDÓTTIR
Chief People and Culture Officer

Jónína Guðmundsdóttir is the CPO at PLAY and leads the division of People and Culture, which includes the HR department, Payroll, Uniforms and Travel. Jónína's experience within the aviation industry includes her work for WOW air as Senior Vice President of Human Resources from 2015 until 2019. Before her career in aviation, she worked for the information technology service corporation Advania, as Human Resource Manager from 2012 until 2015. Jónína also worked in recruitment and as an HR consultant for Capacent from 2005 until 2012.

Jónína holds a bachelor's degree in Business Administration with a focus on tourism from the University of Akureyri and later earned a master's degree from Strathclyde University, where she studied Human Resources, focusing on the tourism and hospitality industries.

Share capital

The share capital of the Company is ISK 700,000,000 divided into share of nominal value of one Icelandic krona each share. Each share is in the same class with the same rights.

The whole of the shares of the Company are listed on the Nasdaq First North Growth Market Iceland. This market is an MTF (Multilateral Trading Facility), as defined in EU legislation and as implemented in national law. Issuers on Nasdaq First North Growth Market Iceland are not subject to all the same rules as issuers on a regulated main market, as defined in EU legislation. Instead, they are subject to a less extensive set of rules and regulations adjusted to growth companies. However, PLAY aims to conduct most of its obligations with regards to disclosures and other events in accordance with the stricter standards applied to a regulated main market.

Authorization to increase share capital

In addition to ISK 700,000,000 issued and outstanding shares, the Company's Board of Directors is authorized to increase the Company's share capital by up to 47,500,000 shares of nominal value to fulfil the Company's obligations with certain stock option agreements with the Company's employees. Shareholders have waived their pre-emptive rights to new shares that will be issued on the basis of this authorization. This authorization with regards to stock option agreements is valid until 12 April 2026.

The Company's remuneration policy establishes a share-based incentive program in the form of option rights. Several option agreements have been made with key employees, as detailed below. The purpose of

a long-term share-based incentive program is to align the interests of key employees with the long-term goals of the Company and its shareholders.

The Board of Directors of the Company has the authority to determine which employees are granted options and the specific terms thereof. The Company has entered into option agreements with certain employees of the Company. At the date of this Company description, there have been two types of agreements made, as detailed below.

- The Company has granted Birgir Jónsson, the CEO of the Company, an option to purchase shares in the Company as part of his remuneration. Birgir has an option to purchase a total of 13,636,366 shares at a purchase price of ISK 16 per share. The option has a vesting period of 36-48 months from the commencement of employment. The option vests in two parts, whereas 50% vests and becomes exercisable after 36 months and the remaining 50% vests and becomes exercisable after 48 months. In both instances, the exercise period is 6 months from vesting. The vesting of the option is subject to certain conditions as set forth in the option agreement.
- The Company has granted several members of the management team and other key employees options to purchase shares in the Company as part of their remuneration. The employees have options to purchase a total of 20,000,000 shares in the Company, at a purchase price of ISK 8 per share. These options have a vesting period of one year and become exercisable in April 2022. The exercise period is 12 months, until April 2023, at which point the options expire. The options may be exercised at any time during the exercise period.

New shares will be issued to honor the Company's commitments under the option agreements, if and when vested options are exercised, pursuant to an authorization in the Company's Articles of Association, granting the Board of Directors the authority to issue a total of 47,500,000 new shares in the Company for the purpose of granting options to employees. Accordingly, the Board of Directors can and may enter into additional option agreements with employees and grant options to purchase a total of 13,863,634 shares, in addition to the options for a total of 33,636,366 shares which have at the date of this Annual and sustainability report been granted. At the date of this Annual and sustainability report, no decision or plan has been made as to the issuance of these remaining options. The options may or may not be granted to employees, and if granted, the options will be subject to the terms and conditions as decided by the Company's Board of Directors.

The Company's Board of Directors is, following approval by the Company's Remuneration Committee, authorized to establish an alternative bonus scheme. The scheme may include payments and benefits to employees, including cash, special pension payments and share-related rights, including options to purchase shares. These bonuses are not part of the fixed terms of employment of employees.

A long-term share-based incentive program is to align the interests of key employees with the long-term goals of the Company and its shareholders

Legal factors

The aviation industry is a highly regulated industry. PLAY is subject to numerous national and international laws and regulations that impact the costs and competitiveness of the airline.

Such laws and regulations that are industry related include air traffic taxes, aviation security costs, passenger rights, take-off and landing rights, and night-flight bans. PLAY is also exposed to a range of measures related to the coronavirus pandemic such as constantly changing global border closures, minimum distance onboard, and quarantine regulations. These measures have seriously impacted airlines all over the world.

Ongoing development of aviation climate policy regulations reflects well how dynamic the legal environment of the airline industry is. For example, PLAY complies with the European Emissions Trading Scheme (EU-ETS), UK Emissions Trading Scheme (UK-ETS), and Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

Aviation climate regulation

The European Emissions Trading Scheme (EU-ETS) and the UK Emissions Trading Scheme (UK-ETS) are specific European legislations that all airlines which operate in the EU need to comply with. The EU-ETS is a cap-and-trade system under which airlines need to buy allowances to pay for their CO₂ emissions. The system is structured with the goal to decrease the number of allowances available for purchase in order to encourage sectors to decarbonize.

Specialists have different opinions about the ETS credit market. Critics argue that it has completely failed because companies have received too many free allowances (do not need to pay for part of their CO₂ emissions), and additionally the prices of the credits had been far too low to incentivize companies to minimize their CO₂ emissions, which was the main goal of the scheme. However, proponents of the

ETS credit market argue that rising prices will affect changes and that it takes time for such a widespread arrangement to leave a mark.

The allowances are sold in the form of ETS credits. The ETS credit market was stable for airlines until COVID-19. Over the last 12 months (January '21 - '22) the price of 1 ETS credit increased by 170%. When this is written the price of ETS credits is still increasing and reaching prices that are higher than general market analysis predicted. The credits are reaching prices that were expected to hit the market in 2030. This uncertainty affects PLAY, especially since the EU is not giving any free allowances to new airlines that entered the market in 2021 while the regulation is being reviewed.

According to the newest submissions to the revision of the scheme, PLAY can expect to receive free allowances for the operating year 2023 like other airlines. From 2024 to 2027, the EU plans to phase out the free allowances by 25% annually, which will impact all airlines that are subject to the EU ETS system. The goal of phasing out the free allowances is to encourage airlines (and other ETS compliant industries) to increase their emission reduction. The EU continues to provide free allowances to new air carriers to ensure equal treatment of carriers on the same routes during the phasing-out period.



In July 2021, the European Commission published the 'Fit for 55' legislative package, the EU's intermediate step towards the 2050 climate neutrality goals. As part of this legislative package, the European Commission proposed a legislation to support the uptake of sustainable aviation fuels (SAF) in the following steps:

2%

From 1 January 2025, a minimum volume share of 2% of SAF.

5%

From 1 January 2030, a minimum volume share of 5% of SAF, of which a minimum share of 0.7% of synthetic aviation fuels.

20%

From 1 January 2035, a minimum volume share of 20% of SAF, of which a minimum share of 5% of synthetic aviation fuels.

32%

From 1 January 2040, a minimum volume share of 32% of SAF, of which a minimum share of 8% of synthetic aviation fuels.

38%

From 1 January 2045, a minimum volume share of 38% of SAF, of which a minimum share of 11% of synthetic aviation fuels.

63%

From 1 January 2050, a minimum volume share of 63% of SAF, of which a minimum share of 28% of synthetic aviation fuels.

In addition to the EU-ETS and UK-ETS, PLAY needs to comply with Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), a carbon offset and carbon reduction scheme. The goal of CORSIA is that airlines and other aircraft operators will offset any growth in CO₂ emissions above 2019 levels. The purpose is to stabilize the aviation industry's net CO₂ emissions, while other emissions reduction measures, such as technology and sustainable aviation fuel, are pursued. The main difference between CORSIA and the EU/UK ETS credits is that airlines can buy carbon credits on the carbon voluntary market and can use it to carbon offset the company's CO₂ emissions, that is, compensate for its pollution.

The carbon market is growing tremendously, with several types of projects behind the carbon credits. Airlines need to be aware that they need to buy specific carbon credits that are verified by a third party and be CORSIA compliant. PLAY will disclose and submit carbon credits in 2024 for the operating years 2021 to 2023.

A few words about the voluntary carbon market

The voluntary carbon market enables businesses, governments, nonprofit organizations, universities, municipalities, and individuals to compensate for emissions outside a regulatory regime with offsetting by buying and retiring carbon credits. Think of carbon credits as a "currency" that a company uses to pay for its unavoidable emissions. For each ton of CO₂ a company emits, it buys an equivalent amount of registered carbon credits.

Carbon credits are generated by projects that avoid, reduce or remove greenhouse gas emissions (GHG) beyond a business-as-usual scenario. Examples of such projects are afforestation, reforestation, improved forest management, restoration of wetlands, renewable energy transition, clean cookstoves, and direct air-capture, to name a few.

