PLAY Annual and Sustainability Report 2023

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1.

Strategic Report

CEO review

The year 2023 was in many ways a very good year for PLAY. Once again, we showed the resilience and flexibility of the business model and our fantastic team of Players.

It was the year in which we reached the required scale of the business, operating ten aircraft from early summer. We are also very proud to have achieved our goal of flying over 1.5 million passengers in 2023, nearly doubling the number from the previous year.

Our load factor was a satisfactory 83%, especially considering a very challenging situation toward the end of the year. We achieved an exemplary on-time performance of 83% for the year. This high punctuality is among the best compared to our competitors and it is among the highest in the world of aviation. This is a strong sign of our safe and efficient flight operations as well as the professionalism of our operational teams and crews.

First-ever bottom-line profit in Q3

We delivered strong financial results after the all-important summer season and third quarter, delivering the first-ever bottom-line profit, even though we were in the middle of a very steep growth curve, having added hundreds of employees, thirteen new destinations, and four new aircraft. Keeping our unit costs low and growing our unit revenues while growing this fast is a sign of a very focused management team executing a clear low-cost strategy with impunity.

At the end of the summer, the year was looking to deliver very acceptable financial results, but as is sometimes the case in aviation, external factors had a negative impact on the business, and the year closed somewhat below what we had anticipated. This challenging external business environment began to materialize in late summer with various geopolitical and economic variables, such as a spike in the oil prices, inflationary pressures on cost, and a crisis in the Middle East. Locally, in the fourth quarter, we saw seismic activity and two volcanic eruptions, resulting in very inaccurate global news coverage that affected demand for Iceland as a tourist destination in the short term. We were also hit with significant disruptions and costs in relation to the industrial action taken by the air traffic controllers in Iceland in the week before Christmas.

Costs decreasing and ancillary revenue increasing

As we are now entering our third full year of operation and selling our fourth summer, we are seeing clear signs that our business model is working as it should. Last year, we saw our revenue double and our operational loss halve from the previous year. We are not satisfied with this result, but it shows a clear and positive trend, and adjusting for a very challenging fourth quarter, full of extraordinary external factors, bodes well for the future.

Birgir Jónsson,
Chief Executive Officer

The important ancillary revenue stream grew considerably following investment in our digital sales platform, and its growth will continue as we launch new features and functionalities, such as our new Stopover program that was launched earlier this year. It is already delivering better-than-expected results and yields.

Most importantly, we have successfully kept our cost base low and very competitive, thereby enabling us to offer lower fares than our competitors and to quickly win market share in our key markets. While most of our competitors are reporting a significant increase in unit costs, we are proud to report a decrease of 6% in our ex-fuel CASK. The PLAY management team is absolutely determined to continue to keep costs under control, as this is critical to our continued success.

Vision for 2029:

- 18-20 aircraft
- Competitive Ex-Fuel CASK
- EBIT margin < 10%
- Revenue USD >750 million

Looking into the future, we have identified clear and exciting opportunities for growth, and our team is hard at work in order to make sure that we find ways to continue to grow successfully and profitably.

We have stated that, in the year 2029, we will operate 18-20 aircraft, have an EBIT margin of at least 10%, maintain a very competitive cost base, and have a turnover of around USD 750 million. We are currently looking at various ways to develop our fleet, as it is critical to find the right aircraft and fleet composition to suit our highly seasonal and ever-changing markets.

PLAY is set up for success

Well over 90% of the traffic that flows through Keflavik airport in a given year is classified as leisure travelers. In most other countries, low-cost airlines have won the mass market and pushed the older legacy carriers to carve out a more premium-focused niche position that is more suitable for their uncompetitive cost base.

PLAY is quickly emerging from its initial growth phase. The airline is well-financed, with a very strong and ever-growing market position, a highly competitive cost base, an on-time performance that is one of the best in the world, a great product, and the ability to offer low fares to its customers. These factors ensure success in the leisure-oriented dynamics of our market.

When considering that, in less than three years of operation, over 40% of all Icelanders who flew abroad last year chose PLAY, add to that the fact that we already have 20% of all the capacity at Keflavik airport and our fast-growing share of the incoming market. I cannot conclude anything other than that Iceland will be no different from the countries that we often compare ourselves with and that a strong low-cost airline will win most of the market. That airline is PLAY.

The key to our success is the combined explosive force and drive of the great team of people at Play, the board of directors, and the large group of shareholders. I sincerely thank them all for their effort and teamwork throughout the year that we are closing now.

"I cannot conclude anything other than that Iceland will be no different from the countries that we often compare ourselves with and that a strong low-cost airline will win most of the market. That airline is PLAY."

Who we are

PLAY is a low-cost airline that operates flights between North America and Europe with Iceland as a strategic hub in the middle. PLAY also operates flights point-to-point from Iceland to popular leisure destinations. PLAY had its first flight in 2021 and now operates a modern fleet of 10 Airbus A320/321neos and has up to 40 destinations in its route network.

The goal is to make PLAY a strong and leading brand in aviation and we have made strides in that direction in 2023.

We run a simple single fleet model of fuel-efficient Airbus family aircraft. All of our crew members can operate every aircraft, which makes us an extremely flexible and efficient airline. We emphasize cost awareness among all our staff and utilize data-informed decision making in all key business decisions.

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.

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

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

Strategy

With a focus on keeping costs low we can offer lower fares and make flying more affordable for everyone.

Operational excellence with safe and disciplined operations, world class on-time performance . Modern and fuel-efficient fleet.

Cutting edge IT/
Digital solutions and excellent customer experience.
Data-driven decision making.

Competent and professional staff with equal opportunities. Supportive and safe culture.

Low-cost structure and very high cost-awareness amongst all our staff.

Make a positive impact on stakeholders.

Our Journey

2021

Air operator certificate (AOC) issued and ticket sales launched

May, 2021

2021

Began operating flights

June 24, 2021

2021

IPO on Nasdaq First North

July, 2021

2022

First flight to USA

April 20, 2022

2022

Full hub-and-spoke

July, 2022

2022

First full year of operations

789k passengers
6 aircraft
25 destinations

2023

Tenth aircraft
Full fleet for summer 2023

10 single-type aircraft
single-type engine
"Youngest fleet in Europe"

2023

First flight to Canada

June 22, 2023

PLAY at a glance

1.5 m
flown passengers

83%
On-time Performance

83%
Load factor

Passengers
to Iceland
32%

Passengers
from Iceland
27%

VIA
passengers
41%

10
aircraft in operation*

38
destinations

In operation at the end of 2023

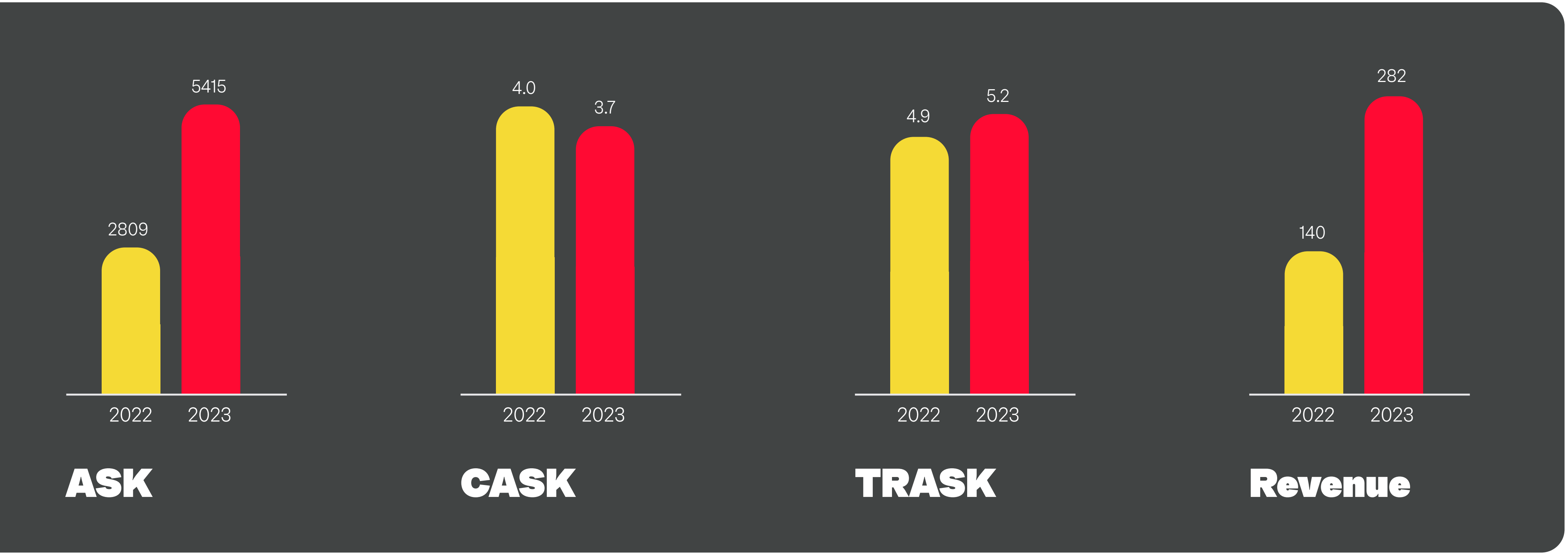
Major milestones in 2023

PLAY airlines had many milestones in 2023.

- Four aircraft were added to the operation thereby bringing PLAY's fleet to ten Airbus A320neo family aircraft.
- PLAY added 15 new destinations and had our first flights to Washington, D.C. and Toronto. We also relaunched flights to Amsterdam, which is one of Europe's key hubs.
- The passenger numbers nearly doubled between years, from 789,000 in 2022 to 1.5 million in 2023. At the same time, our share of total passenger traffic Keflavik International Airport went from 12.9% to 19.6%.
- PLAY launched new products and services that help to grow our revenue, most notably the launch of bundled fares that drove improvement in ancillary revenue that grew 29% per passenger compared to 2022.

Significant yearly improvement was achieved, with increased revenue and reduced costs

In 2023, PLAY accomplished an impressive doubling of revenue compared to the previous year. Despite a 93% increase in ASK, PLAY secured a 6% increase in TRASK and an impressive 6% lower CASK.



ASK: Available seat kilometers

CASK: Cost per available seat kilometer

TRASK: Total revenue per available seat kilometer (including cargo)

Key Figures

	2023	2022
1. Operating statistics:		
Number of flights	9,645	5,377
Percentage of arrivals ontime	83%	87%
Passengers flown (thousands)	1,521	789
Available seat kilometers (ASK) (millions)	5,415	2,809
Revenue passenger kilometers (RPK) (millions)	4,514	2,225
Stage length (km)	2,943	2,852
Load factor	83%	80%
Seats available (thousands)	1,831	982
2. Income statement:		
Operating revenue in $ millions	281.8	139.9
Operating expenses in $ millions	248.5	151.9
EBIT in $ millions	-20.7	-44.1
EBIT margin	-7%	-32%
Net income/loss $ millions	-35.2	-45.5
3. Balance sheet:		
Total assets in $ millions	461.5	331.5
Total liabilities in $ millions	459.6	293.0
Total shareholders equity in $ millions	1.9	38.5
Equity ratio	0.4%	11.6%
Cash and cash equivalents (incl. restricted) $ millions	21.6	36.2

	2023	2022
4. Share information:		
Share price at year-end	7.8	13.1
Earnings per share in $ cents	-5.20	-8.0
5. Key statistics:		
Airfare revenue per passenger	127	134
Ancillary revenue per passenger	54	42
Yield per passenger	181	175
CASK* incl. fuel in $ cents	5.6	6.4
CASK* excl. fuel in $ cents	3.7	4.0
RASK** in $ cents	5.2	4.8
Number of employees	477	323
Employees per aircraft	47.7	53.8
Number of aircraft	10	6
CO_2 per RPK (grams CO_2 per RPK)	60	66
CO_2 emissions in tonnes from jet fuel	272,636	152,457

**Cost per Available Seat Kilometer*
***Revenue per Available Seat Kilometer*

Financial highlights

USD **281.8** million
Revenue

USD **-20.7** million
EBIT

USD **21.6** million
Cash position

3.7 $ cents
Ex-Fuel CASK [2]

5.2 $ cents
TRASK [1]

USD **-35.1** million
Net loss

[1] *TRASK: total revenue per available seat kilometer. Includes all revenue*
[2] *Ex-fuel CASK refers to cost per available seat kilometer (ASK) excluding fuel and emissions cost*

Financial Review

PLAY has continued to scale up its operations, increasing the number of aircraft in operation from six to ten. Revenue for the full year was USD 282 million compared to USD 140 million in 2022. The revenue per available seat kilometer (RASK) was 5.2 US cents in 2023, which was an increase of 6% compared to 2022.

PLAY has also seen significant growth in the ancillary revenue that grew from USD 42 per passenger in 2022 to USD 54 per passenger in 2023. The total ancillary revenue was up by 152% for the full year while the capacity increased by 89% compared to 2022.

The last quarter of 2023 was impacted by the inaccurate global news coverage following the seismic events in the Reykjanes Peninsula in November that had short-term negative effect on demand for flights to Iceland. After experiencing a drastic decrease in demand, PLAY had a record sales day in the last week of November. The record came after the news coverage linked to the seismic activity had slowed down and during historically important sales days associated with Black Friday, Cyber Monday, and Travel Tuesday. In January 2024, PLAY set new record sales weeks, and forward bookings are looking strong.

Capacity in 2023, measured in available seat kilometers (ASK), increased by 89% compared to 2022 while revenue passenger kilometers (RPK) was 4,514 compared to 2,286 in 2022.

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. PLAY's cost target of being under 4 US cents a per available seat kilometer excluding the cost of fuel and emissions (CASK ex-fuel) was achieved in 2023.

PLAY is preparing to transfer its share listing from the First North Growth Market Iceland to the Nasdaq Main Market in Iceland. The uplisting process, expected to conclude during the first half of 2024, marks a significant milestone in our journey. Since PLAY started its first scheduled flight in June 2021, the company has grown rapidly. During its growth period, the company has had to deal with repeated external shocks, including the recent volcanic eruptions in Reykjanes. The company believes that strengthening its liquidity position, with a capital increase, is a strategic move to seize growth opportunities and meet the unforeseen events.

Total loss amounted to USD 35.1 million in the year 2023 compared to USD 48 million in 2022. PLAY had a negative EBIT of USD 20.7 million compared to negative USD 43.8 million in 2022. Income tax from taxable loss is USD 10.3 million compared to USD 9.9 million in 2022.

Financial income and expenses were negative in USD 25 million, primarily related to the interest expenses of lease liabilities. Please refer to *chapter 4* for our full Financial Statements

Revenue

In 2023, passenger revenue amounted to USD 192.7 million compared to USD 105.6 million in 2022 and ancillary revenue, which consists of revenues charged for bags, bundles, seat assignments, inflight sales, and other service fees, amounted to USD 77 million compared to USD 30 million in 2022. On board sales increased from USD 3.1 million in 2022 to USD 5.6 million in 2023. Cargo revenue quadrupled between years and amounted to USD 3.6 million in 2023.

Income statement, million $	2023	2022
Airfare	192.7	105.6
Ancillaries	82.6	32.8
Cargo	3.6	0.8
Other	2.9	0.6
Operating income	**281.8**	**139.9**
Aviation	(179.5)	(113.2)
Salaries	(44)	(25.5)
Other	(25)	(13.2)
Operating expenses	**(248.5)**	**(151.9)**
EBITDA	**33.3**	**(12.0)**
Depreciation and amortization	(54.0)	(31.8)
Operating result - EBIT	**(20.7)**	**(43.8)**
Financial income and expenses	(24.7)	(14)
Results for the period before tax - EBT	**(45.4)**	**(57.7)**
Income taxes	10.3	9.9
Net results for the period	**(35.1)**	**(47.8)**

Income statement, million $	2023	2022
Airfare	**192.7**	**105.6**
Ancillaries	**82.6**	**32.8**
Cargo and other	**6.5**	**1.5**

Operating and financial expenses

In 2023, PLAY's total operating expenses (incl. depreciation) amounted to USD 302.5 million compared to USD 183.7 million in 2022. PLAY's unit cost, i.e., cost per available seat kilometer (CASK), was 5.6 US cents compared to 6.4 US cents in 2022. Being a low-cost airline, 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.

Fuel and emissions costs were USD 100.1 million, representing over 33% of total operating cost in 2023. Salaries and other personnel expenses amounted to USD 44 million compared to USD 25.5 million in 2022. The average number of full-time employees was 423 during 2023 compared to 252 in the previous year.

Handling, landing, air navigation, and line maintenance are the largest non-fuel related cost items amounting to USD 59 million.

Depreciation and amortization were USD 54 million, USD 50 million of which was related to right of use assets. Net financial expenses were USD 24.7 million, thereof interest expenses of lease liabilities were USD 20.6 million.

	2023	2022
TRASK (Total Revenue per Available Seat Kilometer)	5.2	4.9
Ex-Fuel CASK (Cost per Available Seat Kilometer without Fuel and Emissions)	3.7	4.0
CASK (Cost per Available Seat Kilometer)	5.6	6.4
FASK (Fuel cost per Available Seat Kilometer)	1.8	2.5
Operating income	**281.8**	**139.9**

Income statement, million $	2023	2022
Fuel	89.1	61.8
ETS	10.9	8.7
Staff cost	44	25.5
Distribution and marketing	9.3	5.3
Maintenance, materials and repairs	13.8	5.3
Airport, handling and en-route	59	31.1
Other expenses/(income)	22.4	14.2
Operating expenses	**248.5**	**151.9**
Depreciation and amortization	54	31.8
Operating expenses and depreciation	**302.5**	**183.7**
Financial income and expenses	24.7	14
Total expenses	**327.2**	**197.6**

Balance sheet and financial position

PLAY's total assets at year-end 2023 amounted to USD 461.5 million compared to USD 405.1 million at the end of 2022. Play took two aircraft into operation during 2023, bringing the total number of aircraft to 10, and the right-of-use of assets were USD 338.4 million. Intangible assets were USD 14.2 million and are mainly related to IT development costs. Aircraft deposits and other security instalments were USD 13.2 million. Trades and other receivables were USD 33 million, USD 31 million of which is the acquirer's unpaid ticket sales to PLAY. PLAY's cash position (including restricted cash) amounted to USD 21.6 million at year-end.

Shareholders' equity amounted to USD 2 million. Non-current liabilities amounted to USD 323.7 million, all related to aircraft leases and maintenance reserves. Liabilities have no interest-bearing debt. Current liabilities were USD 135.9 million and consisted of USD 45.7 million of aircraft lease and provisions, and deferred revenue was USD 46.5 million.

Assets, million $	2023	2022
Intangible assets	14.2	12.6
Right of use assets	338.4	298.0
Operating assets	11.9	6.7
Receivables and deposits	13.2	10.9
Deferred tax assets	26.3	16.0
Non-current assets	**404.0**	**344.3**
Inventories	0.2	0.8
Trade and other receivables	33.0	22.9
Prepaid expenses	2.8	0.9
Cash and cash equivalents	21.6	36.2
Current assets	**57.5**	**60.9**
Total assets	**461.5**	**405.1**

Equity and liabilities, million $	2023	2022
Shareholders equity	**1.9**	**36.2**
Provisions	76.0	72.7
Lease liabilities	247.8	206.8
Non-current liabilties	**323.7**	**279.5**
Provisions	20.4	16.6
Lease liability	25.3	17.3
Trade and other payables	43.7	27.2
Deferred income	46.5	28.3
Current liabilities	**135.9**	**89.4**
Total liabilities	**459.6**	**368.9**
Total equity and liabilities	**461.5**	**405.1**

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.