The majority of projects are validated and mitigations verified by a third-party certification body that collects and analyzes monitoring data to confirm the validity of each offset project and its mitigations. However, not all mitigation actions are verified but it is important for all organizations to only choose projects that are validated and verified and registered with unique serialization of carbon credits to promote the highest standards and to prevent greenwashing.

4.

Financial Statement



Endorsement and statement by the Board of Directors and the CEO

Fly Play hf. (the Company) is an Icelandic airline established in March 2019 and listed on the Nasdaq First North Iceland in July 2021. On 24 June 2021, PLAY started operating scheduled flights when it flew its first flight to London.

PLAY is a low-cost airline operating flights between Iceland and Europe. PLAY offers low-cost flights and a safe and pleasant journey in new and comfortable Airbus aircraft. PLAY's primary goal is to make flying affordable for everyone.

The Financial Statement for the year 2021 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and additional Icelandic disclosure requirements. The Financial Statement are presented in US dollars, which is the Company's functional currency. The Financial Statement have been audited by the Company's independent auditors.

The Company did adopt and implement International Financial Reporting Standards (IFRS) for the Financial Statement by the end of year 2021. The implementation resulted in no material changes in accounting principles, nor any material effect on the Company's financial position, see further in note 5.

Financial year 2021

According to The Financial Statement total loss for the year was USD 22.5 million. Equity on 31 December 2021 amounted to USD 67.4 million, including share capital in the amount of USD 5.6 million and share premium of USD 85.4 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 80 in the year 2021, thereof 42 men and 38 women (2020: total 38) and salaries and related expenses amounted to USD 8.6 million in the year 2021 (2020: USD 0.3 million).

PLAY holds a strong cash position with total liquidity of USD 27.4 million and cash and cash equivalent amounted to USD 51.7 million on 31 December 2021. This strong cash position enables PLAY to pursue business opportunities, follow through with its business plan, and be prepared for turbulent market conditions.

PLAY took delivery of three Airbus A321neo in 2021. All three aircraft in operation are on favorable post-COVID market terms and had a power-by-the-hour (PBH) arrangement until year-end 2021. In September, PLAY signed an agreement with GE Capital Aviation Services (GECAS) to lease three A320neo and one A321neo aircraft that will all join the fleet before the summer schedule 2023. The aircraft will be delivered to PLAY from August 2022 through February 2023 but will be in a storage program until joining the fleet in time for the summer schedule 2023.

The COVID-19 pandemic and the associated travel restrictions impacted the global aviation industry, as well as PLAY's business in 2021. Booking trends have been less predictable than under normal circumstances. Changes to travel restrictions, a surge in COVID-19 cases and lockdowns in markets served by PLAY have caused hesitation and uncertainty amongst our customers.

The surge in new COVID-19 cases in Iceland and Europe that started in the middle of December did have a negative impact on bookings. As a result, we made adjustments to our schedule for January and February. The number of seats on sale in January and February was 38% and 18% lower than our original plan, respectively.

PLAY has signed a labor agreement with The Icelandic Aviation Union (Íslenska Flugstéttarfélagið) which expires in 2025. As part of its contractual obligations, PLAY cannot enter labor negotiations with other labor unions. However, around mid-year 2021, the Icelandic Cabin Crew Association (Flugfreyjufélag Íslands) indicated it might take actions against PLAY if the Company does not sign a labor agreement with its members. PLAY is not aware of any such actions or preparations for such actions being taken.

Outlook in 2022

PLAY believes flexibility in scaling production to the demand has been crucial for the company, and we will continue to do so while the pandemic is still with us. Our focus will be flexibility, demand-driven growth, and attractive offering to the market with the best prices and positive climate actions. PLAY is well prepared to weather the uncertainty with its strong financial position.

Endorsement and statement by the Board of Directors and the CEO

Outlook in 2022

During the first weeks of 2022, we have seen that consumer confidence has begun to return as booking trends have been strengthening. Customers are again booking trips with short notice with the confidence offered by PLAY's Flexibility Policy as well as booking their holidays next summer. This is an indicator that people are ready to travel again.

In 2022, PLAY will serve 22 destinations in Europe and 4 in North America using a fleet of 6 aircraft. In spring 2022, we will start services to the U.S. and at the same time move from a point-to-point network to a hub-and-spoke network. Our flights to the U.S. will strengthen PLAY's foundation as we open up the U.S. – Iceland market to low-cost travel and facilitate connections for passengers that want to take advantage of low-cost travel between the U.S. and Europe.

Share capital and resolutions

PLAY aims to deliver to 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 no dividend payment to shareholders in 2022 for the year 2021 and refers to the Financial Statement regarding the treatment of loss and other changes in equity accounts.

The number of shareholders at year-end 2021 was 2,433 (2020: 1). At year-end 2021 the 10 largest shareholders were:

	Number of Shares in ISK thousand	Shares in %
Fiskisund ehf.	60,500	8.6%
Birta lífeyrissjóður	59,948	8.6%
Stoðir hf.	45,000	6.4%
Akta Stokkur hs.	37,566	5.4%
Arion banki hf.	28,495	4.1%
Fea ehf.	28,185	4.0%
Eignarhaldsfélagið Mata hf.	25,089	3.6%
Lífsværk lífeyrissjóður	23,260	3.3%
IS EQUUS Hlutabréf, Íslandssjóðir hf.	21,882	3.1%
Dalía ehf.	21,102	3.0%
10 largest shareholders total	351,026	50.1%
Other shareholders	348,974	49.9%
	700,000	100.0%

Endorsement and statement by the Board of Directors and the CEO

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 2021. The Board of Directors is composed of five members, thereof two men and three women.

Further non-financial reporting information and details of corporate governance are accessible in PLAY's Annual and Sustainability Report 2021 on PLAY website.

Information on matters related to financial risk management is disclosed in note 28.

Statement by the Board of Directors and the CEO

We hereby confirm that the Financial Statement for the year 2021, 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 Financial Statement 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 Financial Statement of PLAY for the period of the year 2021 and confirm them by means of their signatures.

Reykjavik, March 16, 2022

Board of Directors:

Einar Örn Ólafsson, Chairman of the Board
Skúli Skúlason
Guðný Hansdóttir
María Rúnarsdóttir
Auður Björk Guðmundsdóttir

CEO:

Birgir Jónsson

Independent auditor's report

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

Opinion on the financial statement

Opinion

We have audited the accompanying Financial Statements of Fly Play hf. (hereafter the Company) for the year 2021. The Financial Statement comprise the Statement of Income, the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, the Changes in Equity, a summary of significant accounting policies and other explanatory information.

In our opinion, the Financial Statement present fairly, in all material respects, the results of operations of the Company for the year 2021, its financial position as of December 31, 2021, and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the Financial Statements Act.

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 Financial Statements section of our Report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in Iceland, and we have fulfilled all ethical requirements therein. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for the year 2021. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In our opinion, the following matters were key audit matters:

Explanation of key audit matter	Responses to key audit matter
<p>Revenue recognition</p> <p>Airfare and ancillary sales are presented as deferred income in the statement of financial position from the date of transaction until the purchased services have been rendered. When transport has been provided the sale is subsequently recognized as revenue.</p> <p>This added complexity increases the inherent risk related to the timing of revenue recognition. Therefore, the occurrence and accuracy of recorded revenue due to airfare and ancillary sales were regarded as key audit matters in the audit of the Financial Statements.</p> <p>See note 6 on revenue and note 26 on deferred income. Significant accounting policies are found in notes 31 (b) and 31 (m).</p>	<p>In our audit of revenues, we have assessed controls relating to revenues in the Company. We have also tested certain controls relating to revenue recognition. We have reviewed and evaluated the IT control environment in the Company, including a review of how access to finance and accounting related IT systems is controlled.</p> <p>We designed our audit procedures to meet the added risk related to the timing of revenue recognition. This included performing analytical procedures to confirm that revenue recognition coincided with performance obligations being met and testing the reconciliations between the revenue accounting system and the general ledger.</p>

Independent auditor's report

Explanation of Key Audit Matter	Responses to Key Audit Matter
<p>Valuation of intangible assets</p> <p>During the startup phase of the Company, costs relating to the startup phase have been capitalized long-term costs within intangible assets. Their useful lifetime has been estimated between 5-10 years, depending on the nature of costs. Due to the nature of this capitalization being outside the Company's normal operations post the commencement of revenue producing flights, we have considered the valuation of these assets as a key audit matter for the year 2021. See note 13 on intangible assets and 31 (g) for significant accounting policies.</p>	<p>In our audit, we assessed controls relating to capitalized long-term costs. We examined the capitalization with regard to the requirements of IAS 38 Intangible Assets, and we reviewed the estimates made by management with regard to useful lives and their evaluation with regard to the existence of impairment events. We furthermore recalculated depreciation.</p>

Other Information

The Board of Directors and the CEO are responsible for all information presented by the Company, both the Financial Statements as well as other information. Our opinion does not cover other information other than what we specifically discuss in our opinion here above. The other information comprises, for example, the endorsement of the Board of Directors and the CEO and the information included in the Annual Report, but does not include the Financial Statements and our Auditor's Report thereon. Our opinion on the Financial Statements does not cover other information issued by the Company, and we do not express any form of assurance on the information in those documents thereon. In connection with our audit of the Financial Statements, our responsibility is to read

the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements, our knowledge obtained in the audit, or otherwise appears to be materially misstated.