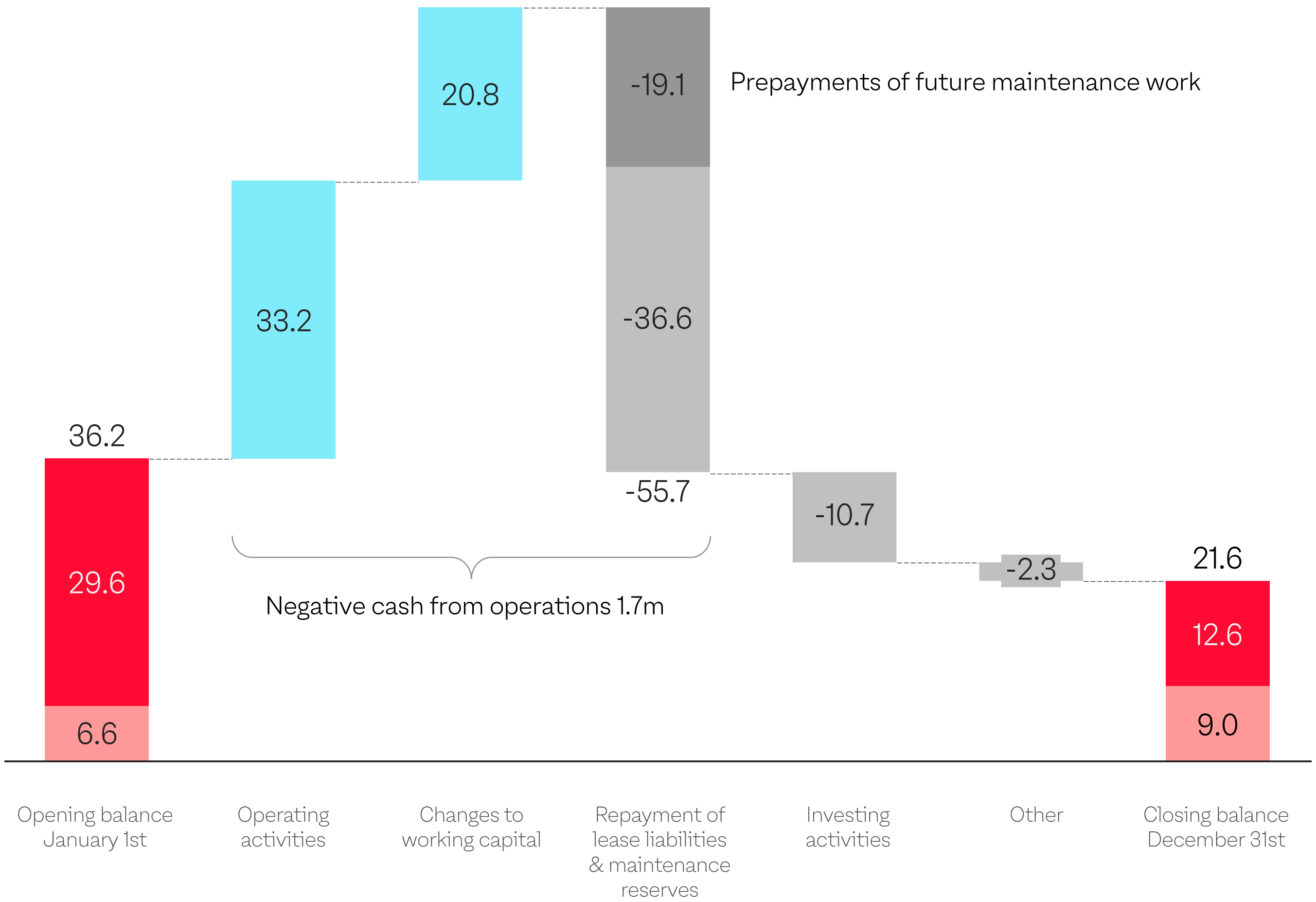
Negative net operating cash flow totaled USD 1.7 million, primarily due to the following factors:

- Positive contribution of USD 20.8 million in working capital.
- Total repayment of lease liabilities (including interest and maintenance provision payments) was USD 55.7 million in 2023.

Net cash used in investing activities

Net cash used in investing activities amounted to USD 13 million and was mainly due to the following factors:

- Deposits paid for aircraft which amounted to USD 2.3 million
- Purchase of operating and intangible assets of USD 10.7 million



Network

New destinations in North America and Europe

In 2023, PLAY successfully expanded its route network by introducing flights to 15 new destinations across North America and Europe. These new routes primarily commenced operations during the spring or summer of the same year. The launch of sales initiatives was notably impressive, marked by heightened awareness and visibility in all newly introduced destinations. Additionally, a seamless operational launch in a short period of time for each destination was achieved through exceptional teamwork and collaboration.

The destinations were: Washington, D.C., Toronto, Aalborg and Billund in Denmark, Stockholm in Sweden, Düsseldorf, Hamburg, and Frankfurt in Germany, Porto in Portugal, Geneva in Switzerland, Venice in Italy, Glasgow in Scotland, Athens in Greece, Warsaw in Poland, and Fuerteventura in the Canary Islands. PLAY also relaunched flights to Amsterdam and now operates daily flights to the capital of The Netherlands. PLAY also launched ticket sales to Verona in Italy, and now in 2024, PLAY has launched ticket sales to Split in Croatia, Marrakesh in Morocco, Vilnius in Lithuania and Madeira in Portugal.

Organization

Fast growing team

PLAY continued to grow in 2023 and trained and hired over 300 professionals. At the end of the year, PLAY had 511 employees.

PLAY celebrates diversity and keeps its focus on equality in all positions. The gender ratio is close to being equal in the company. PLAY's current employees are of 30 different nationalities with an average age of 32.45 years.

An employee engagement survey was regularly conducted among all the employees in 2023. The results for the latest one in 2023 were good with an average engagement score of 4.11 (out of 5). The satisfaction score was 4.14 and pride in working for PLAY was 4.37.

Operations

New aircraft were delivered thereby bringing the fleet to ten aircraft

In 2023, PLAY's fleet consisted of ten Airbus A320neo family aircraft, six A320neos, and four A321neos all with an average age of 3.51 years.

In February, the first new A320neo aircraft, from the AerCap agreement signed in September 2021, entered the network.

In March, the second new A320neo aircraft, from the AerCap agreement signed in September 2021, entered the network.

In April, the third new A320neo aircraft, from the AerCap agreement signed in September 2021, entered the network.

In May, the fourth new A321neo aircraft, from the AerCap agreement signed in September 2021, entered the network.

PLAY operated ten Airbus A320neo family aircraft during summer 2023.

Awards and Nominations

PLAY got a lot of acknowledgment in the year 2023. Our crew was voted the best by the readers of USA Today 10Best and PLAY was recognized as the top low-cost airline in Northern Europe, according to the prestigious World Airline Awards, which is based on customer satisfaction. PLAY also made it on to the World Airline Awards top 100 list of best airlines in the world and won ch-aviation's award Europe's Youngest Aircraft Fleet in 2023, for the second year in a row.

Sustainability

The philosophy that drives PLAY's sustainability journey is to consider how the world is better off because PLAY is in it. PLAY maintains a proactive stance and is ready to adjust and develop in response to the ever-changing environmental obligations.

Two noteworthy initiatives in PLAY's Sustainability Report demonstrate PLAY's dedication to environmental responsibility, the foundation of a comprehensive Decarbonization strategy, and the launch of sorting the used aluminum cans and water bottles on board. For further information about PLAY's objectives, activities, and sustainable development in 2023, *see Chapter 3*.

Our Fleet

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

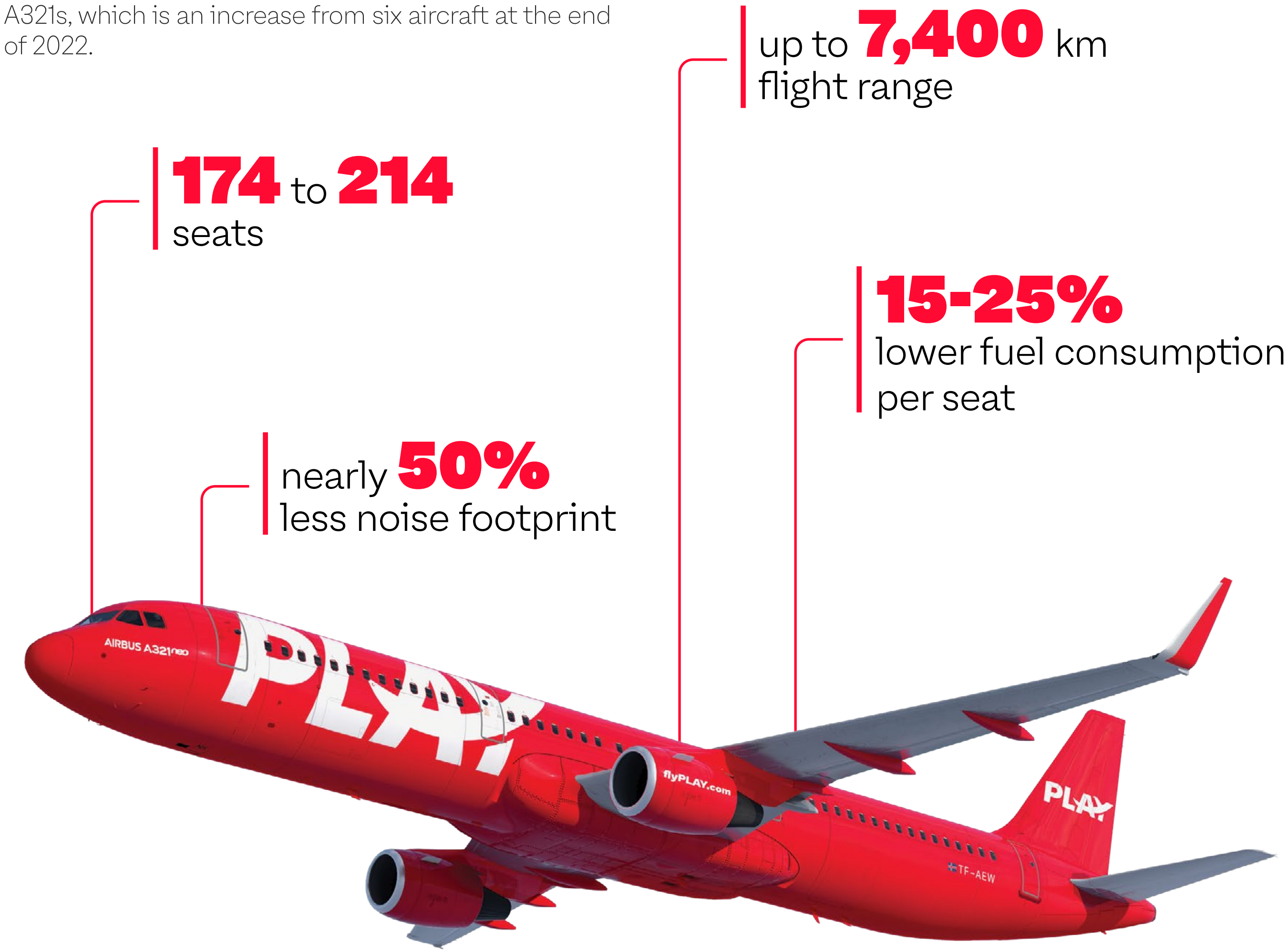
The A320neo is one of the most successful aircraft ever produced, with passenger seating ranging from 140 to 244 seats and a flight range of up to 7,400 km.

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

- All of the 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.
- Maintenance costs are lower due to the similarities within the family and because all the aircraft are equipped with the same engine type, the CFM LEAP 1-A.
- The new engines in the Airbus A320neo family have a nearly 50% lower 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 help minimize our operation's environmental impact, and they enable a low emission rate measured in carbon emissions per passenger km.

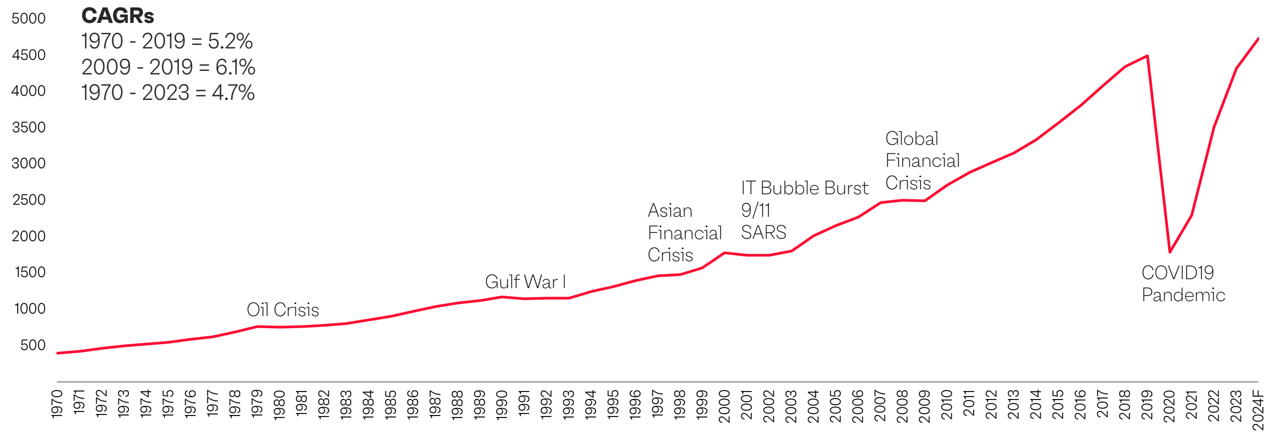
PLAY's Fleet – PLAY's fleet as of December 31, 2023 consisted of ten Airbus neo aircraft, six A320s, and four A321s, which is an increase from six aircraft at the end of 2022.



The Market Environment

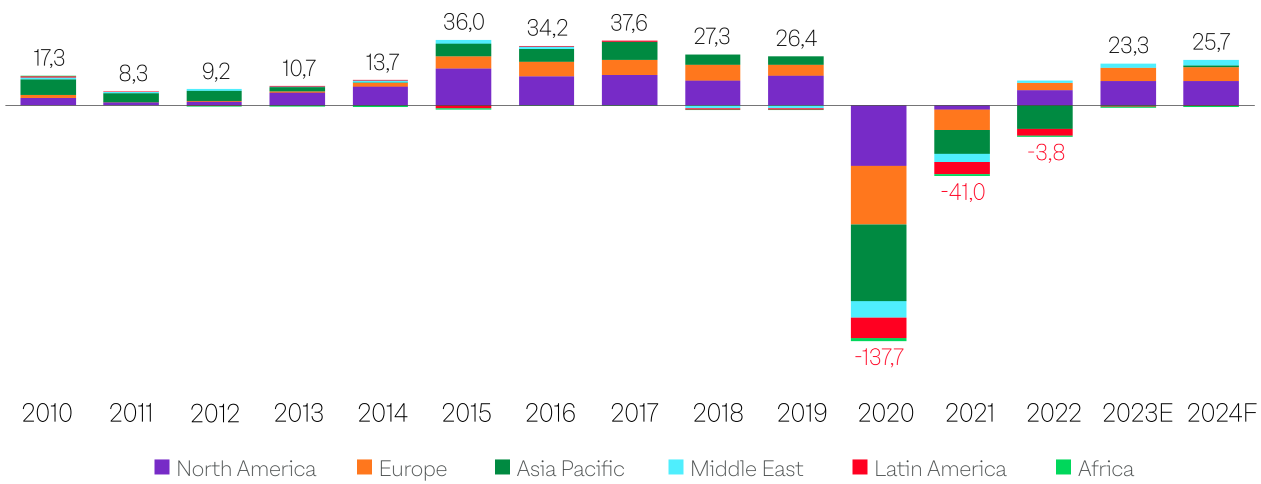
Global passenger traffic is estimated to have grown by 23% in 2023 and reached 96% of the 2019 levels. The International Air Transport Association (IATA) expects that global passenger traffic will continue to grow in 2024 as the recovery from the COVID-19 pandemic continues.

Global Passenger Traffic 1970 - 2024[1]
- Millions -



IATA expects that the global airline industry will post a USD 23.3 billion net profit in 2023, which is an improvement compared to previous years when the industry lost cumulatively USD 183 billion between 2020 and 2022.

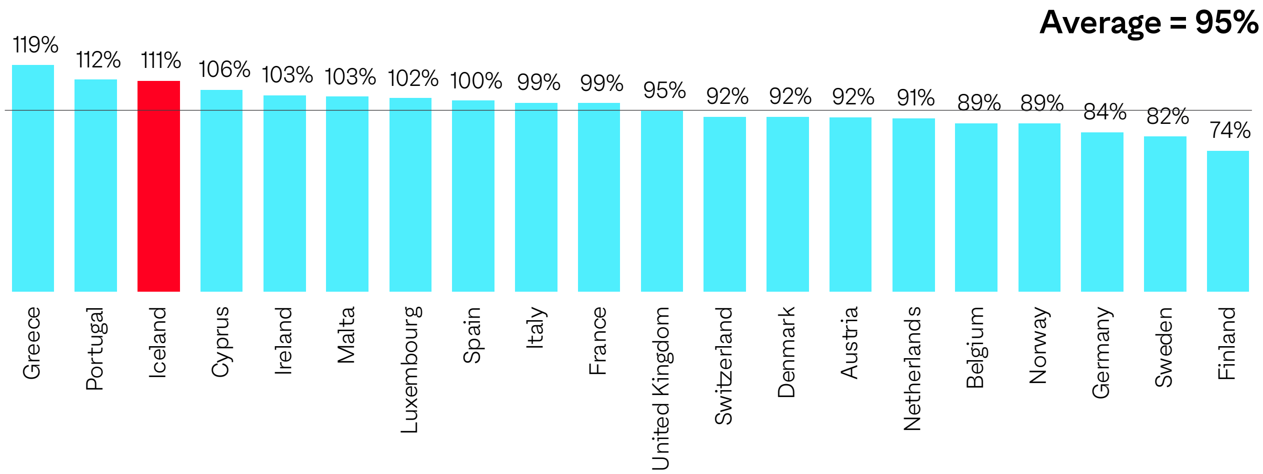
Airline net profit levels across regions (nominal terms)[2]
- US$ billions -



[1] ICAO
[2] IATA

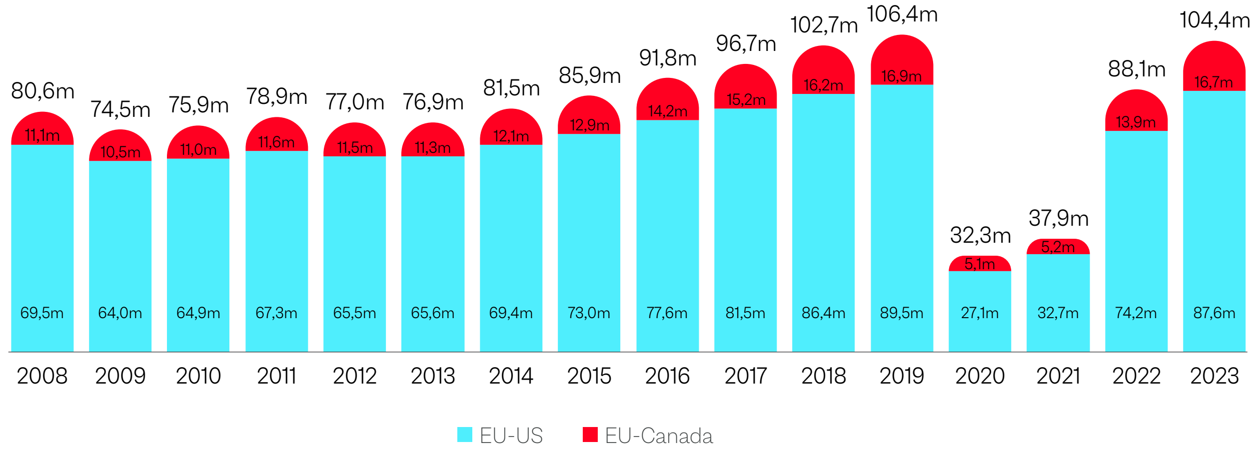
The Icelandic aviation market has recovered faster than the aviation markets of the other countries in Europe in terms of international seat capacity. In 2023, there were 11% more international seats on sale than in 2019 compared to 5% fewer seats for Europe overall.

Recovery in Seat Capacity by European Country[1]
- 2023 compared to 2019 -



In 2023, seat capacity between Europe and North America grew by 18% compared to 2022. 2023 ended slightly short of 2019 levels, with 98% of seat capacity recovered. Seat capacity between Canada and Europe was at 99% of 2019 levels and seat capacity between the US and Europe was at 98% of 2019 levels.

North America - Europe Seat Capacity[1]
- Includes all seats on direct services between cities in Europe and North America -



[1] *OAG Schedules*

Outlook 2024

The seismic activity on the Reykjanes peninsula that started on November 10, 2023 resulted in the evacuation of the town of Grindavik. The subsequent negative media coverage globally significantly impacted searches and bookings for travel to and from Iceland. As a result, PLAY's fourth quarter 2023 results were negatively impacted by this. The negative impact of the seismic activity at the end of 2023 will have a negative impact on PLAY's first quarter 2024 results.

In 2024, PLAY will have a fleet of ten aircraft and offer flights to 42 destinations, five of which are new destinations. The new destinations are Split, Vilnius, Verona, Funchal, and Marrakech.

Despite these negative events at the end of 2023, we remain positive regarding 2024 performance. The year started with strong sales momentum, and so recent eruptions in 2024 on the Reykjanes peninsula have had a limited impact on PLAY's sales. The company expects another year of improvement in cash flow and results, with earnings before interest and taxes (EBIT) expecting to be close to zero, subject to the general uncertainty around the price of jet fuel, the labor market in Iceland, and the global macroeconomic environment.

Route Map 2023

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

2.

Corporate Governance

Members of the Board and their independence

The following individuals were elected to serve on the Board at the last Annual General Meeting, held on 7 March 2023.

EINAR ÖRN ÓLAFSSON
Chairman

Einar Örn Ólafsson is a shareholder in the Company through different legal entities, and 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 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. Einar Örn will assume the role of CEO on April 2nd 2024.

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 28 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 the large shareholders of the company and its management team but is not considered to be independent from the company.

VALENTÍN LAGO
Board Member

Valentín Lago boasts a distinguished career spanning more than 30 years in the airline industry. He has held multiple leadership roles, including serving as a board member and chief executive officer. Notably, he was an executive of Air Nostrum, COO in Iberia Express and COO in Vueling as well as CEO of Air Europa. Recently, he has devoted his expertise to running his own consulting agency. Lago's academic background includes a PhD in economics and a degree in aerospace engineering, and a business school Advanced Management Program. Valentín is considered to be independent from the company, its management team, and the large shareholders in the company.

GUÐNÝ HANSDÓTTIR
Board Member

Guðný Hansdóttir is a shareholder in the company through KG eignarhald. Guðný has over 15 years of experience in the airline industry. Guðný served as a Managing Director of the 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, and VP of Human Resources for both 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 VÍS Insurance as well as chairman of the Remuneration Committee and a member of the Risk Committee. 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 the 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., Umbra ehf., Uniconta Iceland ehf., NMR ehf., and Höfðakór 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 a Supreme Court Attorney and a partner of the law firm LLG Lögmenn ehf., where he has practiced law since 2011. Sigurður Kári has been the Chairman of the Board of Iceland's Natural Disaster Insurance for many years, in addition to being a member of various committees and boards, including the Supervisory Board of the Central Bank. 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.