In accordance with the provisions of Article 104, paragraph 2 of the Icelandic Financial Statements Act No. 3/2006, we confirm that the Statement by the Board of Directors and CEO accompanying the Financial Statements includes at least the information required by the Financial Statements Act if not disclosed elsewhere in the Financial Statements.

The Board of Directors and CEO's responsibilities for the Financial Statement

The Board of Directors and CEO are responsible for the preparation and fair presentation of the Financial Statement in accordance with International Financial Reporting Standards as adopted by the EU and the Financial Statements Act, and for such internal control as management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Board of Directors and CEO are responsible for assessing the Company'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 CEO either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Board of Directors and the Audit Committee are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the 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.

Independent auditor's report

Auditor's Responsibilities for the Audit of the Financial Statements

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 Financial Statements.

- Identify and assess the risks of material misstatement of the 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 the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. Conclude on the appropriateness

of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether material uncertainties exist related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's Report to the related disclosures in the 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 Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated 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 identified during our audit. Our Audit Report, which has been provided to the Board of Directors and the Audit Committee, reports these matters and is in accordance with this report.

From the matters communicated with the Board of Directors and the Audit Committee, we determined those matters that were of most significance in the audit of the Financial Statement the year 2021 and are therefore the key audit matters. We describe these matters in our Auditor's Report unless law or regulations 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.

We were first elected auditors for the Company in 2020 starting with the 2019 Financial Statements. This is our third consecutive year as the Company's auditor.

On behalf of Grant Thornton endurskoðun ehf.
J. Sturla Jónsson, State Authorized Public Accountant

J. Sturla Jónsson
Reykjavík, March 16, 2022

Income statement and other comprehensive income for the year 2021

	Notes	2021	2020
Revenue			
Transport revenue	6	16,436	0
Operating expenses			
Aviation expenses	7	18,259	0
Salaries and other personnel expenses	8	8,602	338
Other operating expenses	9	5,754	1,303
		32,614	1,641
Operating loss before depreciation, financial items and tax (EBITDA)		(16,178)	(1,641)
Depreciation and amortization	10	8,484	0
Operating loss (EBIT)		(24,662)	(1,641)
Financial income and expenses			
Financial income		491	0
Interest expense		(2,416)	(45)
Foreign exchange		(1,886)	(227)
	11	(3,811)	(272)
Loss before tax (EBT)		(28,473)	(1,913)
Income tax	12,18	5,939	0
Loss for the year		(22,534)	(1,913)
Total comprehensive loss for the year		(22,534)	(1,913)
Earnings per share			
Basic and diluted earnings per share in US cent	22	(6.1)	(4.6)

All amounts are in USD thousands

Statement of Financial Position on 31 December 2021

	Notes	2021	2020
Assets			
Intangible assets	13	10,677	6,366
Right-of-use assets	14	117,082	0
Operating assets	15	3,821	0
Aircraft deposits & security instalments	17	7,772	0
Deferred tax assets	18	5,939	0
Non-current assets		145,291	6,366
Inventories	19	282	0
Trade and other receivables	20	6,660	230
Prepaid expense		116	0
Cash and cash equivalents		51,731	7
Current assets		58,789	237
Total assets		204,080	6,603
Shareholders' equity			
Share capital		5,606	417
Share premium		85,371	0
Other components of equity		11,674	6,366
Accumulated loss		(35,254)	(8,766)
Total shareholders' equity	21	67,397	(1,983)
Liabilities			
Provisions	23	23,317	0
Lease liabilities	24	81,990	0
Non-current liabilities		105,307	0
Related parties		0	7,207
Provisions	23	6,589	0
Lease liabilities	24	8,467	0
Trade and other payables	25	9,224	1,379
Deferred income	26	7,096	0
Current liabilities		31,376	8,586
Total liabilities		136,682	8,586
Total shareholders' equity and liabilities		204,080	6,603

All amounts are in USD thousands

Statement of changes in equity for the year 2021



	Share capital	Share premium	Other components of equity	Accumulated loss	Total equity
2020					
Balance at January 1, 2020	417	0	2,121	(2,608)	(70)
R&D reserve transfers			4,245	(4,245)	0
Total comprehensive loss			0	(1,913)	(1,913)
Balance at December 31, 2020	417	0	6,366	(8,766)	(1,983)
2021					
Balance at January 1, 2021	417	0	6,366	(8,766)	(1,983)
Share capital decrease netted against losses	(357)			357	0
Debt converted to share capital	784	9,216			10,000
Share capital increase	4,762	76,155			80,917
R&D reserve transfers			4,311	(4,311)	0
Stock options			997		997
Total comprehensive loss				(22,534)	(22,534)
Balance at December 31, 2021	5,606	85,371	11,674	(35,254)	67,397

All amounts are in USD thousands

Statement of cash flows for the year 2021

	Notes	2021	2020
Cash flows used in operating activities			
Loss for the year		(22,534)	(1,913)
Adjustments for			
Depreciation and amortization	10	8,484	0
Net finance expense		3,811	285
Stock options		997	0
Income tax	12	(5,939)	0
		(15,181)	(1,628)
Changes in operating assets and liabilities			
Inventories, increase		(282)	0
Trade and other receivables, increase		(6,546)	32
Trade and other payables, increase (decrease)		13,235	(76)
		8,113	(44)
		(8,774)	(1,672)
Cash used in operations before interest and taxes			
Financial income received		426	0
Foreign exchange difference, realized		(160)	0
Interest paid		(2,350)	0
		(10,858)	(1,672)
Cash flows to investing activities			
Deposits	17	(7,889)	0
Investment of operating assets	15	(3,972)	0
Investment of intangible assets	13	(5,171)	(4,245)
		(17,032)	(4,245)

All amounts are in USD thousands

Statement of cash flows for the year 2021, contd.:

	Notes	2021	2020
Cash flows from financing activities			
Repayment of lease liabilities	24	(2,374)	0
Loans from shareholders		2,793	5,800
Proceeds from share issue	21	80,917	0
Net cash from financing activities		81,336	5,800
Increase / (decrease) in cash and cash equivalents		53,446	(117)
Effect of exchange rate fluctuations on cash held		(1,722)	0
Cash and cash equivalents at the beginning of the year		7	124
Cash and cash equivalents at year end		51,731	7
Investment and financing without cash flow effect			
Acquisition of right-of-use assets	14	(92,877)	0
New leases		92,877	0
Capitalized maintenance obligation under lease	24	31,612	0
New leases		(31,612)	0
Loans from shareholders	21	(10,000)	0
Share capital increase		10,000	0

All amounts are in USD thousands



5.

**Report on
Sustainability**

Sustainability

PLAY – We are Safe, Simple and Sustainable

From day one we have taken our commitments to run a sustainable airline very seriously. We do not pretend to be perfect in all our sustainability actions but we will always seek to do our best at every step of the way.

During our first year of operation, we started to work on our sustainability initiatives. What we have accomplished so far on our sustainability journey is the following; conducted a materiality assessment, built our sustainability strategy, set our sustainability targets and KPI's, measured our carbon emissions (scope 1, 2 & 3), disclosed ESG report according to Nasdaq 2.0 reporting guide (see page 87) and received independent verification on scope 1 & 2 (see Assurance statement on page 92).

It was clear from the start that the only fleet suitable for PLAY was the most modern and fuel-efficient aircraft to minimize fuel cost and carbon emissions. For that reason, PLAY only operates narrowbody Airbus A320/321 neo aircraft.

We believe that taking meaningful actions to counteract climate change that affects both societies and nature is as important as our business efficiency.

We will not wait for the zero-emissions technology to take action, although we monitor all innovation closely. Meanwhile, we will set our focus on our KPI's towards carbon neutral operations, circular thinking and implementing sustainable aviation fuel.

We aim to establish partnerships and collaboration with-in the tourist industry, universities, tech- and innovative companies and any other likeminded entities that share this incentive to work toward a more sustainable world. We are excited for our future collaboration.

We seek to embed sustainability into PLAY's DNA. Focusing on climate actions, our employees' and customers' welfare, circularity, being a future-proof company with responsible business practices, will enable us to run a playful and sustainable business.

All our sustainability initiatives are accessible on our website.

With our sustainability strategy, goals, and actions we are determined to utilize our operations to have a positive impact on the world. This enables us to minimize sustainability-related risks and seek potential opportunities – to serve our customers better, avoid unnecessary costs and realize financial savings.

How do we make sure that the world is better off because PLAY is in it?



We take responsibility for our impact



We focus on long-term value and vision



We seek to know all our stakeholders and meet their requirements



We embrace collaboration and transformative change beyond our company

Our sustainability focus

Most Material Topics

To create a sustainability strategy that brings out the best in PLAY and is impactful for PLAY’s stakeholders we found it important to conduct a double materiality assessment to prioritize the most material topics related to ESG.

The assessment was carried out in a few steps with support from sustainability consultants at Ernst & Young (EY) in Iceland. First, a long list of potential sustainability topics and megatrends were collected, followed by a workshop with the executive team where the goal was to locate PLAY’s biggest impact on ESG matters. The long list of sustainability topics and megatrends were thoroughly discussed and then used to determine the most material topics for PLAY. Those topics were then gathered in a survey that was sent out to two important stakeholder groups; all our employees, and our largest shareholders.

The outcome of the survey, interviews and workshop with the executive team are shown in the materiality matrix (pictured on the right) that plots stakeholders prioritization against business impact for each topic. The topics are all within the highest priority field in the materiality matrix.

**Some issues which are important to the business as a whole may not be prioritized in this matrix. The assessment focuses on sustainability topics not specific operational topics.*



Sustainability KPI's

Our focus is to build a strong and ambitious foundation for a safe take-off

The results from the materiality assessment gave us the foundation needed to build our sustainability strategy and KPI 's, and furthermore in choosing the Sustainable Development Goals that align with our focus areas.

ENVIRONMENTAL FACTORS		12 RESPONSIBLE CONSUMPTION AND PRODUCTION 	13 CLIMATE ACTION 	SOCIAL AND GOVERNANCE FACTORS			5 GENDER EQUALITY 	8 DECENT WORK AND ECONOMIC GROWTH 	17 PARTNERSHIPS FOR THE GOALS 	
Climate Action	Circularity	Wellbeing			Future of work			Responsible Business		
Measuring and reducing GHG emissions. Offsetting GHG emissions in a responsible way. Responsible procurement.	Circularity at PLAY. Procurement.	Health and safety. Non-discrimination. Responsible marketing.			Diversity & inclusion. Labor practices. Board diversity.			Data security and privacy. Ethics and anti-corruption. Social impact of services. Risk management. Supplier code of conduct.		

Our sustainability strategy

PLAY enables people to travel and discover the world in a responsible way, so we can, for the foreseeable future, continue to experience what the world has to offer.

We raise awareness of sustainability and are determined to utilize our operations to have a positive impact and a meaningful engagement with all our stakeholders.



CLIMATE ACTION Greener flights

Our focus to minimize our climate impact;

- Fuel-efficient aircraft fleet
- On a journey toward carbon neutral operations
- Reduce fuel consumption with fuel-saving initiatives



RESPONSIBLE BUSINESS Our impact

To succeed as a responsible business, we;

- Build relationships and partner up with like-minded companies, and NGOs
- We take every opportunity to raise awareness of sustainability for our customers and everyone that is interested
- We communicate our effort and actions to all stakeholders



FUTURE OF WORK Our valuable employees

We seek to;

- Provide our people with the best work environment and culture that attracts and retains the best talent
- Provide equal opportunities, celebrate diversity and involve every employee's ideas, knowledge, and perspectives
- We equip our people to adapt to changes in the industry



CIRCULARITY Reduce, reuse and recycle

Our approach to circularity;

- Waste prevention with initiatives to reduce the total amount of waste
- Minimize all unnecessary packaging by optimizing procurement
- Eliminate single-use plastic while fulfilling regulations
- Collaborate with relevant partners to create circularity initiatives that fulfil strict industry regulations



WELLBEING Health and safety

We ensure wellbeing for everyone that PLAY impacts by:

- Establishing a supportive and playful culture
- Providing employees with comfortable uniforms and shoes that are meant for working on their feet
- We respect and react to the impact a worldwide pandemic has on mental health and fatigue, both physically and emotionally

The Environment

Environmental goals for 2025

The materiality assessment results gave clear indicators on what to focus on within the environmental topics. Accompanied with those priorities, there was a consensus within the executive team that the goal of working toward carbon neutrality should be a high priority.

#1

On a journey towards carbon neutral operations

#2

Circular thinking in all our operations

#3

Responsible procurement

How we will achieve our environmental goals?

- Sustainable aviation fuel – will have an important role in making flying more environmentally friendly. PLAY's goals in implementing SAF is more ambitious than EU laws and regulations demand. By 2025, SAF will be at least 5% of our fuel consumption, EU law only requires 2%.
- Carbon offsetting strategy – plays a significant role in our journey toward carbon neutral operations. The new strategy will be approved by the Board in Q2 2022, followed by implementation. The strategy will be published on our website.
- GHG reduction plan – we have calculated PLAY's carbon footprint baseline. Next is to set a reduction strategy followed by an action plan throughout 2024. The reduction strategy will be published in Q2 2022.
- Circular thinking in our operations – for us to succeed in being a circular company, it is crucial that all employees understand it. In Q2 2022, PLAY's circularity strategy will be published with an action plan for our operations throughout.
- Responsible procurement – every company can have a great impact by implementing a procurement strategy with a focus on sustainable and ethical products. That is exactly what PLAY will do. In Q2, the procurement strategy will be approved, followed with introduction to all relevant stakeholders and implementation in all business units.



The Environment

We care about the nature and the effect we have on the environment

Most material – Environmental priority

It is obvious that PLAY's biggest impact on climate and the environment is through our aircraft. According to the materiality assessment, as mentioned before, focusing on our aircraft, and constantly taking actions toward increased fuel efficiency to decarbonize our flights is important. Furthermore, jet fuel is the single biggest cost to PLAY's business. Therefore, addressing fuel consumption is a clear win.

These are not new notions to us; we have already taken actions to address this.

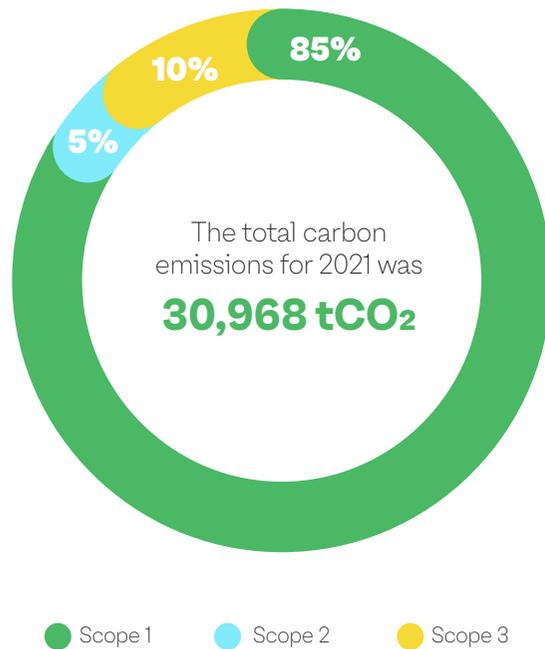
- We only operate a young and modern fleet, A320neo and A321neo, which are two of the most fuel-efficient aircraft in the industry today. That means our aircraft emit the least amount of CO₂.
- From day one, we have implemented fuel efficiency initiatives. It does not make sense to fly across the ocean with more fuel than needed, with regard to both emissions and financial cost.
- We constantly seek to optimize quantities of supplies on board to prevent us from flying over the Atlantic Ocean with unnecessary supplies.

We offer travelers one of the most environmentally-friendly options when flying across the Atlantic Ocean

As we started our operations in June 2021, we will see an increase in our carbon emissions in 2022. We will continue to constantly improve our fuel efficiency initiatives, optimize our onboard weight, maintenance, and work with our pilots on how to fly more efficiently. Utilizing the newest technology and information is important, and we monitor transformative changes in the aviation industry.

The Environment

Carbon Accounting



Our Scope 1 and 2 carbon emissions have been verified by Verifavia, an external verification body. Please see the assurance statement from Verifavia on page 92.

PLAY's single biggest source of emissions is generated from fuel. Scope 1 is by far the largest footprint at **81%**, and together with purchasing and delivering fuel from our fuel supplier (Scope 3), being responsible for **98%**.

We use Greenhouse Gas Protocol Standard guidelines and DEFRA* conversion factors to calculate our carbon footprint.

Calculating our Carbon Emissions - Methodology

In line with the Greenhouse Gas Protocol, we categorize our emissions in direct and indirect emissions, that is in Scope 1, 2 and 3. Scope 1 is our direct emissions, covers jet fuel usage, deicing fluid and diesel/petrol for company-owned cars. Scope 2 is our indirect emissions and covers ground electricity consumption and hot water usage. Scope 3 is also for our indirect emissions from products and services we buy (food and drinks we sell onboard, etc.), waste generation, business travel, employee commuting, and transportation of products and services we purchase.