CEO

The CEO, or Chief Executive Officer, undertakes the main management of the company's daily operations and represents the company in all matters pertaining to ordinary operations. The CEO must obey the instructions of the Board of Directors. The CEO is responsible for accounting and the engagement of personnel. The CEO shall grant Board members and special examiners 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 on as Deputy CEO of WOW air. Birgir was Össur's Regional Director in Asia, which is based in Hong Kong. He has 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.

Birgir will step down as CEO on April 2nd 2024.

DANÍEL SNÆBJÖRNSSON
Chief Network Officer

Daníel Snæbjörnsson is the CNO at PLAY. Daníel has extensive experience within the aviation industry. From 2014 until joining PLAY, Daníel worked for both Icelandair and WOW within their network planning and scheduling teams. Prior to that, Daníel co-founded Altitude Aviation Advisory, a UK based consultancy firm focusing on the aviation industry. 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.

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.

GEORG HARALDSSON
Chief Information Officer

Georg Haraldsson is the CIO at PLAY and leads the company's Digital Development and Information Technology. Georg worked as an E-commerce and Distribution Manager for Iceland Express for 6 years and an E-commerce Manager for Dohop for a year. Georg held the position of Managing Director and Regional Sales Director in the Middle East for Marorka for a few years and as Product Director for Valka and CCO at Iceland Travel for a year. Georg also worked as The Chief Information and Digital Officer at Iceland Post.

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.

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 15 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.

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.

ÓLAFUR ÞÓR JÓHANNESSON
Chief Financial Officer

Ólafur is the CFO at PLAY and leads the division of Finance, which includes Legal. Ólafur has extensive experience working in finance, operations, and business management.

Before coming to PLAY, Ólafur worked as CEO, Deputy CEO, and CFO at Skeljungur hf. (SKEL fjárfestingafélag hf.) from 2019 until 2022. He has previously held various management positions, worked as an independent consultant, sat on various boards and been a certified public accountant and partner at PricewaterhouseCoopers.

Ólafur Þór has a cand.oecon degree in Business Administration from the University of Iceland and a certified public accountant degree.

SONJA ARNÓRSDÓTTIR
Chief Commercial Officer

Sonja Arnórsdóttir is the CCO at PLAY and leads the company's efforts in sales, marketing, customer service, claims, PR, revenue management, and distribution.

Sonja holds a bachelor's degree in financial engineering from Reykjavik University and has worked in revenue and sales in the airline industry for the past 12 years. She worked as a revenue specialist at WOW air where she led a team of 10 and has been the Director of Revenue and Sales at PLAY since 2019.

Regulatory Framework and Governing Bodies

Fly Play hf. (hereinafter referred to as "PLAY" or the "Company") is an Icelandic public limited liability company domiciled in Reykjavik. PLAY is listed on the Nasdaq First North Growth Market Iceland.*

Corporate Governance at PLAY is based on Icelandic laws and the Company's Articles of Association. The relevant Icelandic laws include the Act respecting Public Limited Companies no. 2/1995 and the Act on Financial Statements no. 3/2006. PLAY also takes note of the Corporate Governance Guidelines published by the Iceland Chamber of Commerce, Nasdaq Iceland, and SA Confederation of Icelandic Enterprise as well as the company's Board of Directors Rules of Procedure. Generally, any material deviation from the Guidelines is mentioned in this report.

Governing bodies

A shareholders' meeting wields the supreme power in the Company. The Board of Directors is responsible for the company's business between shareholders' meetings. An executive management team of six executives, led by the CEO, is responsible for the day-to-day business. This chapter describes the roles of the Company's governing bodies.

General meeting of shareholders

A shareholders' meeting wields supreme power over the affairs of a Public Limited Company.

All shareholders are authorized to attend and speak at a shareholders' meeting. Shareholders' meetings shall be convened with a minimum notice of three weeks and a maximum notice of four weeks. One vote of share capital is attached to each ISK 1. Using a written proxy, shareholders may grant a third-party the authority to attend shareholders' meetings and wield their voting rights. The simple majority of votes will decide on the issues at shareholders' meetings unless alternative instructions are provided by law or PLAY's Articles of Association.

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. The following matters shall be taken under 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 and comments by the Company's Auditor shall be submitted for approval.
- **C** A decision will be made regarding the handling of profit or loss, dividends, 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.

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 their conclusions to the Annual General Meeting. An Auditor may not be elected from the Company's Directors or personnel group. The operational and fiscal year is the calendar year.

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 occur by majority vote unless there is a legal requirement to the contrary.

The two women and two men who receive the most votes in the Board elections shall be considered duly elected, in addition to the candidate who gets the most votes out of the remaining candidates. The Company's Board of Directors undertakes company affairs and shall ensure that the Company's organization and activities are always in correct and good order. The Company's Board of Directors shall hire a CEO. The Company's Board and the CEO undertake the administration of the Company. The Board regularly discusses its operational procedures, including encouraging open discussions, providing information to board members, and having meetings without management present. The board follows written procedural rules, which are reviewed annually, and among others, describes elements of the board's evaluation of its work. The board has

In February 2024 the company announced its plan to uplist to the NASDAQ's Main Market in Iceland.

also established several company policies that are addressed further in this report.

The Board met sixteen times in 2023 and, with the exception of one board member missing a meeting, was 100% present. There is no formal platform for interaction between the board and the company's shareholders, but the Chairman and other board members had, during 2023, some regular formal and informal meetings with some large shareholders. However, as the company is listed, any disclosure of information to any shareholder or other parties is regulated by Icelandic financial market law and the stock exchange rules.

Of the five members of the Board, two are women and three are men, including the Chairman and the Vice Chairman. The Company is subject to and upholds statutory provisions regarding gender equality on the board. The Executive Committee consists of six individuals: four men, including the CEO, and two women. As a Company policy, diversity is an important element in every hiring of employees, including senior management.

The Committees of the Board

The Board of Directors has two Board committees.

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. With three members, two of whom are also members of the Company's Board of Directors, it is led by an independent Chairman who does not have other interests regarding the Company and who will be selected at the Company's annual general meeting as of March 2024.

The Remuneration Committee is responsible for the Company's Remuneration Policy and carries out and monitors its implementation. The Committee includes two board members and is led by an independent Chairman. The Company did not have an established Nomination Committee at its founding, before its listing on a stock exchange, and the board has not taken any action to establish such a committee.

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

CEO

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

Further information with regards to PLAY's corporate governance is available on PLAY's websites *www.flyplay.com/en/investor-relations* and *www.flyplay.com/en/corporate-governance*

Legal factors

In addition to conventional company and business related legislation, the Company is – as a listed entity on NASDAQ – subject to various financial markets laws and regulations as a systematically important entity in its domicile in Iceland.

In addition, 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 industry-related laws and regulations include air traffic taxes, aviation security costs, passenger rights, obligations related to protecting the environment, take-off and landing rights, and night-flight bans.

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

Distribution of shareholders

The number of shareholders on December 31, 2023 was 1,990 compared to 2,095 on December 31, 2022. At the end of the year, the number of legal entities holding shares in the company was 315 and the number of individuals was 1,675. 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 75% of the issued shares combined. Please see the 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, 2023

Shareholders Dec 31, 2023

	Shares	
Leika fjárfestingar ehf.	93,596	10.8%
Birta lífeyrissjóður	81,686	9.4%
Stoðir hf.	54,000	6.2%
Stefnir - Innlend hlutabréf hs.	48,383	5.6%
Stefnir - ÍS 5 hs.	41,503	4.8%
IS EQUUS Hlutabréf	38,173	4.4%
Lífsverk lífeyrissjóður	37,534	4.3%
Fea ehf.	35,034	4%
Eignarhaldsfélagið Mata hf.	31,938	3.7%
Festa - lífeyrissjóður	27,137	3.1%
10 largest shareholders total	**488,985**	**56.3%**
Other shareholders	**379,458**	**43.7%**
Total	**868,443**	**100%**

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 the risks and increases PLAY's financial stability.

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

PLAY's risk management will not focus on risk avoidance but on identifying and managing an acceptable level of risk. They 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 matters. PLAY's objective is to minimize risk.

Risk management is a dynamic and ever-evolving area. PLAY's Board of Directors and management recognizes 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. Our focus should be on minimizing uncertainty in achieving our goals and objectives and maximizing the opportunities to achieve our vision.

Risk management process and framework

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

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 management shall protect and add value to the organization and its stakeholders through supporting PLAY's objectives. They will do so by improving decision-making, planning, and prioritization with 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.

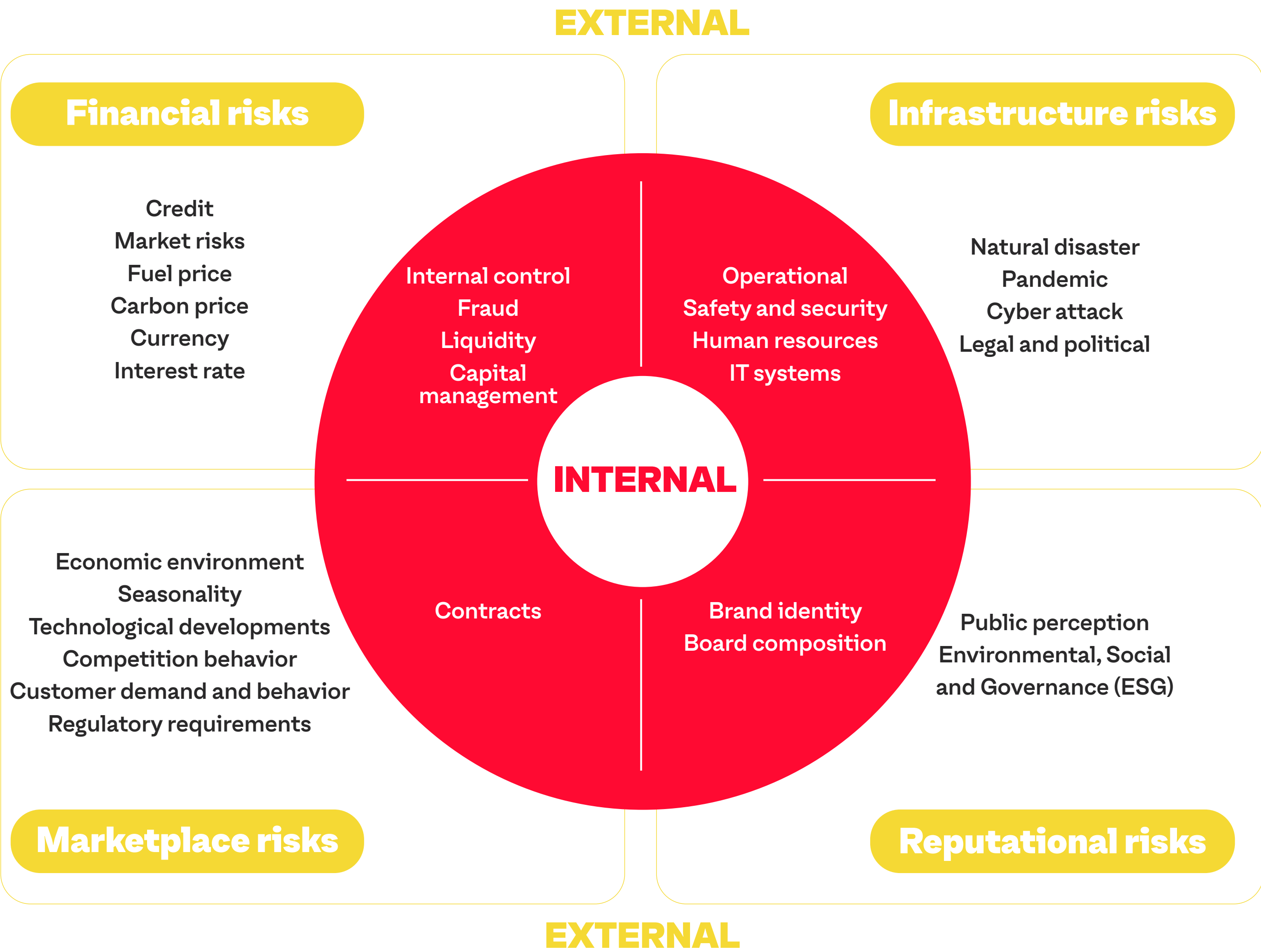
PLAY's risk management is a continuous and evolving process that is integrated into the culture of PLAY.

PLAY's risk assessment process should be an integral part of the strategy process and objective operational setting across the organization: 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 are 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 a 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, cost of carbon emission (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 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 a policy of minimum cash target levels considered satisfactory under both 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. The acquirer settles the cash related to the sale to PLAY in line with the agreed terms and holdback period. The acquirer may have liability if PLAY does not ultimately provide the purchased 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 hold requirements can reduce PLAY's liquidity in the form of unrestricted cash and short-term investments by the amount of the holdback.

PLAY aims to maintain its cash and cash equivalents, highly liquid debt investments, and available credit facilities at pre-determined levels monitored by the company. PLAY's cash and cash equivalents amounted to USD 21.6 million at year-end and restricted cash amounted to USD 9 million.

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 hedge covering estimated fuel usage based on sold tickets and an estimated load factor for the next 1-12 months. The hedging ratio can vary 30%-60% of the estimated fuel consumption for the period. The hedging ratio is higher near term and decreases the further out the flight is.

Carbon emissions price

Since the beginning of 2012, all airlines operating within the EEA 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, the 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 complies with both EU ETS and UK ETS.

PLAY is exposed to carbon emissions risk due to changing prices of ETS credits. Emissions permits (ETS credits) are mainly purchased 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 a revision of the European Emissions Trading System (EU ETS). Former EU legislation allocation of free allowances was only accessible for those aircraft operators operating in 2015. However, PLAY expects to receive free allowances in 2024. Further proposed changes in the legislative framework aim to reduce the total amount of free ETS credits allocated to airlines, and phase them out by 2027.

PLAY celebrates the fact that the Icelandic government reached an agreement with the EU Commission on Iceland's adaptation to Directive (EU) 2023/958. Iceland's objective in this matter was to level the playing field for airlines flying to and from Iceland compared to those serving other airports within the EEA. However, flight routes to Iceland typically cover much greater distances than the average flights between other European airports.

Special provisions tailored for Iceland according to the agreement are:

- Extending the existing scheme of free emission allowances until 2026.
- Granting Iceland a comparable special arrangement entailing a 100% reimbursement of the price disparity between sustainable aviation fuels (SAF) and fossil fuels.
- Incorporating a review clause specific to Iceland into discussions concerning modifications to the ETS system.

The special provisions to the agreement for Iceland's implementation will enable Iceland to retain the allocation of free allowances to air carriers for the years 2025 and 2026. This allocation will match the number of emission allowances allocated to airlines in 2024. However, the allocation is contingent upon airlines submitting a carbon neutrality plan to the Environment Agency which PLAY will do.

Foreign currency risk

PLAY's functional currency is the U.S. dollar (USD). PLAY is exposed to currency risk on the sale, purchase, and expenses in other currencies. The most significant exposure will be in Icelandic krona (ISK), where cash inflow in ISK is 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 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 flow through matching inflow and outflow in each currency to the extent possible, converting currencies into USD to ensure a balance in the cash flow and balance sheet.

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, and compliance with aviation and securities regulations, among others.

Delays and canceled flights occur for various reasons and impose increased costs on airlines. Possible causes include computer faults, accidents, labor unrest, weather conditions, 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. 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 have collective agreements on salaries and benefits. Each union contract comes up for renegotiation every few years, bringing with it a risk that the parties will not reach a satisfactory agreement, thus 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 of 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 products 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 agreement with Syndis to perform further evaluations and 24 hour access to provide immediate support if an attack occurs.

PLAY needs to store and process personal information and other customer data to be able to conduct its business. PLAY must comply with the data protection and data privacy laws and regulations. Those laws and regulations impose stringent data protection requirements and 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 has appointed a GDPR officer to monitor and manage GDPR with regard to data storage and processing.

Any failure to comply with data protection and data privacy policies, privacy-related obligations to customers or third parties, privacy-related legal obligations, or any compromise of security that results in an unauthorized release, transfer, or use of personally identifiable information or other customer data may result in governmental enforcement, actions, litigation, or public statements against PLAY. Any such failure could cause the users of PLAY's services to lose trust in PLAY.

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 be a significant driver for 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

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 cannot predict these variations correctly and adjust accordingly, PLAY 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 any of PLAY's key transport markets, including the Icelandic market and the transatlantic market, 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 costs 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 and requirements relating to environmental approvals for aircraft and 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, and that may negatively impact PLAY's activities and financial results. In the event that 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 normally 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 are under increasing global regulatory focus. PLAY will monitor these factors very closely and take the necessary actions. 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. If PLAY's reputation is 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.

3.

Report on Sustainability

Our sustainability strategy

We are Safe, Simple and Sustainable

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 our stakeholders.

Being playful, focusing on simplicity, and showing discipline will be the key to maintaining the sustainability strategy in all of PLAY's activities.

CLIMATE ACTION
More fuel-efficient 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

WELL-BEING
Health and safety

We ensure well-being 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

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

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

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 our stakeholders and meet their requirements

We embrace collaboration and transformative change beyond our company

Sustainability progress in 2023

	Concepts	Target for 2023	Progress in 2023	Target for 2024	See on page
The Environment	Sustainable Aviation Fuel (SAF) as a portion of PLAY's fuel consumption	Comply with SAF country mandates in countries that have mandates	PLAY complied with SAF country mandate in France	Comply with SAF country mandates in countries that have mandates	49
	Decarbonization Strategy	Publish a decarbonization strategy	Foundation of the decarbonization plan was laid	Publish PLAY's journey to net-zero	51
	Implementing a circular economy mindset throughout our operations	Begin sorting recyclables from general waste on board PLAY's aircraft	1.2t of sorted recyclables went to the circular economy	4t of sorted recyclables go to the circular economy	59
				Publish a Circularity strategy	48
	Carbon offsetting strategy	Target for 2024	N/A	Complete and publish Carbon offsetting strategy	48
	Responsible procurement	Target for 2025	N/A	N/A	48
Social	Our employees are engaged and proud of their company	Employee surveys score higher than 4.2 out of 5	Engagement scored 4.11 and pride 4.37	Employee surveys score higher than 4.2	62
	Diverse and inclusive workforce	Maintaining equal gender ratio in the management team, and focusing on hiring workforce with diverse background	Management team 44% female and 56% male. PLAY's employees consisted of 30 nationalities, and employees age ranged from 19 to 68 years old	Work towards equal gender ratio in the management team, and focusing on hiring workforce with diverse background	64
	100% equal pay	Renewal of our equal pay certification	PLAY renewed its equal pay certification	Maintain equal pay certification	64
	Our employees are familiar with our Anti-harassment and non-discrimination policy	All PLAY's employees have reviewed and consented to adhere to the policies in the annual appraisal	72.5% of employees have reviewed and consented to adhere to PLAY's Anti-harassment and non-discrimination policy in 2023	100% of new employees will review and consent to adhere to PLAY's Anti-harassment and non-discrimination policy	72

	Concepts	Target for 2023	Progress in 2023	Target for 2024	See on page
Governance	Our suppliers follow PLAY's Code of Conduct	Send supplier assessment to 10% of PLAY's key suppliers	Sent out 19 supplier assessments	Renewed effort to send the supplier assessment to 10% of PLAY's key suppliers	65
	Data Security and Privacy Policy	Focus on implementing employee training sessions dedicated to data security and privacy	Third party presentation on cyber security accessible for all PLAY's employees	Continue data security and privacy policy training for employees	65
	Employee's follow PLAY's Code of Conduct	All PLAY's employees have reviewed and consented to adhere to the policies in the annual appraisal	72.5% of employees have reviewed and consented to adhere to the PLAY's Code of Conduct	100% of new employees will review and consent to adhere to PLAY's Code of Conduct	72
	ESG risk management	ESG falls under the risk management framework. Ensuring proactive identification and mitigation of emerging risks	Implemented robust monitoring mechanisms, for example for Emissions Trading Schemes (ETS)	PLAY will disclose its risk assessments on ESG as per industry standards	41
	Internal communications	Focus on good internal communication, using the internal platform (Workplace) to reach everyone. Staff meetings for all staff once a quarter, regular open meetings with different focus and regular open crew meetings	Workplace was active and used by all members of staff. Staff meetings were held frequently and open crew meetings as well	Maintain good internal communication, using the internal platform (Workplace) to reach everyone. Staff meetings for all staff once a quarter, regular open meetings with different focus and regular open crew meetings	62

5 GENDER EQUALITY
8 DECENT WORK AND ECONOMIC GROWTH
17 PARTNERSHIPS FOR THE GOALS

Environmental goals for 2025

In 2021, we identified the key sustainability areas using a materiality assessment, and our environmental sustainability efforts have since been guided by the three core principles. As 2025 approaches, we are reflecting on the goals that we set in 2021 and preparing for the mindset of new ambitious goal setting. PLAY understands the urgency of reducing its environmental impact and this will be a key theme in a new double materiality assessment in 2024.

Our environmental sustainability efforts are guided by three core principles:

#1
Working toward carbon neutral operations

#2
Circular thinking in all our operations

#3
Responsible procurement

How we will achieve our environmental goals?