Though this is our first emissions calculation, we want our calculations and data collection processes to be excellent in terms of accuracy and coverage. We are fully aware that we will need to improve the process in collaboration with our suppliers to receive as accurate data as we possibly can.

*DEFRA are conversion factors allowing organizations and individuals to calculate greenhouse gas (GHG) emissions from a range of activities. Produced by AEA in the UK: <https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2021>

Carbon Accounting 2021

	Total tCO ₂	% of total tCO ₂
Scope 1		
Jet fuel	25,139.96	81.18%
Deicing fluid	18.93	0.06%
Diesel and petrol	0.75	0.00%
Total Scope 1	25,159.64	81.24%
Scope 2		
Electricity HQ and Keflavik Airport	1.26	0.00%
Heating HQ	7.10	0.02%
Total Scope 2	8.36	0.03%
Total Scope 1 and 2	25,167.99	81.27%
Scope 3		
Cat. 1 - Purchased good and services	34.60	0.11%
Cat.3 - Distribution of fuel purchased from fuel provider*	5,256.01	16.97%
Cat. 4 - Upstream transport and distribution - Distribution of products and resources we purchase	396.73	1.28%
Cat. 5 - Waste**	22.44	0.07%
Cat. 6 - Business travel	19.56	0.06%
Cat. 7 - Empl. commute**	70.72	0.23%
Total scope 3	5,800.07	18.73%
Total Scope 1,2 & 3	30,968.06	

*Average - data method used.

** Estimated numbers. Our emissions from these sources combined are only 0.3% of our total carbon emissions. The effects of these estimations are very small when looking at the overall picture.



The Environment

We care about the nature and the effect we have on the environment

The journey toward becoming a carbon neutral company

For a company to reach and sustain carbon neutrality, it first needs to set a clear GHG reduction plan on how it will decrease the company's carbon emissions (CO₂) as much as it can. Coupled with reducing CO₂, a company needs to invest in carbon offset credits to balance out the remaining amount of carbon emitted by its operations. In the aviation industry, airlines will also rely on sustainable aviation fuel (SAF) on their journey towards carbon neutral operations.

If all carbon emissions produced by the company are equal to the amount of emissions being reduced through their carbon offsets, the company is considered carbon neutral.

We are starting our journey toward becoming a carbon neutral company.

Sustainable Aviation Fuel (SAF)

Sustainable aviation fuel is very similar in its chemistry to traditional jet fuel, but impressively reduces carbon emissions by up to 80%⁶ over the lifecycle compared to conventional jet fuel. That is why it plays a critical role in an airline's journey to become greener and reaching carbon neutrality. How sustainable SAF is depends on the feedstock it consists of, production method, and the supply to the airport.

For example, the feedstock used to produce SAF is cooking oil and other non-palm waste oils from animals or plants; solid waste from homes and businesses, such as packaging, paper, textiles, and food scraps that would otherwise go to landfill or incineration; forestry waste, such as waste wood; and energy crops, including fast growing plants and algae. Synthetic fuel is also classified as SAF, which is made of CO₂, hydrogen and green energy.

SAF will be an important energy source for PLAY both to make flights more environmentally friendly and in our journey toward carbon neutrality.

Why don't we recycle the waste on board?

We wish we could! But according to European regulations and Icelandic laws⁷, we cannot recycle food and beverages that enter our aircraft. All waste needs to be incinerated. This is a problem we cannot control or change, but what we can do is to find the most optimal packaging that emits the least amount of GHG during incineration. This is how we approach circular thinking!

6. IATA

7. The European Directive; article 8 EB1069/2009 and implemented to Icelandic regulations; reg. 674/2017.

The Environment

How we approach our carbon offsetting strategy and the implementation of Sustainable Aviation Fuel

It is no secret that the aviation industry is a polluting industry. The environmental impact of flying is high, and travelers are increasingly choosing brands with clear sustainable practices.

Unfortunately, the aviation industry still needs to rely on kerosene (jet fuel), and for that reason, it is difficult to decarbonize flights. **But we are not using that as an excuse for not taking action.**

As already explained, we have measured all our CO₂ emissions, and we have set controllable KPIs with a clear GHG reduction plan on emissions.

Where we do not have full control, there are two options to decarbonize and minimize our impact on climate.

Two ways we can minimize our impact

#1

Buy Carbon Credits –

We are fully invested in using the best options that fit PLAY at any given time. We go through a rigorous process in selecting carbon credit projects and set clear and strict criteria when choosing a portfolio of carbon credits:

- **Community benefits** – Protect habitats, jobs and create employment, provide access to clean and affordable energy, enhance biodiversity and increase clean atmosphere.
- **Due diligence** – All projects be validated, impacts monitored and verified, registered, and retired when used for offsetting.
- **Additionality** – All projects would not have occurred without the existence of the voluntary carbon market.

#2

Sustainable Aviation Fuel –

Until we see breakthrough in aircraft technology, we need to rely on SAF in aviation carbon reductions. We seek to establish partnerships with innovative clean tech companies that are/will produce SAF. We are especially interested and excited for the future production of synthetic fuel in Iceland due to access to clean renewable energy. When choosing a fuel supplier, we set requirements that they can provide us with SAF in accordance with regulations in the countries we operate in.

We monitor the SAF market and other technologies very closely and have high hopes for its potential.

Social Impact

Social goals for 2025

For PLAY to build and withstand a safe, supportive and playful culture is a key element to our success.

As a listed company with high growth goals, PLAY takes its role of being a responsible business very seriously. We are in a great position to have a positive impact on the communities we operate in. Furthermore, we want to raise awareness of sustainability in the aviation industry, for our customers and everyone that is interested in learning about it.

#1

Safe, supportive and playful culture

#2

Equal pay and opportunities

#3

Create a positive impact with partnerships in our destinations

#4

Raise awareness regarding sustainability in the aviation industry



How will we achieve our social goals?

- We are one team at PLAY. Our employees are engaged and proud of their company. We will work hard and stay focused on maintaining job satisfaction scores from employee surveys of at least as high as we have already measured.
- Building and sustaining a diverse and inclusive workforce takes training and access to information on the topic. We will offer diversity and inclusive training for our employees on a regular basis.
- We received an equal pay certificate in 2020. By following our current procedures we will sustain that certificate.
- Equal gender ratio in the management team has been a priority from day one. That won't change.
- We don't tolerate harassment or discrimination. For every employee to be familiar with and understand our policy, we take all our employees through an annual, recurring training program on our anti-harassment and no-discrimination policy.
- Partnerships and collaborations are key elements for every company to succeed on their sustainability journey. We aim to create partnerships with like-minded tourist companies that have high sustainability ambitions at all our destinations.
- PLAY is in a key position to raise awareness on sustainability. We will employ our connections and access to our customers to bring sustainability in the aviation industry to public attention.

Social Impact

Future-proof company

From day one, we focused on providing our people with the best work environment and culture. We believe that an excellent work environment, flexibility, and an effective culture are not nice to have but a must have to attract and retain the best talent. We want our people to notice that we provide equal opportunities, that we celebrate diversity, and every employee's idea, knowledge and perspective is important. To succeed in a competitive market and a fast-growing industry, we encourage and support our people to adapt to changes in the industry.

Our employees

Our employees are the core of our business, and together we are one team. Our goal is to keep hiring professional with a great attitude who will help us strengthen our team. We encourage open communication and aim to create an environment where our people can evolve their roles within the company.

At the
start of 2021

39
employees
in **28**
full time positions

At the
end of 2021

150
employees
in **131**
full time positions



**In summer
2022**
we are expecting
to have approx.

300
employees

We will not only hire new crew members as an increase in our aircraft fleet creates a need for new employees in various functions.

Due to the way we operate, the health and safety of our employees are a high priority. During COVID-19, we followed preventive measures to ensure that our employees felt safe and healthy at work, both physically and mentally. We divided workspaces, socially distanced and implemented other measures to minimize the risk of transmission. For example, we implemented EASA guidelines for COVID-19 preventative measures during our flights.



Social Impact

Employee engagement

In September 2021, we conducted a survey to measure job satisfaction, engagement and pride. The score in each category was from 4.24 to 4.5 out of 5. These scores are outstanding, our workforce is truly engaged and happy at work, and they show pride in working for PLAY.

We are fully aware that it will be a challenge to maintain high scores while growing like planned, but we will constantly work on securing high engagement scores which is why it is part of our social KPIs. As previously mentioned, a safe, supportive, and playful culture is key to our success.

Strategic leadership training

When we say that our employees are the core of our business, we genuinely mean it. We are investing in training our leaders to become exceptionally good in their leadership roles. Highly competent leaders are key to our future success and growth. For that reason, we are training our management team with a full year program to become the leaders that have the right competence to lead our company towards healthy growth and remarkable success in an incredibly competitive and evolving market.