- Sustainable aviation fuel (SAF) – this is important in helping the aviation sector in achieving net-zero emissions. PLAY is committed to minimizing its carbon footprint and will integrate SAF into its operations in 2025. However, accessing and supplying SAF remains a great challenge.
- PLAY's journey to net-zero – in 2023, we laid the foundation for our decarbonization strategy, which will persist into 2024. The strategy will be published in 2024 and updated on a regular basis. See more on *page 51*.
- Carbon offsetting strategy – our initial focus and first step toward a carbon offsetting strategy was to calculate our Scope 1, 2, and 3 emissions to assess our current position. This has been accomplished and so the next step is to finalize our decarbonization strategy that will then enable us to proceed with completing the Carbon offsetting strategy.
- Circular thinking in our operations – we have taken active steps in 2023 with regards to circular thinking, see *page 59*. Our ambitions extend beyond onboard services, and we will publish a circularity strategy that extends to all operations in 2024.
- Responsible procurement - PLAY's supplier code of conduct is reviewed annually with a growing emphasis on sustainability. By 2025, a procurement strategy will be in place for all PLAY departments.

European Green Deal

With the help of the European Green Deal, the EU will become a modern, resource-efficient, and competitive economy, guaranteeing that no one will be left behind and net-zero will be reached by 2050.

The EU Taxonomy is part of the EU's broader efforts to achieve the objectives of the European Green Deal. Please refer to the EU Taxonomy chapter on *page 68* for more information.

The EU's climate goal, known as Fit for 55, calls for a minimum 55% reduction in emissions from 1990 levels by 2030 in order to reach climate neutrality by 2050. The Fit for 55 package calls for actions like the following to cut down on aviation emissions:

Emission Trading Schemes

The Emissions Trading Scheme (ETS) approach uses a "cap and trade" system to reduce emissions by placing a limit on the total quantity of specific greenhouse gases that participating industries are permitted to emit. This sets a cap on the total amount of carbon that can be released into the atmosphere. Participants in ETS systems can receive and/or buy emission allowances through the ETS market where one ETS unit is equivalent to one ton of emissions. Aircraft operators and other participants in ETS systems are required to surrender allowances annually in order to compensate for the reportable emissions.

PLAY adheres to the EU, UK, and CH ETS. PLAY expects to receive free allocation of EU ETS units in 2024 for a part of its emissions.

ReFuelEU Aviation Regulation

ReFuelEU, which is a component of the Fit for 55 package, requires aviation fuel suppliers at EU airports to progressively increase the share of Sustainable Aviation Fuels (SAF). Airlines operating out of EU airports will only be allowed to refuel their aircraft with the amount of gasoline required for the journey to prevent emissions caused by the extra weight of fuel. Airports must ensure that the required infrastructure is available in order to distribute, store, and refuel using SAF in accordance with the ReFuelEU aviation regulations.

SAF is a direct drop-in solution to conventional aviation fuel which means it may be blended with the conventional aviation fuels and still use the existing distribution systems on the ground as well as the same aircraft systems and engines.

PLAY complied with France's national SAF mandate in 2023.

We continuously monitor the SAF market and other similar technologies, and will enhance our SAF ratio whenever possible with the goal of exceeding the SAF obligational ratio if supply and accessibility allow for it.

Corporate Sustainability Reporting Directive

As part of the European Green Deal, the Corporate Sustainability Reporting Directive (CSRD) aids in the assessment of a company's sustainability performance by stakeholders such as consumers, organizations, and investors. Companies subject to the CSRD will be required to publish the sustainability reports using European Sustainability Reporting Standards (ESRS).

As we look ahead to the reporting obligations for 2025, it is critical that we keep ahead of the curve and anticipate changes to the regulatory framework. To ensure that we are adequately prepared for these developments, we will take the necessary steps in 2024 to be compliant with the CSRD regulatory framework. Given the changing regulatory landscape and the growing emphasis on sustainability and ESG factors, incorporating a Double Materiality Assessment will enable us to fully assess the impacts of our operations on financial performance as well as the broader environmental, social, and governance factors.

Climate Action

We understand that flying has a significant environmental impact and travelers consistently seek companies who have a clear sustainability strategy. We take our commitment seriously and take great pride in making our sustainability strategy accessible to all, not only in our Annual and Sustainability Report (*page 45*) but also publicly available *on our website*.

In addition, PLAY's Environmental Policy is also *publicly available* for further insight and transparency into our commitment to environmental responsibility.

PLAY's primary environmental impact comes from our core business which is through the operation of our aircraft. Addressing fuel efficiency and decarbonizing our flights remains paramount. Jet fuel stands out as the most significant cost in PLAY's operations, making reductions in fuel consumption both environmentally and financially beneficial. These strategies are not new to us as we have already taken proactive steps in this direction.

Unfortunately, the aviation sector continues to heavily rely on conventional jet fuel, making it difficult to fully decarbonize flights. However, we are actively engaged in forecasting the future of sustainable aviation. Explore the groundwork of PLAY's journey to net-zero on the next page.

We continue to exclusively fly a young and modern fleet comprising the A320neo and A321neo, which are renowned for their exceptional fuel efficiency, resulting in lower CO_2 emissions compared to older generation aircraft. While our aircraft are already fuel-efficient, explore our ETOPS license on *page 52* to see how we are committed to continuous improvement.

As a relatively new company, PLAY's growth has led to an unavoidable increase in our carbon emissions. To combat this, we have been implementing fuel efficient initiatives since the very start of operations. This has ensured optimal fuel consumption for transatlantic flights and, therefore, minimized both emissions and costs. Our newest initiative is the implementation of SkyBreathe, which you can explore further on *page 53*.

PLAY's journey to net-zero

As part of our commitment to sustainability, we embarked on a journey to develop a comprehensive decarbonization strategy in 2023. We set out with the ambitious goal to publish the strategy, in 2023 outlining our roadmap toward mitigating carbon emissions and fostering environmental sustainability.

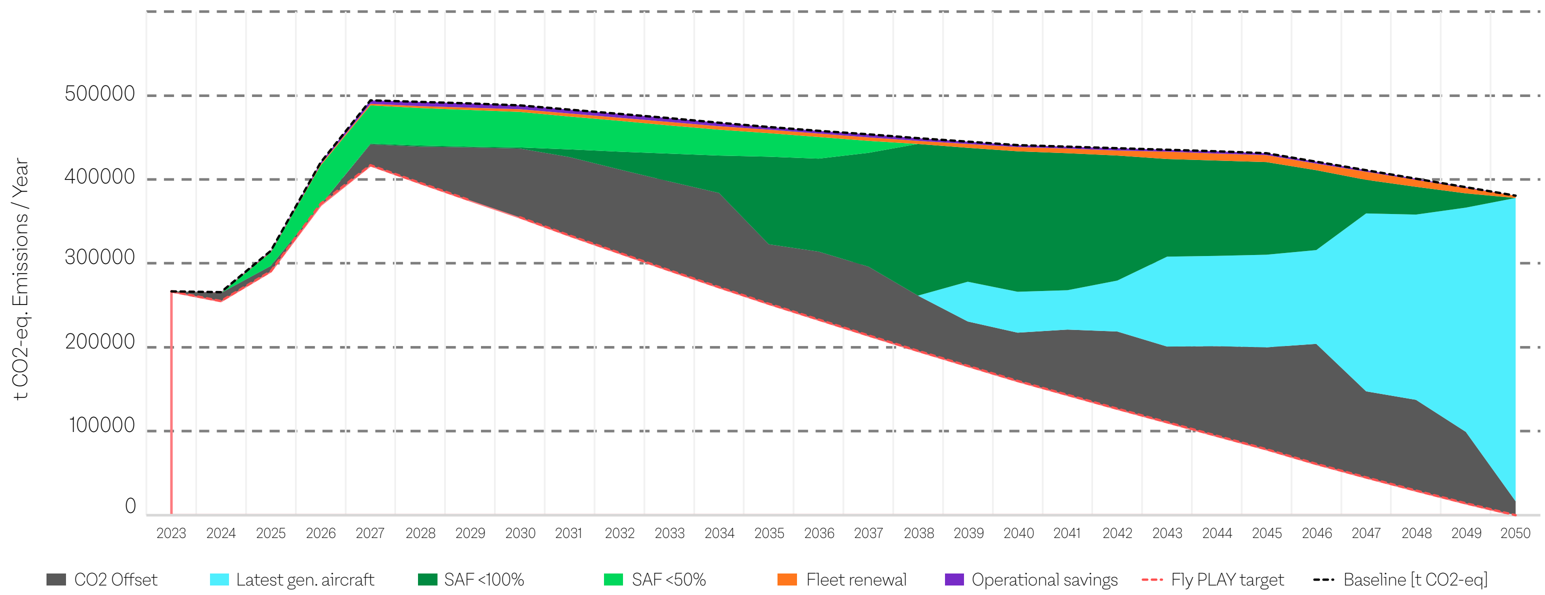
At PLAY, we see sustainability as a journey of constant improvement. That's why our strategy is called PLAY's journey to net-zero—it aligns perfectly with where we're headed.

Our team began developing the strategy while also working closely with the Sustainability advisory team at KPMG in Iceland. The strategy is based on the SBTi methodology and will incorporate the many varying factors of the aviation industry, e.g. availability of Sustainable Aviation Fuel (SAF), new generations of aircraft, and other significant enhancements.

During the development process, we encountered a delay in finalizing the strategy. This delay was due to the need for further clarification and guidance on regulatory requirements, particularly regarding the content and format of climate-neutrality plans from the European Commission.
Even though the strategy is not fully ready and published, we provide a sneak peak in this illustration of how the strategy will shape up, featuring short and long-term goals rooted in the base year of 2023.

Understanding the importance of staying aligned with regulatory frameworks while maintaining flexibility, we have adjusted our timeline accordingly. We remain committed to delivering a robust strategy that meets regulatory standards and we will publish it in 2024 when it is ready.

While delays may come our way, we remain dedicated to regular updates and enhancements to our strategy, ensuring its alignment with evolving standards and best practices.



Fuel Efficiency

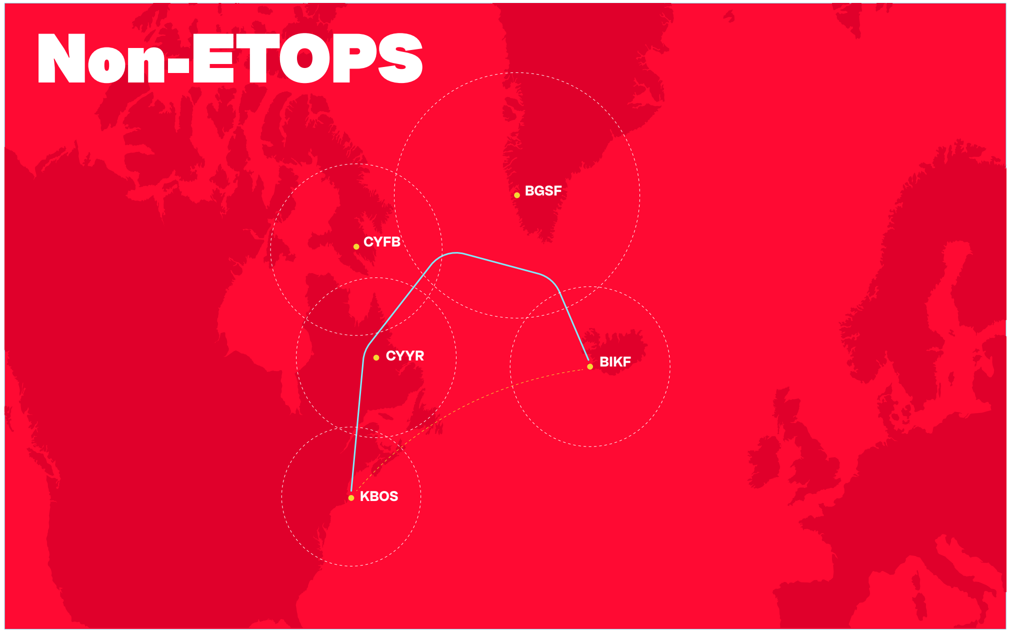
ETOPS Efficiency: On-Time Excellence

A significant milestone for PLAY in 2023 was receiving ETOPS (Extended-range Twin-Engine Operational Performance Standards) approval from the Icelandic Aviation Authority (ICETRA). This achievement marks a new level of operational efficiency and sustainability for PLAY. Nearly all flight crew members are now ETOPS-trained and can, therefore, extend flight ranges and optimize routes, which is particularly beneficial for flights to the US and Canada.

ETOPS approval brings several benefits, including reduced flight times, exemplified by saving an average of 20 minutes per journey on routes like Keflavík, Iceland to Baltimore, US. This not only enhances operational efficiency but also offers passengers quicker travel and improves turnaround flexibility. Moreover, it results in substantial fuel savings, with average savings of 1.5 tons per flight, aligning with our environmental sustainability objectives.

Beyond time and fuel savings, ETOPS enhances passenger comfort by enabling more direct routes. This globally recognized standard underscores our commitment to safety and reliability, ensuring compliance with stringent regulations.

Since we started operating ETOPS in October 2023, it has enabled us to save 66 hours and 20 minutes in flight time as well as 139,871 kg of fuel in 2023. PLAY operated six ETOPS approved aircraft in 2023. All 10 aircraft will be ETOPS approved in 2024.



Fuel Efficiency

Reducing Emissions with SkyBreathe®

PLAY's commitment to operational excellence led to the integration of OpenAirline's SkyBreathe® software into its operations in 2023. This decision marked a pivotal step toward optimizing fuel efficiency and reducing emissions across the fleet.

SkyBreathe® advanced analytics and real-time monitoring capabilities provide PLAY with actionable insights into fuel consumption patterns and flight operations. This integration assists PLAY to identify opportunities for improvement and implement targeted strategies to enhance efficiency. With the utilization of SkyBreathe®, we have a better overview of other greenhouse gases.

The implementation of SkyBreathe® yielded significant fuel savings and reduced emissions for PLAY. SkyBreathe® has played a pivotal role in PLAY's journey toward operational excellence and environmental responsibility. As PLAY continues to embrace innovation and sustainability, SkyBreathe® remains a key tool in achieving its goals of fuel-efficiency and cost savings.

The data from SkyBreathe® is used in the graphic to illustrate the tCO2 savings for each flight phase. When all other initiatives are taken into account, the overall tCO2 savings for 2023 came to 2,368 tCO2 using SkyBreathe®.

Klimate

The aviation sector remains a significant contributor to greenhouse gas emissions. In response, PLAY now empowers its passengers to offset the carbon footprint of their flights by supporting reputable carbon removal projects in co-operation with Klimate.

PLAY's passengers facilitated the removal of 191.84 tons of CO2 emissions in 2023 alone. This initiative not only allows travelers to offset their carbon emissions but also grants them the flexibility to choose the permanence of their offset through various portfolio options.

By fostering transparency and communication about this impact, PLAY seeks to empower passengers to make informed decisions regarding their carbon footprint and offer them the opportunity to take meaningful action by offsetting their emissions.

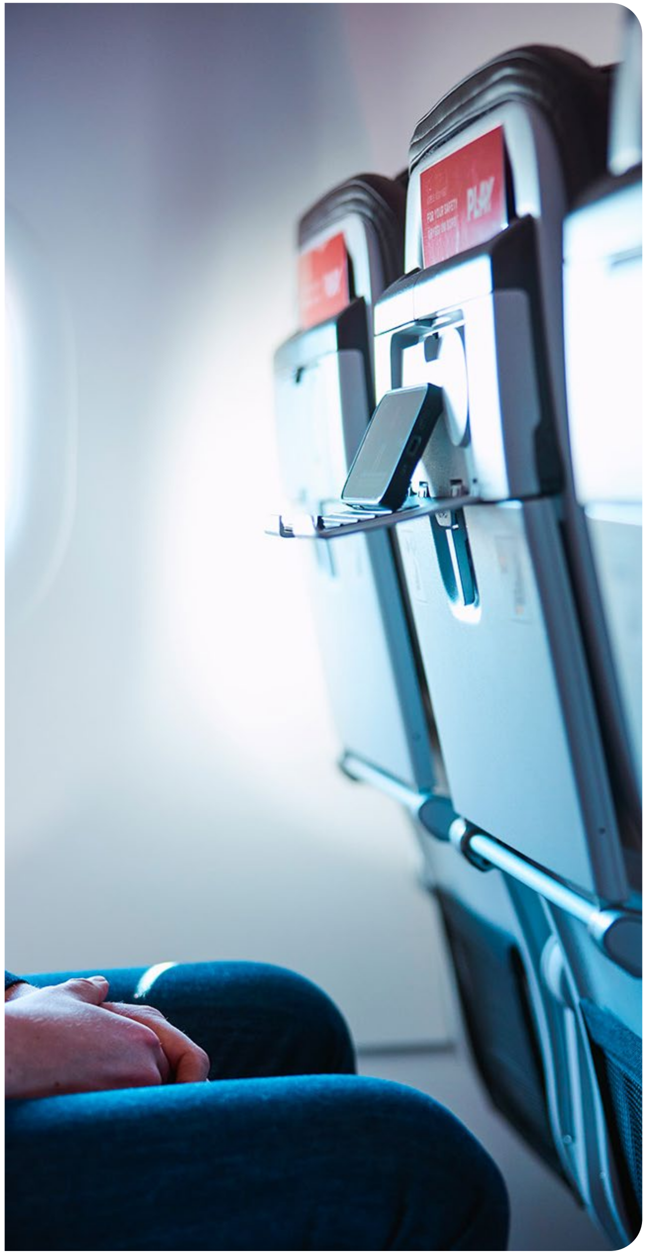
Paperless initiative

We've transitioned to using aircraft cabin iPads, replacing traditional paper manuals for Cabin Crew. This move is part of our ongoing commitment to streamline operations and embrace sustainability. The benefits are substantial: reduced weight per aircraft resulting in lower fuel consumption, more efficient update processes, and the flexibility to accommodate future needs seamlessly.

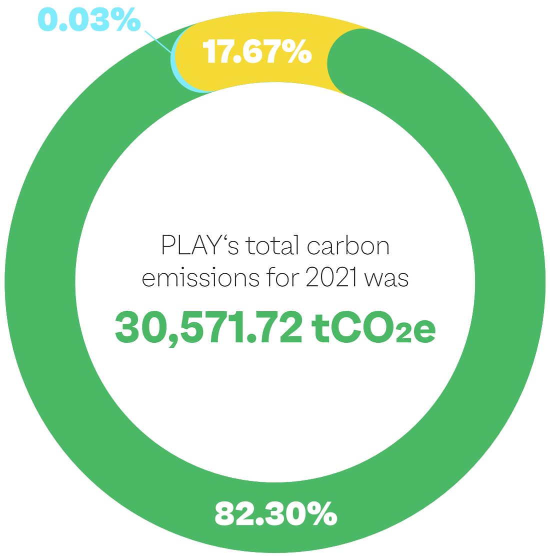
This transition is part of PLAY's aim to achieve a paperless aircraft while enhancing operational efficiency.

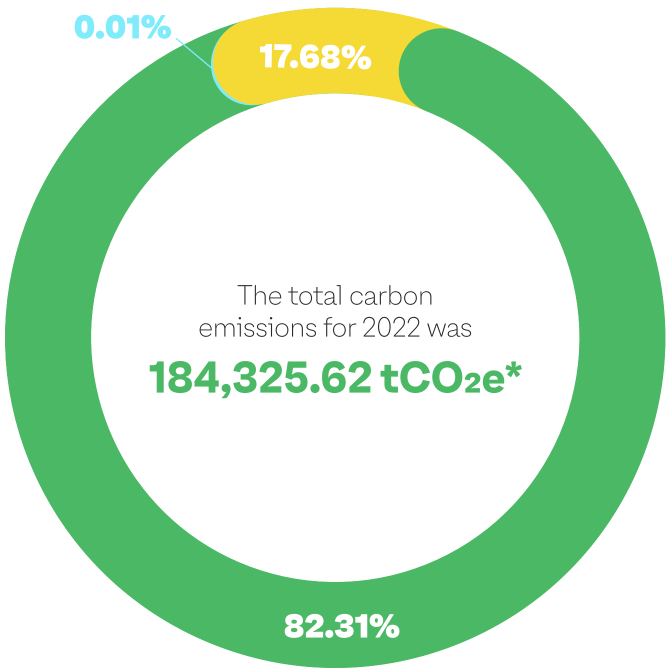
191.84 CO_2 tons

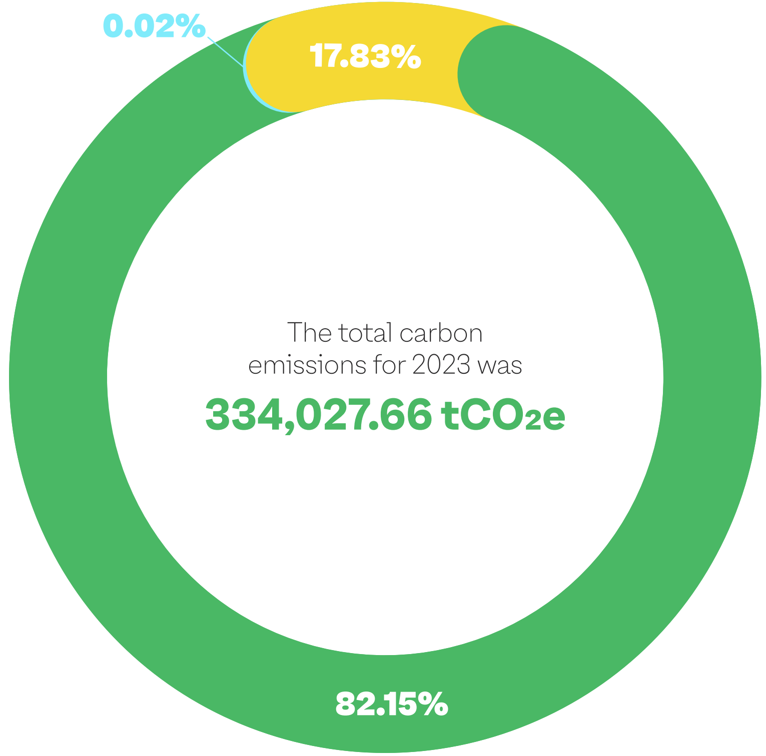
Removed by PLAY passengers in 2023



Carbon Accounting







Graph includes adjusted percentages from 2022

Scope 1 Scope 2 Scope 3

2021

3 aircraft • 1,000+ flights
100K passengers • 53% load factor

Scope 1 Scope 2 Scope 3

2022

6 aircraft • 5,300+ flights
789K passengers • 80% load factor

Scope 1 Scope 2 Scope 3

2023

10 aircraft • 9,600+ flights
1,5 mln passengers • 83% load factor

The primary contributor to PLAY's carbon emissions stems from fuel usage. The largest portion of Scope 1 emissions, accounting for the majority at 82.08%, is attributed to jet fuel, with the upstream transportation of fuel from our suppliers (Scope 3) following at 17.24%.