An employee engagement survey was conducted in September by Gallup



4.24 ENGAGED
WORKFORCE

The results showed very high engagement among employees with a score of 4.24 out of 5

Engagement in work was even higher among cabin crew members or 4.5



4.37 JOB
SATISFACTION

The results showed very high job satisfaction among employees, with a score of 4.37

Job satisfaction was higher among cabin crew members or 4.61



4.50 PRIDE

The results showed very high pride in work, with a score of 4.5

The results were higher among cabin crew members or 4.7



Social Impact

Positive impact on all stakeholders

Gender equality and inclusivity

PLAY provides equal opportunities where each employee is valued based on their merits. **Equality is part of the company policy, and PLAY received an equal pay certificate in May 2020.**

In October, PLAY received the Equality Scale from the Association of Women Business Leaders in Iceland. The Equality Scale is awarded to businesses that have an equal gender ratio in their executive-level positions.

At PLAY, we have employees of 9 different nationalities, which we look at as a great advantage. **We seek to establish a diverse group of employees that have different backgrounds and experiences.** Every job advertisement is in English to have it accessible to everyone.

PLAY is committed to providing a safe and positive work environment for all its employees, free from discrimination and harassment of any kind. Bullying, any kind of discrimination, sexual, or gender-based harassment is not tolerated. At PLAY, we show respect for our co-workers and strive to have good and healthy communication in the workplace.

Since its founding, PLAY has focused on issues of equality

PLAY's Board of Directors and executive team



Key management positions



Among all employees



PLAY has a policy on equal pay and opportunities:

- 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.
- PLAY is committed to providing a work environment free of discrimination, prejudice, bullying, sexual harassment, or any other kind of harassment or gender-based violence.
- PLAY is committed to giving employees the opportunity to coordinate work and family.
- PLAY's Equal Pay and Opportunity Policy applies to all individuals employed by PLAY, and it is their shared responsibility to work according to it.

Social Impact

New era of cabin crew uniforms

Forget running around in high heels - comfortable sneakers are the way to go. Instructions regarding hair, makeup, tattoos, and nail polish are gone. The uniforms are not gender-specific, and our crew can pick whatever works for them from a varied selection of outfits. As if that was not enough, they also manage to look simply amazing!

It is safe to say that PLAY's uniforms belong to a new era of cabin crew uniforms, and we are immensely proud of it. Our uniforms are designed by famous Icelandic designer couple Gunni Hilmarsson and Kolla, who were keen to tackle a fresh take on what is usually a very traditional line of clothing. "We were honored and pleased to get to work with PLAY on this clothing line for their uniforms. We really wanted to throw out all those old ideas about airline uniforms and bring in more comfort. We tried to scrap the constrictive rules often associated with these uniforms and include relaxed fits, stretchy fabrics and, of course, shoes meant for working on your feet! The result is a mix of active wear and a fresh uniform."



Governance

Governance goals for 2025

PLAY's corporate governance reflects how we structure and act to ensure the best interest of all our stakeholders (customers, employees, shareholders, communities, and policymakers).

Good governance goes hand in hand with being a responsible business. Clear and transparent corporate disclosures, internally and externally, ethical and proper business and labor practices will minimize volatility and increase overall competitive advantages.

#1 Code of Conduct

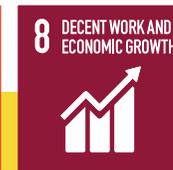
#2 Responsible Labor Practices

#3 Responsible Data Security and Policy

#4 Climate Change Risk Management

How we will achieve our governance goals?

- Supplier code of conduct - being a responsible company means also choosing suppliers for their business ethics and environmental focus. We will engage in a dialogue with our largest suppliers to discuss our supplier code of conduct. We will encourage collaboration and support on sustainability matters if needed.
- Data Security and Privacy Policy - out of all cybersecurity breaches, 91% are caused by human error. We will invest in data security training for all employees. All employees need to undergo training at least annually.
- Employee's code of conduct – fused in our core is our ethical role towards our employees, shareholders, and the local communities we operate in and towards our passengers who choose to conduct their business with a safe and trustworthy company. All employees need to sign the code of conduct yearly.
- Risk management due to climate change – climate risk will be a part of our risk management policy, but our first task is to identify climate risks and build a framework around how we will manage risk due to climate change. We will disclose our first TCFD report in 2025 at the latest.
- Internal communications – in a growing company, a clear strategy on internal communications is key. We will continue focusing on informing all employees on matters and projects happening at PLAY and continue to have insightful and fun presentations from our employees.
- Work conditions – of course, we will always follow laws and regulations in every country we operate in, but we will always set the same requirements regarding labor practices in every country we operate in.



Governance

How we manage sustainability

Despite being a young company, we have a view and structure on how we manage sustainability.

The Board of Directors

The Board regularly reviews sustainability issues at Board meetings.

Executive Team

The Chief Executive Officer monitors that decisions made on sustainability topics are actioned across the company. The CEO is responsible for updating the Board on sustainability issues.

Director of Sustainability

The director reports directly to the CEO. The director is responsible for embedding sustainable thinking across the business in line with the strategy and leading all sustainability-related projects and programs.



Governance

Business ethics and Supplier Code of Conduct

Business ethics

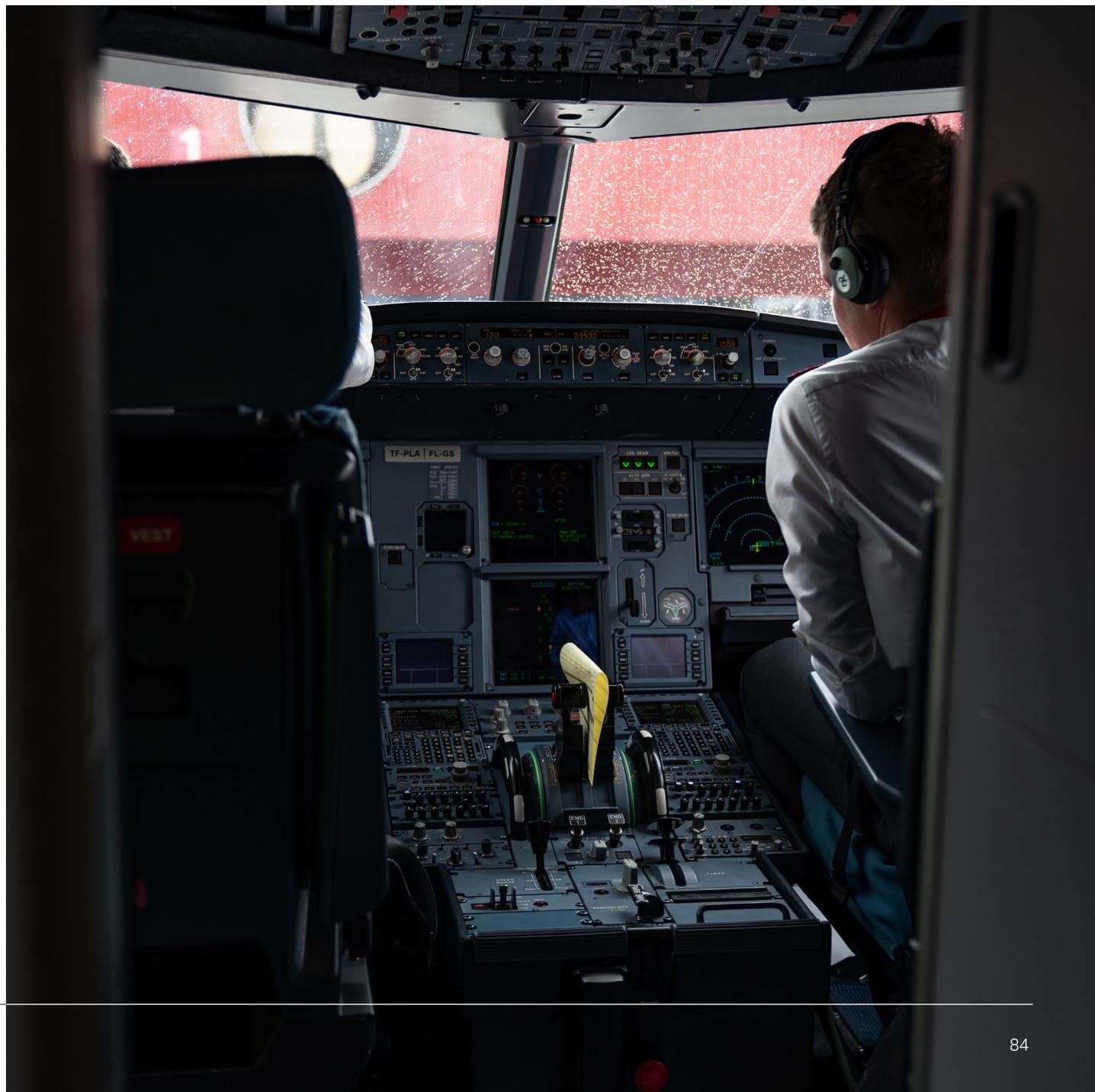
We do not tolerate corruption or anti-competitive behavior. PLAY's Anti-Corruption and Bribery Policy and Anti-Slavery and Human Trafficking Policy apply to everyone who acts on behalf of PLAY. The Board of Directors has reviewed and approved the aforementioned policies.

Our value- and supply chain

Our suppliers provide us with products and services. With the majority being related to aircraft operations and related services. To name a few:

- Airports and air navigation service providers
- Jet fuel providers
- Ground handling providers
- Food and drink suppliers
- Technical and aircraft maintenance
- IT supplier

As PLAY operates from Iceland, most of our suppliers are situated at Keflavik Airport or in the capital area close to the airport. Due to our type of operation, we also have important suppliers in every location we operate in.



Governance

Business ethics and Supplier Code of Conduct

Supplier Code of Conduct

The purpose of our Supplier Code of Conduct is to ensure that our suppliers adhere to high standards of safe working conditions, fair and respectful treatment of employees, ethical practices and minimizing environmental and climate impact.

With our Supplier Code of Conduct, we set clear expectations for our suppliers. That helps protect our brand. It furthermore gives us an important opportunity to engage with our suppliers.

In 2022, we will engage in a dialogue with our largest suppliers to discuss our Supplier Code of Conduct and to encourage collaboration and support on sustainability matters if needed. In the conversation, we will request all our suppliers to adhere to and comply with our Supplier Code of Conduct Principles.

PLAY's Supplier Code of Conduct has been reviewed and approved by the Board of Directors.

Supplier Code of Conduct Principles

People

- Health and safety - we expect our suppliers to work and operate in compliance with applicable laws, regulations, and industry standards.
- Safe and ethical behavior is fundamental in every relationship. We expect our suppliers to ensure their employees are treated with respect and fairly comply with applicable laws on wage, compensation, working hours, minimum age of employment, and working conditions in the jurisdiction where work is performed.

Environment

- We measure and mitigate our climate impact and expect our suppliers to adopt procedures and practices to minimize their impact on the environment and have goals and actions to minimize waste and water usage.
- We prefer our suppliers to measure their CO₂ emissions and set measurable goals to decarbonize their emissions as well as utilize carbon offsets.
- Trustful collaboration is very important to us. Therefore, we engage with our suppliers and provide support on sustainability-related matters if needed and requested.

Business dealings

- Suppliers must act in compliance with the applicable laws, rules and regulations of the countries in which they operate.
- Suppliers must conduct their business in an honest manner, in compliance with competition laws in the jurisdiction they operate in and comply with the Anti-Bribery Policy.
- Our suppliers must avoid conflicts of interest, comply with securities laws and tax obligations in the countries in which they operate, and abide by all relevant international trade laws.
- Our suppliers must respect human rights by not accepting any form of forced, involuntary or child labor, human trafficking, and modern slavery anywhere in their business or supply chains.

Data

- Our suppliers must protect all personal data that they process, collect, or manage in accordance with data protection laws in the countries in which they operate.

ESG Report 2021

Environment	Units	2021
E1. GhG Emissions		
E1.1 Total amount, in CO ₂ equivalents, for Scope 1 (if applicable)	t CO ₂ e	
Jet fuel		25,139.96
Deicing fluid		18.93
Petrol/Diesel		0.75
E1.2 Total amount, in CO ₂ equivalents, for Scope 2 (if applicable)	tCO ₂ e	
Electricity		1.26
Heating		7.10
E1.3 Total amount, in CO ₂ equivalents, for Scope 3 (if applicable)	tCO ₂ e	
Purchase good and services		34.60
Distribution of fuel purchased from fuel provider		5,256.01
Upstream transport and distribution - distribution of products and resources we purchase		396.73
Waste		22.44
Business travel		19.56
Empl. commute		70.72
Total Scope 1, 2 and 3		30,968.06

Environment	Units	2021
E2. Emissions Intensity		
2.1 Total GHG emissions per output scaling factor - Scope 1 and 2 / Turnover	tCO ₂ /ISKm Turnover	1,888.3
2.2 Total GHG emissions per output scaling factor - Scope 1 and 2 / RPK (Revenue Passenger kilometer)		119
E3. Energy Usage		
Total amount of energy directly consumed		
Jet fuel	Mwh	97,367.46
Diesel	Mwh	0.71
Petrol	Mwh	2.01
E4. Energy Intensity		
Total direct energy usage per output scaling factor	MWh/ISKm turnover	5,937.21
E5. Energy Mix		
Energy usage by generation type		
Jet fuel	%	100.00%
Diesel	%	0,00%
Petrol	%	0,00%

<https://www.nasdaq.com/docs/2019/11/26/2019-ESG-Reporting-Guide.pdf>

Environment	Units	2021
E6. Water Usage		
E6.1) Total amount of water consumed		
Hot water	m ³	31,028
Cold water	m ³	874
E7. Environmental Operations		
E7.1) Does your company follow a formal Environmental Policy?	Yes/No	No
E7.2) Does your company follow specific waste, water, energy, and/or recycling policies?	Yes/No	No
E7.3) Does your company use a recognized energy management system?	Yes/No	No
E8. Climate Oversight / Board		
Does your Board of Directors oversee and/or manage climate-related risks? Yes/No	Yes/No	No
E9. Climate Oversight / Management		
Does your Senior Management Team oversee and/or manage climate-related risks?	Yes/No	Yes
E10. Climate Oversight / Management		
Total amount invested, annually, in climate-related infrastructure, resilience, and product development.	Number	None

Social	Units	2021
S1. CEO Pay Ratio		
S1.1) Ratio: CEO total compensation to median FTE total compensation*	Number	4.38:1
S1.2) Does your company report this metric in regulatory filings?	Yes/No	No
<i>*December 2021</i>		
S2. Gender Pay Ratio	Number	
Ratio: Median male compensation to median female compensation*		1.10:1
<i>*December 2021</i>		
S3. Employee Turnover	%	
S3.1) Percentage: Year-over-year change for full-time employees		2%
S3.2) Percentage: Year-over-year change for part-time employees		0%
S3.3) Percentage: Year-over-year change for contractors and/or consultants		0%

Social	Units	2021
S4. Gender Diversity	Number	
S4.1) Percentage: Total enterprise headcount held by men and women		
Number of women in the company		72
Number of men in the company		74
S4.2) Percentage: Entry and mid-level positions held by men and women		
Number of women in entry and mid-level position		61
Number of men in entry and mid-level position		63
S4.3) Percentage: Senior and executive-level positions held by men and women		
Number of women in senior and executive-level positions		11
Number of men in senior and executive-level positions		11
S5. Part-time Worker Ratio*	%	
S5.1) Percentage: Total enterprise headcount held by part-time employees		71%
S5.2) Percentage: Total enterprise headcount held by contractors and/or consultants		29%
*In the end of year 2021		
S6. Non-Discrimination	Yes/No	
Does your company follow a sexual harassment and/or non-discrimination policy?		Yes

Social	Units	2021
S7. Injury Rate	%	
Frequency of injury events relative to total workforce time		0%
S8. Global Health & Safety	Yes/No	
Does your company follow an occupational health and/or global health & safety policy?		Yes
S9. Child & Forced Labor	Yes/No	
S9.1) Does your company follow a child and/or forced labor policy?		Yes
S9.2) If yes, does your child and/or forced labor policy cover suppliers and vendors?		Yes*
*Supplier Code of Conduct policy was approved by the Board in December 2021 but has not been introduced to suppliers and vendors		
S10. Human Rights	Yes/No	
S10.1) Does your company follow a human rights policy?		Yes
S10.2) If yes, does your human rights policy cover suppliers and vendors? Yes/No		Yes*
*Supplier Code of Conduct policy was approved by the Board in December 2021 but has not been introduced to suppliers and vendors		

Governance	Units	2021
G1. Board Diversity	%	
G1.1) Percentage: Total board seats occupied by women (as compared to men)		60%
G1.2) Percentage: Committee chairs occupied by women (as compared to men)		50%
G2. Board Independence		
G2.1) Does company prohibit CEO from serving as board chair?	Yes/No	Yes
G2.2) Percentage: Total board seats occupied by independents	%	60%
G3. Incentivized Pay	Yes/No	
Are executives formally incentivized to perform on sustainability?		No
G4. Collective Bargaining	%	
Total enterprise headcount covered by collective bargaining agreement(s)		100%

Governance	Units	2021
G5. Supplier Code of Conduct		
G5.1) Are your vendors or suppliers required to follow a Code of Conduct?	Yes/No	Yes
G5.2) If yes, what percentage of your suppliers have formally certified their compliance with the code?	%	0%*
<i>*The Supplier Code of Conduct was formally approved by the Board in January 2022 and therefore has not yet been introduced to our suppliers</i>		
G6. Ethics & Anti-Corruption		
G6.1) Does your company follow an Ethics and/or Anti-Corruption policy?	Yes/No	Yes
G6.2) If yes, what percentage of your workforce has formally certified its compliance with the policy?		N/A*
<i>*All new employees are introduced to PLAY's Ethics & Anti-Corruption, but employees are not asked to sign the policy</i>		
G7. Data Privacy	Yes/No	
G7.1) Does your company follow a Data Privacy policy?		Yes
G7.2) Has your company taken steps to comply with GDPR rules?		Yes

Governance	Units	2021
G8. ESG Reporting	Yes/No	
G8.1) Does your company publish a sustainability report?		Yes*
G8.2) Is sustainability data included in your regulatory filings?		Yes*

*Annual and Sustainability Report 2021 will be PLAY's first Sustainability Report

G9. Disclosure Practices	Yes/No	
G9.1) Does your company provide sustainability data to sustainability reporting frameworks?		No
G9.2) Does your company focus on specific UN Sustainable Development Goals (SDGs)?		Yes
G9.3) Does your company set targets and report progress on the UN SDGs?		Yes*

*PLAY has sustainability related KPI's which are linked to the SDG's that the company has chosen to focus on. The targets are published in the Annual and Sustainability Report 2021 and progress will be published on a yearly basis.