In 2023, our total carbon emissions reached 334,027.66 tCO2, compared to 184,325.62 tCO2 in the previous year. The increase in emissions can mainly be linked to ourfleet expansion, which grew from six aircraft to 10 as well as the addition of new destinations.

Our carbon footprint calculations adhere to the Greenhouse Gas Protocol Standard guidelines. To ensure the utmost accuracy, Verifavia, an independent verification body, has verified not only our Scope 1 and 2 emissions but also, for the first time, our Scope 3 emissions. For further details, please refer to the assurance statement provided by Verifavia on *page 74*.

**Calculations corrected from previous reporting*

Carbon Accounting

Calculating our Carbon Emissions - Methodology

Following the guidelines of the Greenhouse Gas Protocol, we classify our calculations in three categories with both direct and indirect emissions, which are known as Scope 1, 2, and 3.

- Scope 1 encompasses our direct emissions, including jet fuel usage, de-icing fluid, and fuel consumption for company vehicles.
- Scope 2 covers our indirect emissions, such as ground electricity consumption, heating, and water usage.
- Scope 3 extends to other indirect emissions related to the products and services that we procure, waste generation, business travel, employee commuting, and transportation of purchased goods and services.

As we continue into our third year of emissions data collection, we continue enhancing our calculations and data collection methods to further improve accuracy and broaden the coverage of our indirect carbon emissions (Scope 3). This is, among other things, reflected in additional product categories and business travel calculations being extended to include hotel stays for cadets.

As part of our ongoing efforts to enhance and refine our calculations of Scope 3 emissions as well as provide easier comparability, we have updated our 2022 calculations to include data, where available, which was added in this year's calculations of Scope 3. This update did not extend to our 2021 calculations due to it not being a whole calendar year of operations and, therefore, would not be fully comparable.

By continuing to recalculate from 2022 onwards, we aim to increase transparency and facilitate meaningful comparisons over time.

Scope 1	
Jet fuel	Included in the calculations
De-icing	Partially included in the calculations*
Petrol	Included in the calculations
Diesel	Included in the calculations
Scope 2	
Electricity	Included in the calculations
Heating	Included in the calculations
Water Usage	Included in the calculations
Scope 3	
1. Purchased Goods and Services	Partially included in the calculations
2. Capital Goods	Does not apply
3. Fuel- and Energy-Related Activities Not Included in Scope 1 or Scope 2	Included in the calculations
4. Upstream Transportation and Distribution	Partially included in the calculations
5. Waste Generated in Operations	Included in the calculations
6. Business Travel	Included in the calculations
7. Employee Commuting	Included in the calculations
8. Upstream Leased Assets	Does not apply
9. Downstream Transportation and Distribution	Does not apply
10. Processing of Sold Products	Does not apply
11. Use of Sold Products	Does not apply
12. End-of-Life Treatment of Sold Products	Does not apply
13. Downstream Leased Assets	Does not apply
14. Franchises	Does not apply
15. Investments	Does not apply

**We will continue to calculate de-icing procedures at Keflavík Airport. We will discontinue calculating de-icing at outstations due to the data's lack of standardization. It's worth noting that de-icing procedures at outstation represent a small portion of our CO2 emissions.*

All meals provided to crew members, fresh food sold on board, and additional snacks and beverages are included in the list of purchased goods and services. All consumable products sold on board were included in the calculations in 2023. This is an update from the previous year where the main menu was used as a guide for which products to include. With the updated calculation model, we ensure that all consumable products are included, including temporary menu items such as on the annual December menu. Added to the calculations this year are also utility products on board as well as various computer equipment with precalculated emissions from our suppliers. As was done in the previous year, ground handling at Keflavík Airport, Iceland, is taken into consideration under purchased goods and services.

For fuel- and energy-related activities, the calculations remained unchanged other than what is covered under scope 1 or scope 2.

Upstream transportation and distribution remained the same from the previous year, including calculations from PLAY's leading marine carrier as well as freight transportation of both sold items onboard and crew food. The calculation method stayed the same, considering both the transportation of goods as well as the return of an empty vehicle.

In 2023, the methodology for calculating waste emissions was updated in collaboration with Klappir sustainability platform. The waste generated in our operations encompasses several locations: The headquarters in Reykjavik, catering services at Keflavik Airport, the Operations Control Center (OCC) in Keflavík, waste from our aircraft, and PLAY's office in Vilnius, Lithuania. Recyclable materials sorted from the aircraft are now included in the waste categories.

For waste from the aircraft, the calculations were based on 2022 data and multiplied by the number of flight cycles in 2023. The estimated amount of general waste from our aircraft totaled approximately 191 tons in 2023, excluding sorted recyclables.

The waste in Vilnius was estimated as previously using calculations from the Reykjavik headquarters. The estimated OCC waste at Keflavik Airport was also added into the 2023 calculations.

Business travel encompasses hotel accommodations for PLAY crew members during layovers, for pilot simulation training conducted abroad, and for other business-related trips. Moreover, hotel stays for cadets have been included in the calculations.

Despite an increase in the number of trips due to the addition of destinations requiring layovers for the crew, calculations for bus transfers for business travel have remained unchanged.

The frequency of business trips has continued to increase in line with our growing operations, including additional aircraft added to operations, a broadened range of destinations, regular pilot simulation training, improved connectivity between offices in Reykjavik and Vilnius, participation in international conferences, and other business travel that was needed. Notably, business travel flights operated by PLAY are excluded from the calculations.

The calculation method for employee commuting remained unchanged, and no additional elements were introduced to last year's calculations. Estimations for employee commuting were based on all of the crew members who drive to Keflavík Airport by car and office employees to HQ. Furthermore, they were also based on employee commutes for PLAY employees at the Operations Control Center in Keflavík Airport, employees working in Catering at Keflavík Airport, and employees at the Vilnius office.

Recalculated items back to 2022 in Scope 3

Sold items on board: The additional products added to 2023 calculations were made available due to the implementation of a more accurate data system. This system was implemented in late 2022 and, therefore, due to a gap in data availability, it was deemed unfeasible to update the calculations for the items sold on board in 2022.

Utility products: As utility products were added to the 2023 calculations, the calculations have been extended to the 2022 Scope 3 numbers. This resulted in an increase of 56.63 tCO2e.

Computer equipment: As computer equipment was added to the 2023 calculations of Scope 3, based on carbon footprint calculations from the supplier, the calculations have been extended to the 2022 Scope 3 numbers. This resulted in an increase of 5.88 tCO2e.

Waste: OCC estimation numbers were added to 2023 calculations, but an estimate for 2022 is not available and, therefore, the calculations for 2022 remain unchanged. Sorted recyclables from on board waste is a new category in 2023, and data is not available for 2022 as we started sorting waste on board in April 2023. 2022 calculations have been updated using the same methodology as in 2023, which resulted in a decrease of 7,382.73 tCO2e.

Business travel: Hotel stays for cadets were added in the calculations for 2023. No cadet trainings took place in 2022 and, therefore, the calculations for 2022 remain unchanged.

Circularity

At PLAY, we're constantly on the lookout for fresh ways to revolutionize our operations with circular solutions. Our circularity goals revolve around reducing waste, minimizing excess packaging, eliminating single-use plastic, and teaming up with the relevant partners to achieve these goals. We are dedicated to optimizing every resource we have, cherishing them for as long as they last.

Managing Waste

Waste management is a critical aspect of operating an airline, both on the ground and in the air. PLAY manages waste through recycling programs and strives to continuously improve waste minimization practices. By prioritizing environmental sustainability and regulatory compliance, PLAY strives to promote responsible waste disposal practices throughout its operations.

On Board Sorting Success

Prior to 2023, European and Icelandic regulations mandated the incineration of all the waste generated on board. However, through concerted efforts and collaboration with regulatory bodies, such as the Environmental Agency in Iceland and the Icelandic Food and Veterinary Authority, significant progress has been made toward more sustainable practices within PLAY's operations.

On Earth Day, April 22, we took a pivotal step forward by introducing a comprehensive recycling initiative onboard for our crew. This initiative commenced with the implementation of a recycling kit, enabling the separation of aluminum cans from general waste. We prioritize recycling aluminum cans because aluminum is a highly valuable resource, aligning with one of our core values, which is simplicity.

	2021	2022	2023
Estimated waste from PLAY's aircraft*	9,870.5 kg	107,888 kg	191,064 kg
Recycled waste from PLAY's aircraft	N/A	N/A	1,210 kg

In our ongoing commitment to onboard sustainability, we introduced the Recycling Trolley initiative on September 1, expanding its capabilities to include the sorting of water bottles within our waste stream. This initiative involved retrofitting our waste trolleys to include dual waste bins, facilitating the efficient segregation of recyclables and general waste. As of this implementation, all of PLAY's aircraft are equipped with the upgraded Recycling Trolleys.

Through the Terra waste management system, data reveals a notable achievement in 2023, with a total of 1,210 kg of recyclables successfully sorted from general onboard waste, marking a significant stride toward our sustainability objectives.

At PLAY, we're committed to finding solutions and persistently managing onboard waste. Despite limited space onboard an aircraft, we're constantly striving to improve and set higher standards.

Repurposing Used Aircraft Tires through Recycling

PLAY, in partnership with TP Aerospace, is focused on the recycling of used tires from our aircraft fleet. By teaming up with TP Aerospace, which is renowned for their expertise in sustainable aviation solutions, we are proactively addressing our environmental footprint.

In 2023, PLAY placed an order for 50 nose wheels and a combined total of 68 main wheels for our entire fleet. TP Aerospace facilitates the replacement of used wheels from PLAY with new ones. TP Aerospace also refurbishes a significant portion of reusable tires, while those tires that have reached the end of their lifespan are shredded and disposed of responsibly. Together, PLAY and TP Aerospace are making real progress toward sustainability, one recycled tire at a time.

**Estimated based on average waste per flight*

Social Impact

Social goals for 2025

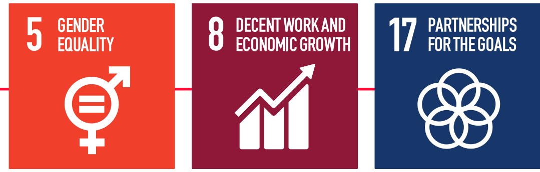
PLAY values a safe, supportive, and playful culture that is crucial for our success as a listed company. We are dedicated to responsible business practices and we aim to promote sustainability in aviation to our customers and beyond.

#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 sus-tainability in the aviation industry



How will we achieve our social goals?

- We are one team at PLAY. Our employees are engaged and proud of working at PLAY. We are dedicated to ensuring high levels of job satisfaction among our employees through ongoing engagement efforts and focus.
- Building and sustaining a diverse and inclusive workforce requires training and access to relevant information on the topic. Diversity and inclusion training is a part of our onboard training program that is overseen by HR.
- We received an equal pay certificate in 2020 and again in 2023. By following our current procedures, we will continue to maintain that certificate.
- Ensuring an equal gender ratio of the management team is a priority. We also put an emphasis on equalizing the gender ratio in jobs where the gender ratio is imbalanced, for example by hiring more women to fly our planes and hiring men as cabin crew members.
- We do not tolerate harassment or discrimination. To ensure that every employee knows and understands our policy, we provide annual training on our Anti-harassment and non-discrimination policy.
- Establishing partnerships and collaborations is essential for every company's sustainability journey. PLAY aims to partner with similar-minded companies in Iceland to broaden the reach of sustainable travel initiatives.
- 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.

Future of work

Our focus from day one has been on creating the best work environment and culture for our people. An excellent work environment, flexibility, and a strong culture are not just nice perks but rather essential for attracting and retaining the best talent. It is crucial to us that our employees notice our commitment to providing equal opportunities, celebrating diversity, and valuing every individual's ideas, knowledge, and perspectives. To succeed in a competitive and fast-growing industry, we encourage and support our team to adapt to changes effectively.

Our employees

Our employees are the core of our business. Together, we are a united team. Our goal is to keep hiring professionals with a great attitude who will help us further strengthen our team. We encourage open communication and we have created an environment where our people can evolve their roles within the company.

Our crew should be comfortable at work, which is why we have ditched the high heels and swapped them out for sneakers. PLAY's uniforms for the crew are non-gender-specific and our crew can pick whatever works best for them from a varied selection of outfits. In November, USA Today named PLAY's Cabin Crew the Best Cabin Crew(link), demonstrating our commitment to service quality. This success recognizes our crew's professionalism and remarkable talent.

At PLAY, we are building a great team with a unique, diverse, and inclusive atmosphere. We are committed to providing a safe and positive environment for all of our employees that is free from discrimination and harassment of any kind. We want to onboard optimistic and powerful people who want to change the course of aviation.

Training for our crew is highly regulated, and we have increased the extent of the training beyond what is required by the regulations. Employees have access to courses and PLAY has established an educational plan based on a focus group within the company.

At the **start of 2023**	At the **end of 2023**
374 employees in **318** full-time positions	**526** employees in **466** full-time positions

In summer 2024 we are expecting to have approx. **530 employees**

In 2023, we kept on growing, not only with more crew members but also new employees in various functions as our aircraft fleet kept growing.

During the year, 350 new employees were hired, which resulted in even greater diversity in the workplace. At the end of the year, PLAY's employees consisted of 30 nationalities, which is a great advantage. PLAY's employees' ages range from 19 to 68 years old with an average age of 34.8 years old.

PLAY puts a lot of effort into career development and emphasizing that people can grow within the company. In 2023, several pilots upgraded to be captains or undertook a pilot training role. At PLAY, there were many permanent hires of cabin crew members with increased responsibility. Many had the opportunity to become senior cabin crew members and/or instructors or cabin line checkers.

At PLAY's HQ and office in Vilnius, many have had opportunities to develop their career within the company and have obtained increased responsibility. Many employees have taken on management roles and others have moved between departments where previous knowledge within the company can be used to our advantage.

Employee Engagement

PLAY hosts regular Friday morning meetings where employees have a platform and the opportunity to relate their projects to others within the company. Friday morning meetings are streamed on Workplace in order for all employees to increase accessibility to the meeting material. The meetings have also been used for other occasions, such as employee meetings to share information as well as training presentations, e.g., diversity and communication training from external parties. For instance, in January, we hosted a Friday meeting for employees facilitated by Samtökin '78 – the National Queer Association of Iceland.

Open crew meetings are held on a regular basis as an opportunity for crew and management to have a dialog about diverse topics and to easily share information.

Initial training presentations are held for new employees to give them an opportunity to get to know all the departments of the company. It is important that our team members feel both welcomed and enabled as well as that they have a good knowledge of the company's infrastructure.

We conduct regular employee engagement surveys among all the employees to measure engagement, job satisfaction, and pride, among other things. The score achieved in each category ranged from 4.11 to 4.37 out of a possible 5. There is a slight decrease in engagement and Job satisfaction from 2022, but we do expect it to be a challenge to maintain high scores while growing at our pace. Pride is slightly higher than in 2022, which is a very positive development.

These scores are still outstanding, and our workforce is truly engaged and happy at work. They show pride in working for PLAY. We can do better, and we will continue to constantly work on securing high engagement scores by keeping it as a part of our social KPIs.

We work with the results of each employee survey and for transparency. They are well presented within the company. We use a system that highlights which aspects of the survey need to be adapted and which aspects need to be maintained. The system creates a proposal for an action plan for each aspect of the survey that the board relies on when creating an action plan. As previously mentioned, a safe, supportive, and playful culture is the key to our success.

An employee engagement survey was conducted in November by Gallup

ENGAGED WORKFORCE

The results showed high engagement among employees with a score of 4.11 out of 5.

JOB SATISFACTION

The results showed high job satisfaction among employees, with a score of 4.14.

PRIDE

The results showed very high pride in work, with a score of 4.37.

Strategic Leadership Training

We truly value our employees as the cornerstone of our business. Investing in the development of our leaders is paramount to our success and growth. Our intensive year-long management training program aims to cultivate the exceptional leadership skills that are necessary for navigating our competitive market. This strategic leadership training, conducted in collaboration with Thor Olafsson and the Strategic Leadership Group, ensures that our management teams are equipped with the right competencies to drive our company toward prosperity. This ongoing training has already proven to be highly beneficial, fostering cohesion and efficiency across teams.

In November, we held ten cross-departmental workshops where all of the employees were invited to participate in discussions about our strategy and customer journey. The workshops were a great success, and many new ideas were introduced and implemented later on.

As the year drew to a close, we organized comprehensive training sessions tailored specifically for our middle manager leaders. These sessions were expertly conducted by Franklin Covey in Iceland, which is renowned for their expertise in leadership development.

Responsible Business

To succeed as a responsible business, we want to build relationships and partner up with like-minded companies and NGOs. We are proud members of Festa, Center for Sustainability.

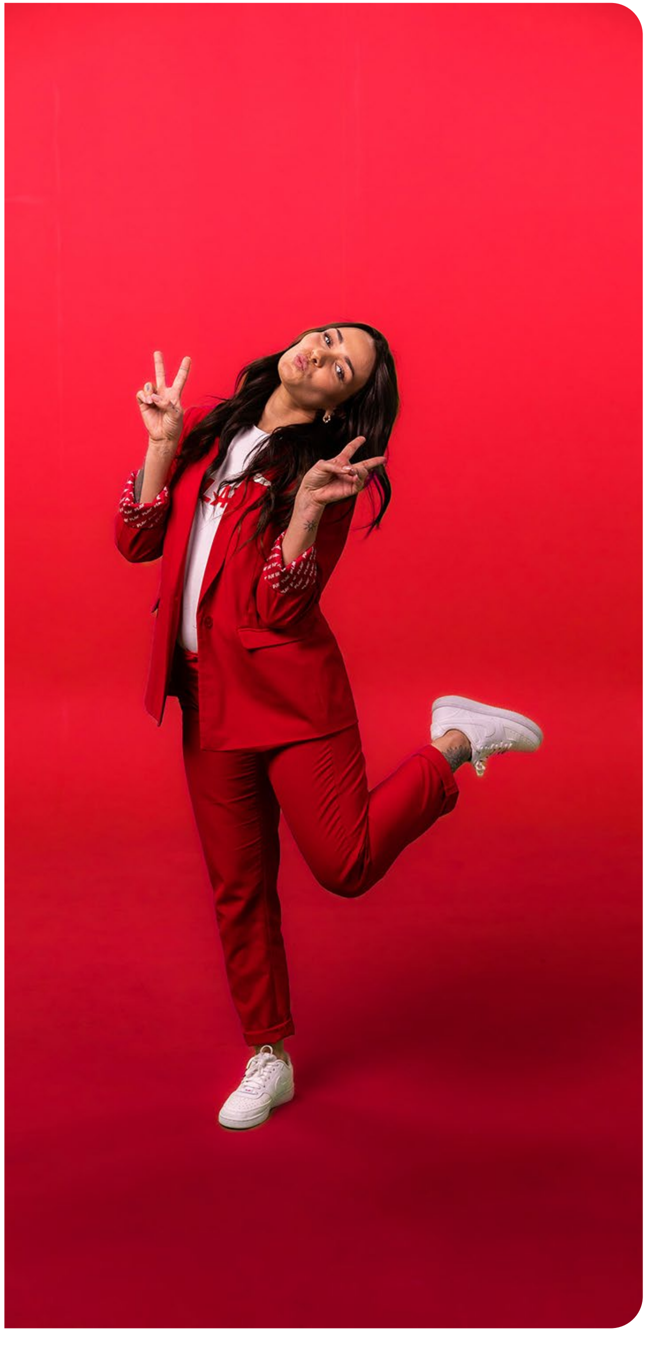
We received a brilliant suggestion from an employee, the Internal Sustainability Week, which inspired us to create the Sustainability Idea Box as a platform for further innovative ideas. We launched the Sustainability Idea Box in January where employees can submit ideas, questions, and more while choosing to remain anonymous or providing their name. We value every viewpoint and contribution to PLAY's sustainability journey.

During January, we acted on a suggestion and coordinated an internal Sustainability Week, structuring each day around a particular theme. The overarching objective throughout the week was to nurture and advocate for a more sustainable mindset of our employers and their surroundings.