G10. External Assurance	Yes/No	
Are your sustainability disclosures assured or validated by a third party?		No*

*Our Carbon reporting for scope 1 and 2 are verified by a third party.



Assurance statement for Scope 1 and 2 carbon emissions



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+33 1 43 22 71 94 | contact@verifavia.com

THIRD-PARTY ASSURANCE STATEMENT

Context

VERIFAVIA SARL ('VERIFAVIA') has been engaged by Fly PLAY to perform an independent verification with limited assurance of the scope 1 and scope 2 carbon inventory data for the year 2021 (January 1st – December 31st). Scope 2 emissions were calculated using market-based emission factors, as provided by the respective service suppliers. Total CO₂ emissions are reported in the following table:

Reporting scope	CO ₂ emissions (tonnes)
Scope 1 (jet fuel, de-icing fluids, diesel & petrol)	25 160
Scope 2 (electricity and heat generated off-site)	8
Fly PLAY total 2021 Scope 1 & Scope 2	25 168

Criteria

We conducted the independent audit based on the following verification criteria:

- ISO 14065:2013 – *Greenhouse gases – requirements for greenhouse gas validation and verification bodies for use in accreditation or other forms of recognition*
- ISO 14064-3:2019 – *Greenhouse Gases – Specification with guidance for the validation and verification of greenhouse gas emissions and removals*
- Chapter 10 of the *Greenhouse Gas Protocol – “A Corporate Accounting and Reporting Standard” (Revised Edition)*

Responsibilities

Fly PLAY is solely responsible for the preparation and reporting of their carbon inventory data, for any information and assessments that support the reported data, for determining the company's objectives in relation to carbon information and management, and for establishing and maintaining appropriate performance management and internal control systems from which reported information is derived.

In accordance with the verification contract, it is our responsibility to form an independent opinion, based on the examination of information and data presented in the sustainability appendix of Fly PLAY's annual report, and the company's ESG report (according to Nasdaq 2.0 reporting guide), and to report that opinion to Fly PLAY. We also report if, in our opinion:

- the carbon inventory data is or may be associated with misstatements (omissions, misrepresentations, or errors) or non-conformities; or
- the verification team/verifier has not received all the information and explanations that it requires to conduct its examination; or
- improvements can be made to the company's performance in monitoring and reporting of carbon inventory data.

We conducted our examination having regard to the verification criteria documents listed before. This involved email and teleconferencing discussions and interviews during the January – March 2022 period, to interview the staff responsible to give us limited assurance that the amounts and disclosures relating to the data have been properly prepared in accordance with the requirements of the Greenhouse Gas Protocol in terms of relevance, completeness, consistency, transparency, and accuracy. This also involved assessing where necessary estimates and judgements made by Fly PLAY in preparing the data and considering the overall adequacy of the presentation of the data in the Carbon Footprint of Fly PLAY.

Independence statement

We confirm that VERIFAVIA and the verification team are independent of Fly PLAY and have not assisted in any way with the development of the carbon inventory or in the preparation of any text or data provided in the sustainability section of Fly PLAY's annual report, except for this Assurance Statement.

Opinion

We conducted a verification of the carbon inventory data reported by Fly PLAY as presented above. Based on the verification work undertaken to limited assurance, these data are fairly stated and contain no material misstatements or material non-conformities.

Paris, 07 March 2022
Nicolas DUCHÊNE, COO & VP Technical, VERIFAVIA SARL

VERIFAVIA

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6.

Outlook

Outlook

The COVID-19 pandemic, and the associated travel restrictions, impacted the global aviation industry, as well as PLAY's business in 2021. Booking trends have been less predictable than under normal circumstances. Changes to travel restrictions and a surge in COVID-19 cases and lockdowns in markets served by PLAY have caused hesitation and uncertainty among our customers.

The surge in new COVID-19 cases in Iceland and Europe that started in the middle of December did have a negative impact on bookings. As a result, we made adjustments to our schedule for January and February. The number of seats on sale in January and February was 38% and 18% lower than our original plan, respectively.

We believe flexibility in scaling production to demand has been crucial for PLAY, and we will continue to do so while the pandemic is still ongoing.

Our focus will be on flexibility, demand-driven growth, and an attractive offering to the market with the best prices and positive climate actions. PLAY is well prepared to weather the uncertainty with our strong financial position.

During the first weeks of 2022, we have seen that consumer confidence has begun to return as booking trends have been strengthening. Customers are again booking trips on short notice with the confidence offered by PLAY's Flexibility Policy as well as booking their holidays next summer. This is an indicator that people are ready to travel again.

26 destinations

In 2022, PLAY will serve 22 destinations in Europe and 4 in North America using a fleet of six aircraft.

In spring 2022, we will start service to the U.S. and in so doing move from a point-to-point network to a hub-and-spoke network. Our flights to the U.S. will strengthen PLAY's foundation as we open up the U.S. – Iceland market to low-cost travel and facilitate connections for passengers that want to take advantage of low-cost travel between the U.S. and Europe.





7.

Other

Route Map 2022*



Destination	City	Flight period 2022*
Austria	Salzburg	January to February
Belgium	Brussels	May 24 - October 29, 3-4 times a week
Czech Republic	Prague	May 5, 4 times a week
Denmark	Copenhagen	All year, 4 times a week
France	Paris	All year, 4 times a week
Germany	Berlin	All year, 4 times a week
Ireland	Dublin	From April 28, 4 times a week
Italy	Bologna	June 7 - September 20, twice a week
Norway	Stavanger	May 26 - September 11, twice a week
	Trondheim	May 31 - September 3, twice a week
Portugal	Lisbon	May 13 - October 28, twice a week
Spain	Alicante	All year, 3-4 times a week
	Barcelona	April 15 - October 28, 2-3 times a week
	Gran Canari, Las Palmas	January - April 20, once a week
	Madrid	June 15 - October 23, twice a week
	Malaga	May 29 - September 18, once a week
	Mallorca	June 1 - September 14, once a week
	Tenerife	All year, 3-4 times a week
Sweden	Gothenburg	May 20 - October 28, twice a week
Switzerland	Geneva	February 1 - March 23, 2023, twice a week
United Kingdom	London	All year, 4 times a week
	Liverpool	November 4, twice a week
USA	Baltimore/ Washington DC	From April 20, daily
	Boston	From May 11, daily
	New York	From June 9, daily
	Orlando	From September 30, 3 times a week

*PLAY is subject to change flight period due to changes in operations or demand

Investor relations information

PLAY emphasizes providing relevant information to the market and being available for open dialogue with shareholders, analysts, and the media. PLAY held its first capital markets day in 2021 and has the ambition to continue with such activities. PLAY also holds regular analyst and investor presentations when publishing quarterly reports.

IR Contact

Póra Eggertsdóttir, CFO
Email:ir@flyplay.com

Annual General Meeting

PLAY's Board currently intends to hold the AGM on 6 April 2022, subject to the ongoing COVID-19 pandemic and any government guidance on social distancing, non-essential travel, or public gatherings. The arrangements for PLAY's 2022 AGM and details of the resolutions to be proposed, together with explanatory notes, will be set out in the notice of AGM to be published on PLAY's website. Guidance on whether physical attendance by shareholders will be possible will be determined nearer the time of the AGM.

Independent Auditor

Grant Thornton
Suðurlandsbraut 20,
108 Reykjavík

Company's Registered Office

Fly Play hf.
Suðurlandsbraut 14,
108 Reykjavík

Corporate Website

PLAY's corporate website, www.flyplay.com, provides useful information including annual reports, traffic reports, financial results, and share price data, as well as background information about the Company and current issues and announcements.

Annual Report

PLAY's Annual Report and other financial information are available in English and can be downloaded at www.flyplay.com/financial-reports-and-presentations.

Financial Calendar

Monthly traffic data is generally issued on the seventh of every month or the following working day. The detailed financial calendar is available at www.flyplay.com/financial-calendar.

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

PLAY