We commenced the week with Meatless Monday, then progressed to Re-duce Tuesday, Re-use Wednesday, Re-cycle Thursday, and Re-think Friday. Saturday was dedicated to encouraging employees to support local produce, while Simple Sunday focused on embracing simplicity, which is one of the core values of PLAY.

In February, PLAY welcomed a guest lecture from Sorpa waste treatment center, focusing on recycling and Iceland's updated waste management system.

We take every opportunity to raise awareness of sustainability for our customers as well as everyone who is interested, and we communicate our effort and actions to our stakeholders. PLAY aims to enhance the collaboration between academia and business. In February, a presentation was held at the University of Iceland in the Sustainability and Future of Organizations course outlining PLAY's sustainability landscape.



Positive impact on all stakeholders

Gender equality and inclusivity

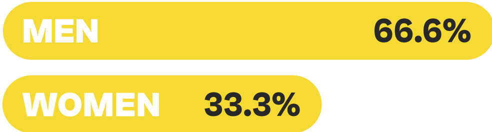
PLAY provides equal opportunities where each employee is valued based on their merits. **Equality is part of the company policy, and PLAY received an equal pay certificate in May 2020 and again in 2023.** The certificate is to be renewed every three years.

We seek to establish a diverse group of employees who have different backgrounds and experiences. Every job advertisement is aimed at making it as accessible as possible to everyone. This is done by writing it in English, using non-gender specific language, and stating that, at PLAY, we are building a great team with a unique, diverse, and inclusive atmosphere.

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

Since its founding, PLAY has focused on issues of equality

Board and executive team:



Management team:

All employees

We continuously monitor the gender ratios in different layers of the company, as Play aims to keep our team as diverse as possible. We are aware that our board of directors and executive team have a growing difference compared to the previous year, while we have evened out our key management team composition. These numbers will be taken into consideration when changes in the executive team are made.

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.
- 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.
- See more about PLAY's policies on *page 67*.

Well-being

To foster a thriving workplace culture, we prioritize employee well-being. Through PLAY, we have established a peer support system with ongoing training. This is to ensure that each and every employee feels like they are a part of a team. In addition, in acknowledging the importance of our employees' mental health, we provide paid therapy sessions in collaboration with trusted psychologists.

Governance

Governance goals for 2025

PLAY's governance in the context of ESG prioritizes stakeholder interests, fosters responsibility, and ensures transparency. We aim to minimize volatility and boost competitiveness by emphasizing clear disclosures and ethical practices. Our 2025 governance goals focus on:

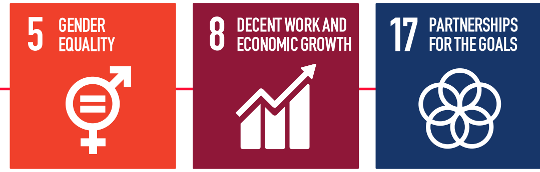
#1 **Code of Conduct**

#2 **Responsible Labor Practices**

#3 **Responsible Data Security and Policy**

#4 **Climate Change Risk Management**

#5 **Internal Communication**



How we will achieve our governance goals?

- Supplier Code of Conduct - since 2023, we've initiated supplier assessments to ensure adherence to our Supplier Code of Conduct, emphasizing ethics and environmental focus. We'll continue this practice, fostering collaboration on sustainability initiatives as needed.
- Employee's Code of Conduct – underscores our commitment to ethics toward employees, shareholders, local communities, and passengers. All employees annually sign this code, ensuring compliance. We adhere to relevant laws and regulations in every country of operation concerning work conditions.
- Data Security and Privacy Policy – focuses on human error, responsible for 91% of cybersecurity breaches. All employees receive annual training on relevant data security and privacy measures.
- Risk management due to climate change – climate risk will be a part of our risk management policy, focusing on identification and management frameworks. We'll disclose our assessments as per industry standards.
- Internal communications – in a growing company, clear internal communication is crucial. We encourage open dialogue on all PLAY matters and maintain clear information pathways.

Board of Directors

CEO

CFO

Sustainability Project Manager

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 reviews sustainability issues at Board meetings.

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

Sustainability Project Manager
Reporting directly to the CFO, PLAY's Sustainability Project Manager is the driving force behind our sustainability journey. The mission is to infuse sustainability into the DNA of our business, leading the charge on all our sustainability-related projects and programs.

PLAY's Policies

We're all about transparency and fair PLAY. We believe it's essential to provide access to our policies to the public and our valued employees. In this section, we outline the framework of our governance policies, highlighting those readily accessible on *PLAY's website* as well as those accessible exclusively to our employees through PLAY's intranet platform.

Policies published on PLAY's website	Additional Policies accessible on PLAY's intranet
Business Practices Policy, which includes: • Anti-Corruption and Bribery Policy • Anti-money Laundering (AML policy) • Competition law/Anti-trust Behavior • Tax Policy	Education Policy
Anti-Harassment and Non-Discrimination Policy	Service Policy
Anti-Slavery and Human Trafficking Policy	Absence Policy
Code of Ethics	Holiday Policy
Communication Policy	Fatigue Risk Management Policy
Environmental Policy	ID Travel Policy
Equal Pay and Opportunity Policy	Work Travel Policy
Human Resource Policy	SIM Travel Policy
Just Culture Policy	
Safety and Quality Policy	
Supplier Code of Conduct	
Whistleblower Policy	

EU Taxonomy Disclosure

The EU Taxonomy Regulation is in line with the European Green Deal objectives and is a classification system that determines if economic activities can be regarded as environmentally sustainable. The EU Taxonomy regulation is a framework whose purpose is to offer a shared vocabulary for the clear identification of the level to which economic activities uphold environmental sustainability.

The EU Taxonomy Regulation entered into force in Iceland on June 1, 2023 with Act no. 25/2023 on the provision of information on sustainability in the field of financial services and classification system for sustainable investments. The law was retroactive to January 1, 2023 and, therefore, applies to the entire fiscal year 2023.

Assumptions applied in PLAY's eligibility analysis

PLAY is reporting on the EU Taxonomy despite the airline industry's exclusion under delegated regulation EU 2021/2139, as recent regulatory updates have integrated the industry, underscoring the significance of our coverage. An activity falls within the scope of eligibility reporting if it generates revenue. PLAY's operations are solely revenue-generating, centering on Passenger and freight air transport, with all of its activities falling within the eligible criteria.

PLAY's core business was not eligible according to the technical screening criteria that entered into force in Iceland at the beginning of 2023, cf. Delegated Regulation EU 2021/2139. However, the airline industry has been integrated in a recent regulation update with Delegated Regulation 2023/2485 which entered into force in the EU in December 2023 and will most likely be implemented in Iceland for the year 2024. Consequently, PLAY's eligible economic activity falls under 6.18 Passenger and freight air transport as disclosed in the following table.

	6.18 Passenger and freight air transport	Non-eligible activities
Turnover	100%	0%
CAPEX	100%	0%
OPEX	100%	0%

Minimum Safeguards

The minimum safeguards outlined in article 18 of the EU Taxonomy Regulation aim to ensure that activities and investments are not labeled as sustainable if they violate essential social principles, human and labor rights, or fail to meet the minimum standards for responsible business conduct.

The Minimum safeguards address human rights, corruption, fair competition, and taxation. Toward the end of 2023, PLAY was not fully aligned with the minimum safeguards; however, concerted efforts were made to address the deficiencies in internal policies and processes in 2023. Following board approval of Business Practices Policy in January 2024, PLAY is actively working toward aligning with the EU Taxonomy Minimum Safeguards.

Human rights are addressed within PLAY's Anti-Slavery and Human Trafficking Policy, which was published in 2022. Similarly, the Anti-Corruption and Bribery Policy was introduced in the same year. Upon evaluating the need to address missing policies, it was decided to merge the already existing Anti-Corruption and Bribery Policy with policies on Anti-money Laundering, Competition Law/Anti-trust Behavior, and Tax. This created a new and comprehensive Business Practices Policy, published in 2024.

In 2024 we will continue to ensure alignment with the minimum safeguards.

Looking forward

The 2023 Report marks the initial coverage of EU Taxonomy disclosure for PLAY. PLAY will continue to report on EU Taxonomy eligible and aligned economic operations in future years. This requires a regular examination of PLAY's economic actions. Updated definitions and decision-making may be necessary to meet reporting responsibilities under future EU Taxonomy guidance. PLAY will closely monitor the developments that take place and anticipates evolving its reporting with the EU Taxonomy when new insights are learned.

ESG Report 2023

Environment	Units	2021	2022	2023
E1. GhG Emissions				
E1.1 Total amount, in CO_2 equivalents, for Scope 1 (if applicable)	t CO_2e			
Jet fuel		25,139.96	151,542.33	274,161.23
Deicing fluid		18.93	176.60	227.53
Petrol/Diesel		0.75	3.18	4.49
E1.2 Total amount, in CO_2 equivalents, for Scope 2 (if applicable)	tCO_2e			
Electricity		1.26	10.41	6.25
Heating		7.10	1.43	45.1
E1.3 Total amount, in CO_2 equivalents, for Scope 3 (if applicable)	tCO_2e			
Purchased goods and services		34.60	538.19*	801.66
Distribution of fuel purchased from fuel provider		5,256.01	31,693.86	57,599.51
Upstream transport and distribution - distribution of products and resources we purchase		0.40	9.57	5.5
Waste generated in operation		22.44	2.64*	4.9
Business travel		19.56	112.14	354.72
Employee commute		70.72	235.27	816.77
Total Scope 1, 2 and 3		30,571.72	184,325.62*	334,027.66

Environment	Units	2021	2022	2023
E2. Emissions Intensity				
2.1 Total GHG emissions per output scaling factor - Scope 1 and 2 / Turnover	tCO2/$mln Revenue	**1,888.3**	**1,084.59**	**973.9**
2.2 Total GHG emissions per output scaling factor - Scope 1 and 2 / RPK (Revenue Passenger kilometer)		117	68	61
E3. Energy Usage				
Total amount of energy directly consumed				
Jet fuel	Mwh	97,367.46	469,059.59	848,570.23
Diesel	Mwh	0.71	10.52	16.86
Petrol	Mwh	2.01	1.51	0.58
E4. Energy Intensity				
Total direct energy usage per output scaling factor	tCO2/$mln Revenue	**5,937.21**	**3,352.91**	**3,011.31**
E5. Energy Mix				
Energy usage by generation type				
Jet fuel	%	100.00%	100.00%	100.00%
Diesel	%	0,00%	0,00%	0,00%
Petrol	%	0,00%	0,00%	0,00%

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

**Calculations corrected from previous reporting*

Environment	Units	2021	2022	2023
E6. Water Usage				
E6.1) Total amount of water consumed				
Hot water	m^3	31,028	4,302	86,749*
Cold water	m^3	874	2,204	1,943

Water for de-icing in Keflavík airport added to the calculation

Environment	Units	2021	2022	2023
E7. Environmental Operations				
E7.1) Does your company follow a formal Environmental Policy?	Yes/No	No	No	Yes
E7.2) Does your company follow specific waste, water, energy, and/or recycling policies?	Yes/No	No	No	No
E7.3) Does your company use a recognized energy management system?	Yes/No	No	No	No
E8. Climate Oversight / Board				
Does your Board of Directors oversee and/or manage climate-related risks? Yes/No	Yes/No	No	No	No
E9. Climate Oversight / Management				
Does your Senior Management Team oversee and/or manage climate-related risks?	Yes/No	Yes	Yes	Yes
E10. Climate Oversight / Management				
Total amount invested, annually, in climate-related infrastructure, resilience, and product development.	Number	None	None	None

Social	Units	2021	2022	2023
S1. CEO Pay Ratio				
S1.1) Ratio: CEO total compensation to median FTE total compensation	Number	4.49:1*	5.90:1*	6.20:1*
S1.2) Does your company report this metric in regulatory filings?	Yes/No	No	No	No

Updated data collection which now includes part time employees

Social	Units	2021	2022	2023
S2. Gender Pay Ratio	Number			
Ratio: Median male compensation to median female compensation		1.54:1*	1.49:1*	1.51:1*

Updated data collection which now includes part time employees

Social	Units	2021	2022	2023
S3. Employee Turnover	%			
S3.1) Percentage: Year-over-year change for full-time employees		2%	10.9%	23%
S3.2) Percentage: Year-over-year change for part-time employees		0%	0%	0%
S3.3) Percentage: Year-over-year change for contractors and/or consultants		0%	0%	5.2%

Social	Units	2021	2022	2023
S4. Gender Diversity	Number			
S4.1) Percentage: Total enterprise headcount held by men and women				
Number of women in the company		72	171	262
Number of men in the company		74	152	216
S4.2) Percentage: Entry and mid-level positions held by men and women				
Number of women in entry and mid-level position		61	156	248
Number of men in entry and mid-level position		63	128	192
S4.3) Percentage: Senior and executive-level positions held by men and women				
Number of women in senior and executive-level positions		11	15	14
Number of men in senior and executive-level positions		11	24	24
S5. Part-time Worker Ratio	%			
S5.1) Percentage: Total enterprise headcount held by part-time employees		71%	12%	8.4%
S5.2) Percentage: Total enterprise head-count held by contractors and/or consultants		29%	0.3%	4%

Social	Units	2021	2022	2023
S7. Non-Discrimination	Yes/No			
Does your company follow a sexual harass-ment and/or non-discrimination policy?		Yes	Yes	Yes
S7. Injury Rate	%			
Frequency of injury events relative to total workforce time		0%	0%	0%
S8. Global Health & Safety	Yes/No			
Does your company follow an occupational health and/or global health & safety policy?		Yes	Yes	Yes
S9. Child & Forced Labor	Yes/No			
S9.1) Does your company follow a child and/or forced labor policy?		Yes	Yes	Yes
S9.2) If yes, does your child and/or forced labor policy cover suppliers and vendors?		Yes	Yes	Yes
S10. Human Rights	Yes/No			
S10.1) Does your company follow a human rights policy?		Yes	Yes	Yes
S10.2) If yes, does your human rights policy cover suppliers and vendors? Yes/No		Yes	Yes	Yes

Governance	Units	2021	2022	2023
G1. Board Diversity	%			
G1.1) Percentage: Total board seats occupied by women (as compared to men)		60%	60%	60%
G1.2) Percentage: Committee chairs occupied by women (as compared to men)		50%	50%	33%
G2. Board Independence				
G2.1) Does company prohibit CEO from serving as board chair?	Yes/No	Yes	Yes	Yes
G2.2) Percentage: Total board seats occupied by independents	%	60%	60%	60%
G3. Incentivized Pay	Yes/No			
Are executives formally incentivized to perform on sustainability?		No	No	No
G4. Collective Bargaining	%			
Total enterprise headcount covered by collective bargaining agreement(s)		100%	98%	94%

Governance	Units	2021	2022	2023
G5. Supplier Code of Conduct				
G5.1) Are your vendors or suppliers required to follow a Code of Conduct?	Yes/No	Yes	Yes	Yes
G5.2) If yes, what percentage of your suppliers have formally certified their compliance with the code?	%	0%	N/A	N/A
G6. Ethics & Anti-Corruption				
G6.1) Does your company follow an Ethics and/or Anti-Corruption policy?	Yes/No	Yes	Yes	Yes
G6.2) If yes, what percentage of your workforce has formally certified its compliance with the policy?		N/A	96.76%	72.5%
G7. Data Privacy	Yes/No			
G7.1) Does your company follow a Data Privacy policy?		Yes	Yes	Yes
G7.2) Has your company taken steps to comply with GDPR rules?		Yes	Yes	Yes

Governance	Units	2021	2022	2023
G8. ESG Reporting	Yes/No			
G8.1) Does your company publish a sustainability report?		Yes	Yes	Yes
G8.2) Is sustainability data included in your regulatory filings?		Yes	Yes	Yes
G9. Disclosure Practices	Yes/No			
G9.1) Does your company provide sustainability data to sustainability reporting frameworks?		No	No	No
G9.2) Does your company focus on specific UN Sustainable Development Goals (SDGs)?		Yes	Yes	Yes
G9.3) Does your company set targets and report progress on the UN SDGs?		Yes	Yes	Yes
G10. External Assurance	Yes/No			
Are your sustainability disclosures assured or validated by a third party?		No*	No*	No**

**Our Carbon reporting for Scope 1 and 2 are verified by a third party.*
***In addition to the verified Scope 1 and 2 reporting, our Scope 3 carbon reporting has now been included in the verification process. See the Assurance statement on the next page.*

Assurance Statement for Scope 1, 2 and 3 Carbon Emissions

Verifavia's Assurance statement validates PLAY's carbon inventory data, confirming third-party assurance for Scope 1 and 2 emissions, while also marking a significant milestone with its first-ever assurance on Scope 3 emissions.

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

THIRD-PARTY ASSURANCE STATEMENT

Context

VERIFAVIA SAS ('VERIFAVIA') has been engaged by Fly PLAY to perform an independent verification with the limited assurance of the scope 1, 2 and 3 carbon inventory data for the year 2023 (January 1st – December 31st). Scope 2 emissions were calculated using location-based emission factors, as provided by the respective service suppliers. Total CO_2 emissions are reported in the following table:

Scope 1	**274,393.25 tCO2**
Jet fuel	274,161.00
De-icing	227.53
Petrol and Diesel	4.49
Scope 2	**51.35 tCO2**
Electricity	6.25
Heating	0.58
Water Usage	44.52
Scope 3	**59,583.06 tCO2**
Purchased Goods and Services	801.66
Well-to-Tank Jet Fuel	57,599.51
Upstream Transportation and Distribution	5.50
Waste Generated in Operations	4.90
Business Travel	354.72
Employee Commuting	816.77
Total Emissions	**334,027.66 tCO2**

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)*
- ISO/IEC 17029:2019 - Conformity assessment – *General principles and requirements for validation and verification bodies*

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 on-site interviews during the November 2023 – March 2024 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,

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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, 20 March 2024

Patricia Pinilla
Sustainability Initiatives Director

Leonard Barkley
Environmental Analyst

The authenticity of this file is protected by KeeeX blockchain mechanism. The file can be verified at https://services.keeex.me/verify/ or https://www.verifavia.com/KeeeX.
It was signed by 1FP14MzijKyucSSg2pb4EiXQBkYxM5VGCZ. Unique identifier:
xipac-muvel-fymet-peduf-gydil-sytol-pokop-vuvep-capub-fitak-dahon-vybat-fyruv-lopuh-lybuv-dafad-fyxax

Investor Relations Information

PLAY emphasizes providing relevant information to the market and being available for open dialog with shareholders, analysts, and the media. In 2023, PLAY held one in-person End-of-Summer Information meeting and has the ambition to continue with such activities in the coming future. PLAY also holds regular analyst and investor presentations when publishing quarterly reports.

IR Contact

Ólafur Þór Jóhannesson, CFO
Email: ir@flyplay.com

Annual General Meeting

PLAY's Board currently intends to hold the AGM on March 21, 2024. The arrangements for PLAY's 2024 AGM and details of the resolutions to be proposed, together with explanatory notes, is set out in the notice of AGM on PLAY's website.

Independent Auditor

Deloitte
Dalvegur 30,
201 Kópavogur

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 the current issues and announcements.

Annual Report

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

Financial Calendar

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

January 9, 2024	Traffic Report - December 2023
February 7, 2024	Traffic Report - January 2024
February 8, 2024	Q4 2023 Results and Financial Statements for the whole year 2023
March 7, 2024	Traffic Report - February 2024
March 21, 2024	Annual Report 2024
March 21, 2024	Annual General Meeting 2024
April 8, 2024	Traffic Report - March 2024
April 24, 2024	**Q1 2024 Results**
May 7, 2024	Traffic Report - April 2024
June 7, 2024	Traffic Report - May 2024
July 8, 2024	Traffic Report - June 2024
July 25, 2024	**Q2 2024 Results**
August 7, 2024	Traffic Report - July 2024
September 9, 2024	Traffic Report - August 2024
October 7, 2024	Traffic Report - September 2024
October 24, 2024	**Q3 2024 Results**
November 7, 2024	Traffic Report - October 2024
December 9, 2024	Traffic Report - November 2024

PLAY

Consolidated Financial Statements 2023

Contents

Endorsement and Statement by the Board of Directors and the CEO

Fly Play hf. (the "Company" or "PLAY") is an Icelandic low-cost airline that operates a hub-and-spoke model between Iceland, Europe, and North America. The Company launched its services in June 2021 and was listed on the Nasdaq First North Iceland in July 2021. PLAY's primary goal is to make flying affordable for everyone. PLAY offers a safe and pleasant journey in new and comfortable Airbus aircraft to 38 destinations at year end.

The Consolidated Financial Statements for the year 2023 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and additional Icelandic disclosure requirements. The Financial Statements are presented in US dollars, which is the Company's functional currency. The Financial Statements have been audited by the Group's independent auditors.

Financial Year 2023

According to the Consolidated Financial Statement total loss for the year was USD 35.2 million. Equity at 31 December 2023 amounted to USD 2 million, including share capital in the amount of USD 6.8 million and share premium of USD 101.5 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 423 in the year 2023 (2022: total 252) thereof 200 men and 223 women and salaries and related expenses amounted to USD 44.0 million in the year 2023 (2022: USD 25.5 million). Number of key management is 7 thereof 2 women and 5 men.

The Company's revenue doubled in 2023 compared to 2022 and EBIT improved significantly. Capacity (measured in available seat kilometers) increased by 89% and unit costs decreased. PLAY has emphasised growing ancillary revenues which resulted in a 29% increase between years per passenger.

PLAY has entered into lease agreements for a total of 10 new aircraft since beginning operations. In 2021 the Group took delivery of three Airbus A321neo. In 2022 the group received five new aircraft with three of them going into active operations and the other two went into storage until joining the fleet in time for the summer schedule 2023. In 2023 further two aircraft were added to the fleet bringing the number of active aircraft used in operations to 10 in total.

PLAY’s load factor improved throughout 2023 and resulted in 83.4% for the full yearand 1.5 million passengers were flown in the year. PLAY had an 83% On-time performance in 2023. This on-time performance percentage means that out of 9,600 flights for the whole year of 2023, over 8,000 flights were on time.

EU Taxonomy Disclosure

The EU Taxonomy Regulation entered into force in Iceland on June 1, 2023 with Act no. 25/2023 on the provision of information on sustainability in the field of financial services and classification system for sustainable investments. The law was retroactive to January 1, 2023 and therefore applies to the entire fiscal year 2023.

The company's core business was not eligible according to the technical screening criteria that entered into force in the beginning of 2023, cf. delegated regulation EU 2021/2139. However, the airline industry has been integrated in a recent regulation update. Consequently, the Company’s eligible economic activity falls under 6.18 Passenger and freight air transport as disclosed in the following table.

	6.18 Passenger and freight air transport	Non-eligible activities
Turnover	100%	0%
CAPEX	100%	0%
OPEX	100%	0%

With the board approval of a Business Practices Policy, the Company is actively working towards aligning with EU Taxonomy Minimum Safeguards.

The Company will closely monitor the developments that take place and anticipates evolving its reporting with the EU Taxonomy when new insights are learned.

Endorsement and Statement by the Board of Directors and the CEO, contd.:

Share Capital and Resolutions

PLAY aims to deliver its shareholders a total return in excess of its cost of capital. While the group has a planned profitable growth path, the cash reserves are best utilised within the group. When a more moderate growth level is reached, the group 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 group'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 2024 for the year 2023 and refers to the Financial Statement regarding the treatment of loss and other changes in equity accounts.

The number of shareholders at year-end 2023 was 1.990 (2022: 2,095). At year-end 2022 and 2023 the 10 largest shareholders were:

	31.12.2023		31.12.2022	
	Number of Shares in ISK thousand	Shares in %	Number of Shares in ISK thousand	Shares in %
Leika fjárfestingar ehf.	93,596	10.8%	93,596	10.9%
Birta lífeyrissjóður	81,686	9.4%	81,186	9.4%
Stoðir hf.	54,000	6.2%	54,000	6.3%
Stefnir - Innlend hlutabréf hs.	48,383	5.6%	33,471	3.9%
Stefnir - ÍS 5 hs.	41,503	4.8%	41,327	4.8%
IS EQUUS Hlutabréf	38,173	4.4%	32,909	3.8%
Lífsverk lífeyrissjóður	37,534	4.3%	37,534	4.4%
Fea ehf.	35,034	4.0%	35,034	4.1%
Eignarhaldsfélagið Mata hf.	31,938	3.7%	31,938	3.7%
Festa - lífeyrissjóður	27,137	3.1%	27,137	3.2%
	488,985	56.3%	468,132	54.4%
Other shareholders	379,458	43.7%	392,735	45.6%
	868,443	100.0%	860,868	100.0%

Issuance of new shares to strengthen the financial position and finance future growth

The Board of Directors will start a process to increase the share capital of PLAY to strengthen the Company's financial position. The proceeds from the equity increase will be used to finance future growth, ensure liquidity position and the Company´s ability to continue as a going concern.

PLAY is preparing to transfer its share listing from the First North Growth Market Iceland to the Nasdaq Main Market in Iceland. The uplisting process, expected to conclude during the first half of 2024, marks a significant milestone in our journey.

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

Information on matters related to financial risk management is disclosed in note 29.

Endorsement and Statement by the Board of Directors and the CEO, contd.:

Statement by the Board of Directors and the CEO
We hereby confirm that the Consolidated Financial Statements for the year 2023, 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 Consolidated Financial Statements 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 Consolidated Financial Statements of PLAY for the year 2023 and confirm them by means of their signatures.

Reykjavik February 8, 2024

Board of Directors:

CEO:

Independent Auditor’s Report

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

Opinion

We have audited the consolidated financial statements of Fly Play hf. for the year ended December 31, 2023 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of Fly Play hf. as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act.

Our opinion in this report on the consolidated financial statements is consistent with the content of the additional report that has been submitted to the audit committee in accordance with the EU Audit Regulation 537/2014 Article 11.

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 Consolidated Financial Statements section of our report.

We are independent of Fly Play hf. in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Iceland, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Based on the best of our knowledge and belief, no prohibited services referred to in the EU Audit Regulation 537/2014 Article 5.1 has been provided.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Going Concern

Without modifying our opinion we draw attention to the Endorsement and Statement by the Board of Directors and the CEO and Note 2 to the consolidated financial statements, which indicate that the Company has incurred a net loss of USD 35.171 thousand during the year ended December 31, 2023. As stated in the Endorsement and Statement by the Board of Directors and the CEO and Note 2, these events or conditions indicate that uncertainty exists that may cast doubt on the Company´s ability to continue as a going concern.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Explanation of Key Audit Matter	Responses to Key Audit Matter
Measurement of lease liabilities for aircraft The Group has recognised lease liabilities of USD 273.061 thousand. Management has applied several judgements and estimates in applying IFRS 16 to its lease agreements for aircraft engines. The significant judgements include determining the appropriate incremental borrowing rates (“IBR”) to use in discounting the lease liabilities.	In our audit of measurement of lease liabilities, we reviewed management´s accounting policies and schedules for IFRS 16 Leases and carried out the following substantive audit procedures: • Tested the completeness of the contracts accounted for as leases under IFRS 16. • Assessed the IBR used in discounting the lease liabilities as determined by management for appropriateness.

Independent Auditor's Report, contd.:

Key Audit Matters contd.

Explanation of Key Audit Matter	Responses to Key Audit Matter
We considered this to be a key audit matter given its significance to the consolidated financial statements and due to the estimates involved in measuring the lease liabilities and related right of use assets. Further information about lease liabilities can be found in note 25 in the consolidated financial statements.	• Inspected lease contracts to assess whether the relevant lease data inputs into management´s IFRS 16 calculations are accurate. • Performed a recalculation of the lease liability and right of use asset balance and the related interest expense and depreciation expense. • Traced lease payments as per management´s IFRS 16 calculations to appropriate supporting documentation. • Traced the commencement date to appropriate supporting documentation. • Assessed the adequacy of disclosures with reference to the requirements of IFRS 16 Leases.

Responsibilities of the Board of Directors and the CEO for the Consolidated Financial Statements
The Board of Directors and the CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act, and for such internal control as the Board of Directors and the CEO determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors and the CEO are responsible for assessing Fly Play hf.'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 the CEO either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The board of directors and the audit committee are responsible for overseeing Fly Play's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated 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. 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 consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the consolidated 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 Fly Play's internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditor's Report, contd.:

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements contd.

• Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a uncertainty exists related to events or conditions that may cast doubt on the Company's ability to continue as a going concern. If we conclude that a uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate 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 identify during our audit.

We also provide the Board of Directors and the Audit Committee a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors and the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation 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.

Deloitte was appointed auditor of Fly Play hf. By the general meeting of shareholders on March 7, 2023. Deloitte have been elected since the general meeting 2023.

Kópavogur, February 8, 2024

Deloitte ehf.

Eyþór Guðjónsson

State Authorized Public Accountant

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year 2023

	Notes	2023	2022*
Revenue			
Transport revenue	6	281,777	139,905
Operating expenses			
Aviation expenses	7	179,503	113,198
Salaries and other personnel expenses	8	43,975	25,451
Other operating expenses	9	24,996	13,216
		248,474	151,865
Operating profit (loss) before, depreciation, financial items and tax (EBITDA)		**33,303**	**(11,960)**
Depreciation and Amortization	10	53,989	31,825
Operating loss (EBIT)		**(20,686)**	**(43,786)**
Financial income and expenses			
Financial income		1,714	516
Financial expense		(27,404)	(13,950)
Foreign exchange		943	(518)
	11	(24,748)	(13,952)
Loss before tax (EBT)		**(45,434)**	**(57,737)**
Income tax	12,18	10,262	9,943
Loss for the year		**(35,171)**	**(47,794)**
Other comprehensive (loss) income			
Items that are or may be reclassified from equity to the income statement on later date			
Fuel hedges - effective portion of changes in fair value, net of tax		316	0
Fuel hedges - reclassified to profit or loss		(121)	0
		195	0
Total comprehensive loss for the year		**(34,977)**	**(47,794)**
Earnings per share			
Basic and diluted earnings per share in US cent	23	(5.2)	(8.4)

* The comparative information has been restated as discussed in note 2.

Consolidated Financial Statements of Fly Play hf. 2023 9 All amounts are in USD thousands

Consolidated Statement of Financial Position at 31 December 2023

	Notes	2023	2022*
Assets			
Intangible assets	13	14,195	12,561
Right-of-use assets	14	338,450	298,040
Operating assets	15	11,855	6,723
Aircraft deposits & security instalments	17	13,209	10,934
Deferred tax assets	18	26,290	16,027
Non-current assets		403,998	344,285
Inventories	19	180	819
Trade and other receivables	20	32,992	22,861
Prepaid expense		2,755	939
Cash and cash equivalents	21	21,606	36,234
Current assets		57,533	60,853
Total assets		461,531	405,139
Shareholders equity			
Share capital		6,797	6,740
Share premium		101,490	100,587
Other components of equity		1,160	13,844
Accumulated loss		(107,542)	(84,932)
Total shareholder equity	22	1,905	36,239
Liabilities			
Provisions	24	75,965	72,680
Lease liabilities	25	247,761	206,793
Non-current liabilities		323,726	279,473
Provisions	24	20,399	16,601
Lease liabilities	25	25,300	17,260
Trade and other payables	26	43,731	27,223
Deferred income	27	46,471	28,342
Current liabilities		135,900	89,427
Total liabilities		459,626	368,900
Total shareholders equity and liabilities		461,531	405,139

* The comparative information has been restated as discussed in note 2.

Consolidated Financial Statements of Fly Play hf. 2023 10 All amounts are in USD thousands

Consolidated Statement of Changes in Equity for the year 2023

	Share capital	Share premium	Other components of equity	Accumulated loss	Total equity
2022					
Balance at January 1, 2022	5,606	85,371	11,674	(35,254)	67,397
Loss and total comprehensive loss	0	0	0	(47,794)	(47,794)
Total comprehensive loss	0	0	0	(47,794)	(47,794)
Share capital increase	1,134	14,995	0	0	16,129
Stock options expense	0	0	507	0	507
Exercised stock options	0	221	(221)	0	0
R&D reserve transfers	0	0	1,884	(1,884)	(0)
Balance at December 31, 2022	6,740	100,587	13,844	(84,932)	36,239
2023					
Balance at January 1, 2023	6,740	100,587	13,844	(84,932)	36,239
Net result	0	0	0	(35,171)	(35,171)
Effective portion of fuel hedges	0	0	316	0	316
Fuel hedges - reclassified to P/L	0	0	(121)	0	(121)
Total comprehensive loss	0	0	(121)	(35,171)	(35,292)
Share capital increase	57	401	0	0	458
Stock options expense	0	0	183	0	183
Exercised stock options	0	502	(502)	0	0
R&D reserve transfers	0	0	(12,560)	12,560	0
Balance at December 31, 2023	6,797	101,490	1,160	(107,542)	1,906

Consolidated Financial Statements of Fly Play hf. 2023 11 All amounts are in USD thousands

Consolidated Statement of Cash Flows
for the year 2023

	Notes	2023	2022
Cash generated from (used in) operating activities			
Loss for the year		(35,171)	(47,794)
Adjustments for			
Depreciation and amortization	10	53,989	31,825
Net finance expense	11	24,748	11,424
Stock options		183	507
Income tax	12	(10,262)	(9,943)
		33,487	(13,982)
Changes in operating assets and liabilities			
Inventories, decrease (increase)		639	(537)
Trade and other receivables, increase		(12,226)	(16,201)
Trade and other payables, increase		15,682	35,755
Changes in operating assets and liabilities		4,095	19,017
Cash generated from operations before interest and taxes		37,582	5,036
Financial income received		1,714	516
Interest paid		(22,166)	(11,343)
Net cash generated from (used in) operating activities		17,130	(5,791)
Cash flows (to) from investing activities			
Deposits	17	(2,218)	(3,162)
Investment of operating assets	15	(6,320)	(3,501)
Investment of intangible assets	13	(4,430)	(3,971)
Net cash (to) from investing activities		(12,968)	(10,634)
Cash flows from financing activities			
Repayment of lease liabilities	25	(20,381)	(13,256)
Loans from shareholders		0	0
Proceeds from share issue	22	458	16,129
Net cash from financing activities		(19,923)	2,873
Decrease in cash and cash equivalents		(15,761)	(13,552)
Effect of exchange rate fluctuations on cash held		1,133	(1,945)
Cash and cash equivalents at beginning of the year		36,234	51,731
Cash and cash equivalents at year end		21,606	36,234
Investment and financing without cash flow effect			
Acquisition of right-of-use assets	14	(69,034)	(154,219)
New leases		69,034	154,219
Capitalized maintenance obligation under lease	25	(21,289)	(66,701)
New leases		21,289	66,701

Consolidated Financial Statements of Fly Play hf. 2023 12 All amounts are in USD thousands

Notes

1. **Reporting entity**

Fly Play hf. is a private limited company and domiciled in Iceland. PLAY is a low-cost airline which operates flights between North America and Europe. The registered office of the Company is at Suðurlandsbraut 14 in Reykjavík, Iceland. The Company is listed on the Nasdaq First North Iceland effective from July 9, 2021.

The Consolidated Financial Statements of the Company as at and for the year ended 31 December 2023 comprise the Company and its subsidiary (together referred to as "the Company" or "PLAY"). The subsidiary is PLAY Lithuania which is a private limited company and domiciled in Lithuania with its registered office at Lvivo g. 101, Vilnius. PLAY's ownership in PLAY Lithuania is 100%. The subsidiary provides technical and administrative support for the Company.

The Consolidated Financial Statements of the Company as at and for the year ended 31 December 2023 comprise the Company and its subsidiary (together referred to as "the Group" or "PLAY").

2. **Basis of preparation**

a. **Statement of compliance**

The Group´s Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for financial statements. The Consolidated Financial Statements comprise of the Company and its subsidiary.

The Consolidated Financial Statements were approved by the Board of Directors of Fly Play hf. on February 8, 2024.

b. **Basis of measurement**

The Consolidated Financial Statements are prepared on the historical cost basis except that derivative financial instruments are recognized at fair value. Further details of the Group´s accounting policies are included in note 33.

c. **Going concern**

The Group incurred a loss for the year 2023 amounting to $35 million (2022: $48 million) with the current ratio 0,42 at year end (2022: 0,68). The Board of Directors will start a process to increase the share capital of PLAY to strengthen the Company's financial position. The proceeds from the equity increase will be used to finance future growth, ensure liquidity position and the Company´s ability to continue as a going concern.

d. **Prior period adjustments**

Comparative figures have been adjusted to reflect earlier delivery of two aircraft which were previously recognized in the year 2023. Despite the aircraft did not go into active operations and no fixed payments were due until April 2023 the lease liability was present at year end 2022 and as such is now included in the comparative amounts.

The following table summarises the impact of the change discussed above:

Consolidated statement of profit or loss	**31.12.2022**
Depreciation and Amortization	281
Financial expense	(2,528)
Increase in loss for the financial year	(2,247)

Consolidated statement financial position	**31.12.2022**
Right-of-use assets	73,655
Provisions	(21,572)
Lease liabilities	(54,330)
Decrease in net assets	(2,247)

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3. Functional and presentation currency

These Consolidated Financial Statements are presented in United States Dollars (USD), which is the Group's functional currency. All financial information presented in United States Dollars has been rounded to the nearest thousand unless otherwise stated.

4. Use of estimates and judgements

In preparing these Consolidated Financial Statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about assumptions and estimates that have a significant risk of resulting in a material adjustment within the next financial year are included in note 33(h) regarding determination of useful life of operating assets, 33(e) regarding recognition of deferred tax assets, 24 regarding Provisions and 25 regarding lease liabilities.

Determination of fair value is based on assumptions subject to management's assessment of the development of various factors in the future. The actual selling price of assets and settlement value of liabilities may differ from these estimates.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities. Where applicable, further information about the assumptions made in determining the fair value of assets or liabilities are in the notes to the relevant assets and liabilities.

The accounting policies set out in this note have been applied consistently to all periods presented in these Consolidated Financial Statements unless otherwise stated.

The Group has an established control framework with respect to the measurement of fair values. The Director of Treasury and Risk Management has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The Risk Committee regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

5. Operating segments

The Group operates as single operating segment at this time.

Notes, contd.:

6. Revenue

Revenue is specified as follows:

	2023	2022
Airfare	192,652	105,627
Ancillary	76,976	29,686
On board sales	5,627	3,130
Cargo revenue	3,594	850
Other revenue	2,928	613
Transport revenue total	281,777	139,905

7. Aviation expenses

Aviation expenses are as follows:

	2023	2022
Aircraft fuel	89,131	61,776
Emissions permits (ETS)	10,948	8,720
Aircraft handling, landing and communication	59,003	31,107
Maintenance of aircrafts	13,815	5,277
Catering	1,814	1,868
Other aviation expenses	4,792	4,450
Aviation expenses total	179,503	113,198

8. Salaries and other personnel expenses

Salaries and other personnel expenses are specified as follows:

	2023	2022
Salaries	36,233	20,239
Accrued vacation	1,063	1,230
Pension fund contributions	3,630	2,124
Other salary related expenses	2,866	1,631
Stock options	183	507
Total salaries and other personnel expenses	43,975	25,731
Capitalized salary expenses	0	(279)
Salaries and other personnel expense total	43,975	25,451
Average number of full year equivalents	423	252
Employees at year end	477	323

9. Other operating expenses

Other operating expenses are as follows:

	2023	2022
Housing and office expenses	270	204
Marketing and sales expenses	9,251	5,326
IT cost	148	143
Travel and other employee expenses	9,090	3,743
Audit, legal and other professional services	5,386	3,687
Other operating expenses	851	112
Other operating expenses total	24,996	13,216

10. Depreciation and Amortization

The depreciation and amortization are specified as follows:

	2023	2022
Amortization of intangible assets, see note 13	2,795	2,087
Depreciation of right-of-use assets, see note 14	50,006	29,139
Depreciation of operating assets, see note 15	1,188	599
Depreciation and amortization total	53,989	31,825

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11. Financial income and (expense)

Financial income (expenses) is specified as follows:

	2023	2022
Interest income on bank deposits	1,714	516
Interest expenses of lease liabilities	(20,644)	(10,596)
Other finance expenses and transaction fees	(6,760)	(3,355)
Net foreign currency exchange rate loss	943	(518)
Net financial expenses	(24,748)	(13,952)

12. Income tax

Income tax recognized in the income statement is specified as follows:

	2023	2022
Total tax expense recognized in the income statement	10,262	9,943

Effective tax rate

		2023		2022
Loss before income tax		(45,434)		(57,737)
Income tax according to current tax rate	20.0%	9,087	20.0%	11,547
Previously unrecognized	1.0%	454	0.8%	(449)
Non-deductible expense	(0.3%)	(120)	0.0%	0
Currency exchange	1.9%	842	(2.0%)	(1,155)
Effective tax rate	22.6%	10,262	19.9%	9,943

13. Intangible assets

Intangible assets and their amortization are specified as follows:

	Software and website	Long-term cost	Total
Cost			
Balance at January 1, 2022	5,733	5,805	11,537
Additions	3,823	148	3,971
Balance at December 31, 2022	9,556	5,953	15,509
Additions	4,394	36	4,430
Balance at December 31, 2023	13,949	5,989	19,939
Amortization and impairment losses			
Balance at January 1, 2022	567	294	861
Amortization	1,509	578	2,087
Balance at December 31, 2022	2,076	872	2,948
Amortization	2,191	605	2,795
Balance at December 31, 2023	4,266	1,477	5,743
Carrying amount			
January 1, 2022	5,166	5,511	10,677
December 31, 2022	8,047	5,375	12,561
December 31, 2023	9,683	4,513	14,195
Amortization rate	20-33%	10-20%	

There are no indicators of impairment of intangible assets at year-end.

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Notes, contd.:

14. Right-of-use assets

Right-of-use assets and depreciation are specified as follows:

	Aircrafts	Other	Total
Balance at January 1, 2022	115,372	1,710	117,082
Additions	209,979	0	209,979
Depreciation	(28,757)	(383)	(29,139)
Indexed leases	0	118	118
Balance at December 31, 2022	296,595	1,445	298,040
Balance at January 1, 2023	296,595	1,445	298,040
Additions	90,323	0	90,323
Depreciation	(49,577)	(429)	(50,006)
Indexed leases	0	94	94
Balance at December 31, 2023	337,340	1,110	338,450

15. Operating assets

Operating assets and depreciation are specified as follows:

	Aircraft- and flight equipment	Other property and equipment	Total
Cost			
Balance at January 1, 2022	3,481	491	3,972
Additions	3,199	301	3,501
Balance at December 31, 2022	6,680	792	7,473
Additions	6,127	192	6,320
Balance at December 31, 2023	12,808	985	13,792
Depreciations			
Balance at January 1, 2022	104	47	151
Depreciation	441	158	599
Balance at December 31, 2022	545	205	750
Depreciation	897	291	1,188
Balance at December 31, 2023	1,441	496	1,938
Carrying amount			
January 1, 2022	3,377	444	3,821
December 31, 2022	6,136	587	6,723
December 31, 2023	11,366	488	11,855
Depreciation rate	10-20%	20-33%	

16. Insurance value

The insurance value of operating and right-of-use assets at year end 2023 amounted to USD 587 million (2022: 363 million).

17. Aircraft deposits & security instalments

The Group has paid aircraft deposits and security instalment in the amount of USD 13.2 million at year end 2023 (2022: USD 10.9 million).

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18. Deferred tax assets

Deferred tax assets are specified as follows:

	2023	2022
Balance at January 1	16,027	5,939
Calculated income tax, recognized in the Income statement	10,262	9,943
Other items	0	146
Deferred tax at the end of the year	26,290	16,027

Deferred tax assets are attributable to the following:

	2023	2022
Intangible assets	(819)	(1,093)
Operating assets	(472)	(296)
Right-of-use assets	6,195	2,609
Stock options	193	0
Currency exchange difference	(92)	178
Carry-forward tax loss	21,285	14,629
Deferred tax assets at year end	26,290	16,027

Carry-forward tax loss at year end amounted to USD 106.4 million. Carry-forward tax loss can be utilized over 10 years from the date the loss is incurred.

Carry-forward tax loss are specified as follows:

Carry-forward tax loss from 2019 expires 2029	1,232
Carry-forward tax loss from 2020 expires 2030	4,432
Carry-forward tax loss from 2021 expires 2031	24,807
Carry-forward tax loss from 2022 expires 2032	48,155
Carry-forward tax loss from 2023 expires 2033	27,799
	106,424

Management has concluded that there will be sufficient taxable profit in the future to use the tax loss currently carried forward. The recognition of the deferred tax asset is based on the Group's forecast whereby there will by sufficient taxable profits to fully utilize current taxable losses.

19. Inventories

Inventories are specified as follows:

	2023	2022
Aircraft consumables	0	646
Other operation inventory	180	173
	180	819

20. Trade and other receivable

Trade and other receivable are specified as follows:

	2023	2022
Trade receivables	702	1,262
Credit card receivables	30,967	20,214
Other receivables	1,323	1,385
	32,992	22,861

21. Cash and cash equivalents

Cash and cash equivalents

	2023	2022
Cash	12,144	22,275
Marketable securities	506	7,369
Restricted cash	8,956	6,590
	21,606	36,234

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21. Cash and cash equivalents, contd.:

Restricted cash is held in bank accounts pledged against credit cards acquirers and airport operators. The largest amount (USD 6.4 m.) is pledged against credit card claims and at the reporting date is restricted until the end of April 2024 but management expects it to be renewed. That amount is classified as restricted cash in the balance sheet. Other restricted cash amounts (USD 2.6 m.) which are pledged against airport operators, handling agents and the tax authorities.

22. Equity

Share capital

The Company's share capital at the end of the period amounted to ISK 868.4 million (USD 6.8 million). One vote is attached to each share of one ISK.

During the year the Company increased its share capital in the amount of ISK 7.6 million (USD 57 thous.) at the rate of ISK 8 per share resulting in a total of ISK 60.1 million (USD 458 thous.) to facilitate the exercise of share option agreements.

Share premium

Share premium represents excess of payment above nominal value that shareholders have paid for shares sold by the Company. The balance of the share premium account can be used to offset losses not covered by other reserves or to offset stock splits.

Other components of equity

At year end there were a total of ISK 36.6 million shares unvested or not exercised due to share agreements. A third of the shares will vest annually between 2025-2027. The options will be settled with equity.

The fair value of the options was determined using a Black-Scholes option pricing model. The fair value of the employees stock options is recognised as expense and included in salaries and related expenses. The average excercise price for all outstanding stock options is 13.5 per share. Volatility is 37.4% and the discount rate ranges from 2% to 6.5%.

Estimated remaining expenses due to active stock options is USD 341.1 thousand.

	Fuel hedges	Stock options	Stock options
Balance at December 31, 2022	0	1,283	1,283
Fuel hedges - effective portion of changes in fair value, net of tax	316	0	316
Fuel hedges - reclassified to profit or loss	(121)	0	(121)
Stock options charge for the year	0	183	183
Exercise of options	0	(502)	(502)
Balance at December 31, 2023	195	965	1,160

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22. **Equity, contd.:**

Retained earning (Accumulated loss)

Retained earning (Accumulated loss) shows accumulated profit or loss of the Group after deducting contributions to the statutory reserve and dividend. Retained earnings can be distributed to shareholders in the form of dividends.

Dividend

No dividend was paid to shareholders during the year 2023. The Board of Directors proposes that no dividend shall be paid to shareholders during the year 2024 due to operations in the year 2023.

Capital management

The Board's policy is to maintain a strong capital base to sustain future development of the business.

23. **Loss per share**

The calculation of basic EPS has been based on the following net loss attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is the same as basic earnings per share as the effect of warrants would not dilute the earnings per share only decrease loss per share.

Basic loss per share

	2023	2022
Loss for the year attributable to equity holders of the Group	(35,171)	(47,794)
Weighted average number of shares for the year	6,760	5,717
Basic loss per share in US cent per share	(5.2)	(8.4)
Diluted loss per share in US cent per share	(5.2)	(8.4)

24. **Provisions**

Provisions for aircraft maintenance on leased aircrafts are as follows:

	2023	2022
Balance at January 1	89,281	29,906
Increases in provisions during the year	21,289	65,713
Utilization of provision during the year	(14,206)	(6,338)
Balance at December 31	96,364	89,281
Current provisions	(20,399)	(16,601)
Total non-current provisions	75,965	72,680

The expected timing of the outflows of economic benefits associated with the provisions at December 31, 2023, are as follows:

Used during 2024	20,399
Used during 2025	17,440
Used during 2026	22,898
Used during 2027	15,637
Used during 2028	10,097
Thereafter	9,894
Provisions for leased aircraft maintenance	96,364

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25. Lease liabilities

The Group took delivery of and put into operation two Airbus 320neo aircraft during the year. The lease agreements constitute a lease under IFRS 16. The total number of aircraft in operation at year end were 10.

Lease liabilities are as follows:

	Average rate	Year of maturity	Aircraft	Real estate	Total
Lease payments in USD	5.6%	8-12 years	271,999	0	271,999
Lease payments in ISK, indexed	4.3%	5 years	0	1,061	1,061
Total lease liabilities			271,999	1,061	273,060

	2023	2022
Balance at January 1	224,053	90,456
New leases	69,034	146,794
Indexed leases	16	140
Payment of lease liabilities	(20,381)	(13,256)
Currency translation	339	(81)
Balance at December 31	273,060	224,053
Current maturities	(25,300)	(17,260)
Total non-current lease liabilities	247,761	206,793

Repayments of lease liabilities are distributed over the next 5 years as follows:

Repayments 2024	25,300
Repayments 2025	26,705
Repayments 2026	27,977
Repayments 2027	29,312
Repayments 2028	30,965
Subsequent repayments	132,801
Total lease liabilities	273,060

Cash flow from lease liabilites are as follows:

	2023	2022
Payment of principal portion of lease liabilities	20,381	13,256
Payment of interest expenses of lease liabilities	14,862	5,889
Total payments	35,243	19,145

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26. Trade and other payables

Trade and other payables are specified as follows:

	2023	2022
Trade payable	19,585	9,467
Other payables	24,146	17,757
	43,731	27,223

27. Deferred income

Deferred revenues in the amount of USD 46.5 million are recognised among current liabilities in the statement of financial position. Deferred revenue is due to sale of unflown flights and outstanding gift certificates at year end. Revenues from passenger flights are recognized in the Consolidated statement of profit or loss when the relevant flight has been flown.

28. Derivatives used for hedging

Derivatives used for hedging are valued by a brokers quote. The Group uses forward contract to hedge a part of jet fuel purchases. All outstanding fuel hedge contracts are effective. The fair value changes of the hedge are accounted for in Other comprehensive (loss) income.

29 Financial risk management

Overview

The Group has exposure to the following financial risks: credit risk, liquidity risk and market risk. Market risk consists of interest rate risk, currency risk, carbon price risk and fuel price risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies, and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these Consolidated Financial Statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's Risk Management Committee is responsible for developing and monitoring the Group's risk management policies. The Committee reports regularly to the Board of Directors on its activities. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Based on these analysis the Group makes decisions about whether to use derivatives to hedge against certain types of risks.

a. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Exposure to credit risk is influenced mainly by the age of trade receivables, financial standing and individual characteristics of its customer.

Exposure to credit risk

The carrying amounts of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	Notes	2023	2022
Aircraft deposits & security instalments	17	13,209	10,934
Trade receivable and other receivable	20	32,992	22,861
Cash and cash equivalents	21	21,606	36,234
		67,807	70,029

The majority of financial assets are claims on financial institutions, credit card claims and cash, where the counterparty is a financially stable party with very low credit default risk. No impairment has been made on financial assets.

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29 Financial risk management, contd.:

b. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Following are the remaining contractual maturities of financial liabilities at the reporting date, including estimated interest payments:

	Carrying amount	Contractual cash flows	Within 12 months	1-2 years	3-5 years	More than 5 years
31 December 2023						
Trade and other payables	43,731	43,731	43,731	0	0	0
Lease liability	273,060	356,003	40,280	80,344	79,673	155,707
Provision	96,364	96,279	26,787	45,847	16,335	7,310
	413,155	496,013	110,798	126,191	96,008	163,017
31 December 2022						
Trade and other payables	27,223	27,223	27,223	0	0	0
Lease liability	224,054	291,054	29,367	63,991	63,000	134,696
Provision	89,281	96,527	20,797	40,047	25,336	10,346
	340,558	414,804	77,388	104,038	88,336	145,042

c. Market risk

Market risk emerges from changes in market prices, such as foreign exchange rates, interest rates, carbon emission quota prices and fuel prices, as those changes will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Interest rate risk

The Group's financial instruments are all subject to variable interest rates. The Group does not currently hedge its interest rate risk.

Fuel price risk

The Group is exposed to fuel price risk due to purchase of fuel. The Group uses forward contract to hedge a part of jet fuel purchases. At year end 2023 the fair value for those contracts was positive in the amount of USD 195 thous. which is expected to materialize fully in the year 2024.

Change in fuel prices by 10% on average during the year 2023 would have resulted in increase (decrease) on net income by USD 8.9 million. (2022: 6.2)

Carbon risk

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.

Change in ETS credit price by 10% during the year 2023 would have resulted in increase (decrease) on net income by USD 1.1 million. (2022: 0.9)

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29 Financial risk management, contd.:

d. Currency risk

The Group is exposed to currency risk on sales, purchases, cash and cash equivalents and lease liabilities that are denominated in a currency other than the respective functional currency of the Group. The currency exposure is mostly in EUR, ISK and GBP. The Group's salaries and related expenses, representing around 18% of the Group's total expenses, are denominated in ISK. Sales in ISK constitute 29.1% of total sales (2022: 38.6%), EUR 21.7% (2022: 21.5%) and other currencies 12.0% (2022; 9.5%).

The Group's liquid exposure to currency risk is as follows:

2023	ISK	EUR	GBP	Other currencies
Trade and other receivables	8,247	8,533	1,358	2,015
Restricted cash	782	250	0	0
Cash and cash equivalents	2,507	492	748	492
Lease liabilities	(1,061)	0	0	0
Trade and other payables	(11,378)	(4,202)	(962)	(1,496)
Net currency exposure	(904)	5,073	1,144	1,011

2022	ISK	EUR	GBP	Other currencies
Trade and other receivables	5,674	4,438	1,838	898
Restricted cash	0	0	0	0
Cash and cash equivalents	21,861	1,695	1,456	1,204
Lease liabilities	(1,291)	0	0	0
Trade and other payables	(6,883)	(3,706)	(1,042)	(477)
Net currency exposure	19,361	2,427	2,252	1,625

The following exchange rates of USD applied during the year:

	Average rate		Year-end spot rate	
	2023	2022	2023	2022
ISK	0.0072	0.0074	0.0073	0.0070
EUR	1.08	1.05	1.11	1.07
GBP	1.24	1.23	1.27	1.20

Sensitivity analysis

A 10% strengthening of the USD against the following currencies at 31 December 2023 would have increased (decreased) pre-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. This analysis is performed on the same basis as for 2022.

	Profit (loss)	
	2023	2022
ISK	90	(1,936)
EUR	(507)	(243)
GBP	(114)	(225)
Other currencies	(101)	(162)

A 10% weakening of the USD against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant. This analysis is performed on the same basis as for 2022.

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29 Financial risk management, contd.:

e. Classification and fair value of financial assets and liabilities

Financial assets and liabilities are classified as follows:

2023	Amortized cost	Fair value through P/L	Carrying amount
Aircraft deposits & security instalments	13,209	0	13,209
Trade receivables	31,669	0	31,669
Other receivables	1,128	195	1,323
Restricted cash	0	0	0
Cash and cash equivalents	21,606	0	21,606
Total assets	67,612	195	67,807
Trade payables	43,731	0	43,731
Total liabilities	43,731	0	43,731

Classification and fair value of financial assets and liabilities

2022	Amortized cost	Fair value through P/L	Carrying amount
Aircraft deposits & security instalments	10,934	0	10,934
Trade receivables	21,476	0	21,476
Other receivables	1,385	0	1,385
Restricted cash	0	0	0
Cash and cash equivalents	36,234	0	36,234
Total assets	70,029	0	70,029
Trade payables	27,223	0	27,223
Total liabilities	27,223	0	27,223

Fair value

Fair value information for financial assets and liabilities not measured at fair value is not included as the carrying amount is considered a reasonable approximation of fair value.

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30 Related parties

Definition of related parties

The board of directors, managers and close family members and companies in which they own majority of the shares are considered to be related parties.

Transactions with related parties are on an arms length basis.

Transactions with management and key personnel

Salaries and benefits of management for their service to Group and the number of shares in ISK directly or indirectly in the Group held by management are specified below:

2023	Salaries and benefits	Number of shares in ISK thousand	Stock options expense
Einar Örn Ólafsson, chairman	58	93,596	0
Elías Skúli Skúlason, vice chairman	47	35,050	0
Guðný Hansdóttir, board member	32	0	0
María Rúnarsdóttir, board member	34	1,260	0
Valentin Lago, board member	27	0	0
Birgir Jónsson, CEO	375	6,250	0
Key management, seven members	1,797	9,503	183

Six of key management members have open stock option contracts at year end 2023.

2022	Salaries and benefits	Number of shares in ISK thousand	Stock options expense
Einar Örn Ólafsson, chairman	60	93,612	0
Elías Skúli Skúlason, vice chairman	46	35,034	0
Auður B. Guðmundsdóttir, board member	31	127	0
Guðný Hansdóttir, board member	31	0	0
María Rúnarsdóttir, board member	39	1,260	0
Birgir Jónsson, CEO	333	6,250	104
Key management, eight members (six at year end)	1,175	769	204

All of the seven key management members have open stock option contracts at year end 2022.

There were no other transactions with related parties other than shareholders during the year.

31. Events after the reporting period

No events have arisen after the reporting period of these Consolidated Financial Statements that require amendments or additional disclosures in the Consolidated Financial Statements for the period ended 31 December 2023.

32. Other matters

The Financial Supervisory Authority (FSA) notified PLAY of a potential breach of Act 60/2021 on Actions against Market Abuse. PLAY is in dialogue with the FSA but the outcome remains uncertain.

33. Significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these Consolidated Financial Statements.

a. Currency exchange

Foreign currency transactions

Transactions in currencies other than functional currencies (foreign currencies) are translated to the respective functional currencies of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Foreign currency differences are generally recognized in profit or loss.

Foreign operations

In the Group's consolidated financial statements, the assets and liabilities of Group entities with a functional currency other than the USD are translated into USD at reporting date. Income and expenses are translated into USD at the average rate over the reporting period. Exchange differences recognised on translation are charged or credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

b. Revenue

Flight operations

Revenues from passenger flights are recognized in the income statement when the relevant flight has been flown. Sold gift certificates not used within twelve to forty eight months from the month of sale are recognized as revenue.

Other operating revenue

Revenue is recognized in profit or loss when the service has been provided or sale completed by delivery of products.

c. Employee benefits

Share-based payment arrangements

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at grant date. The grant date fair value of equity-settled share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

33. Significant accounting policies, contd.:

d. Finance income and finance cost

Finance income comprises interest income on funds invested, dividend income and foreign currency gains. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on unwinding of the discount on provisions, foreign currency losses, transaction fees, impairment losses recognized on financial assets, that are recognized in profit or loss and impairment of other financial assets and loans and receivables.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether currency movements are in a net gain or net loss position.

e. Income tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is expected tax payable on the taxable income for the period, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted at the reporting date. Deferred tax assets and liabilities are offset if there is legal authority to recover tax payable against tax assets and those belonging to the same tax authority.

The extent to which deferred tax assets can be recognised is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilised.

f. Inventories

Goods for resale and supplies are measured at the lower of cost and net realizable value. The cost of inventories is based on first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

g. Intangible assets

Recognition and measurement

Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses. Intangible assets are only capitalized if it is probable that future economic benefits associated with the asset will be generated and the cost can be measured reliably.

Subsequent expenditures

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

Amortization

Intangible assets are divided into long-term costs and software. Long term cost mainly consists of the acquisition cost of the operation, operating license and brand. The estimated useful lives for the current and comparative years are as follows:

Long-term cost	5-10 years
Software	3-5 years

33. Significant accounting policies, contd.:

h. Operating assets

Recognition and measurement

Items of operating assets are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use.

When parts of an item of operating assets have different useful lives, they are accounted for as separate items (major components) of operating assets.

Any gain and loss on disposal of an item of operating assets (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss.

Aircraft- and flight equipment

Aircraft and flight equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Subsequent expenditures

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Items of operating assets are depreciated on a straight-line basis in profit or loss over the estimated useful lives of each component. In the case of aircraft engines, the depreciation is calculated based on flown hours.

Operating assets are depreciated from the date they are installed and ready for use or in the case of assets which the Group builds itself, from the date that the asset is complete and ready for use.

The estimated useful lives for the current and comparative periods are as follows:

Aircraft- and flight equipment	5-10 years
Other property and equipment	3-5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

33. Significant accounting policies, contd.:

i. Financial instruments

Non-derivative financial assets

The Group initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets, including assets designated at fair value through profit or loss, are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such derecognized financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets at amortized cost

Financial assets at amortized cost are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, financial assets at amortized cost are measured at amortized cost using the effective interest method, less any impairment losses.

Financial assets at amortized cost comprise cash and cash equivalents, trade and other receivables and long-term receivables.

Cash and cash equivalents comprise cash balances and marketable securities with original maturities of three months or less.

Non-derivative financial liabilities

The Group initially recognizes debt securities issued on the date that they are originated. All other financial liabilities including liabilities designated at fair value through profit or loss are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

Derivative financial instruments

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss.

33. Significant accounting policies, contd.:

Hedge accounting

The Group applies hedge accounting for contracts that it enters into to hedge the cash flow of the Group related to forecasted future purchases and for which a hedging relationship has been determined for. Profit or loss of a derivative that has been determined as a hedging derivative is recognized as an increase or decrease in fuel purchases when the contract is settled. Unrealized profit or loss of a derivative which has been determined to be an effective hedge is recognized in other comprehensive income in accordance with hedge accounting for cash flow hedges taken into account tax effects.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for application of hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

Share capital

Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

j. Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events having occurred after the initial recognition of the asset, and that loss events had an impact on the estimated future cash flows of that asset that can be estimated reliably.

In assessing collective impairment of individual classes of financial assets the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other CGUs.

The recoverable amount of an asset of CGU is the greater of its value in use and its fair value less cost to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets or CGU.

Impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

33. Significant accounting policies, contd.:

k. Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Maintenance Reserves

With respect to the Group´s lease agreements, where the Group has a commitment to maintain the aircraft, provision is made during the lease term for the obligation based on estimated future cost of major airframe and certain engine maintenance checks by making appropriate charges to the profit or loss calculated by reference to the number of hours or cycles operated. Provisions are entered into the statement of financial position among non-current and current payables, as applicable.

l. Leases

At inception of a contract, the Group assesses whether a contract is, or contains a lease. A contract is, or contains a lease if the contract conveys the right of control the use of identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of lease in IFRS 16.

As a lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

Right of use assets

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased. Lease payments included in the measurement of the lease liability comprise the following: fixed payments, including in-substance fixed payments, variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date, amounts expected to be payable under a residual value guarantee and the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

33. Significant accounting policies, contd.:

m. Leases

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

n. Deferred income

Sold unused tickets and other prepayments are presented as deferred income in the statement of financial position.

o. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities (see Note 4).

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.
Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

33. Significant accounting policies, contd.:

p. Subsidiaries

Basis of consolidation

The Group's financial statements consolidate those of the parent company and its subsidiary as of 31 December 2023. The subsidiary has a reporting date of 31 December.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group "controls" and entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Transactions eliminated on consoldiation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Group.

q. New accounting standards issued but not yet effective

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2023. Their adoption has not had any material impact on the disclosures or on the amounts reported in these Consolidated Financial Statements.

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

The following amended standards and interpretations are not expected to have a significant impact on the Group´s consolidated financial statements:

* Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

* Amendments to IAS 1: Classification of Liabilities as Current or Non-current

* Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7