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- (1) Effective January 1, 2022, we changed our presentation currency from the Mexican peso to the U.S. dollar. The change in presentation currency was applied retrospectively effective January 1, 2020. All periods presented on our consolidated financial statements have been re-presented into the U.S. dollar.
- (2) Includes routine and ordinary maintenance expenses only. See Item 5: "Operating and Financial Review and Prospects—Operating Results."
- (3) Includes, among other things, major maintenance expenses, which are capitalized and subsequently amortized. See Item 5: "Operating and Financial Review and Prospects—Operating Results."
- (4) Basic and diluted earnings per share amounts are calculated by dividing the net (loss), income, for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in accordance with IAS 33 "Earnings per share."
- (5) The basis used for the computation of the information is to multiply the earnings per basic and diluted share obtained pursuant to footnote (4) above by ten, which is the number of CPOs represented by each ADS. Each CPO, in turn, represents a financial interest in one Series A share of common stock of Volaris.
- (6) Includes scheduled and charter.
- (7) Includes scheduled.
- (8) Excludes non-derivative financial instruments.
- (9) See "Glossary of Airlines and Airline Terms" elsewhere in this annual report for definitions of terms used in this table.
- (10) See detail of other current assets in Item 17: "Financial Statements".
- (11) The consolidated statement of financial position as of December 31, 2020, relates to the balances as of January 1, 2021, included in our consolidated financial statements included elsewhere in this annual report.
- (12) Traffic agents are considered on a 60% FTE (Full-Time Equivalent) basis for this calculation, as they are part-time employees.

### **A. Key Performance Indicators**

The following measures are often provided, and utilized by our management, analysts, and investors to enhance comparability of year-over-year results, as well as to compare results to other airlines: Revenue passenger miles, or RPMs; Average passenger revenue per booked passenger; Average non-passenger revenue per booked passenger, Total operating revenue per ASM, or TRASM; Passenger Revenue per ASMS, or RASM; Operating expenses per ASM, or CASM; CASM ex fuel, and average economic fuel cost per gallon. Average passenger revenue per booked passenger represents the total passenger revenue divided by booked passengers. The CASM ex fuel represents total operating expenses, net excluding fuel expense divided by ASMs. Average economic fuel cost per gallon represents total fuel expense net of hedging effect, divided by the total number of fuel gallons consumed. We believe this operating data is useful in reporting the operating performance of our business, however, these measures may differ from similarly titled measures reported by other companies and should not be considered in isolation or as a substitute for measures of performance in accordance with IFRS.

### **B. Capitalization and Indebtedness**

Not Applicable.

### **C. Reasons for the Offer and Use of Proceeds**

Not Applicable.

### **D. Risk Factors**

You should carefully consider all of the information set forth in this annual report and the risks described below before making an investment decision. Our business, results of operations and financial condition could be materially and adversely affected by any of these risks. The trading price of the ADSs could decline due to any of these risks or other factors, and you may lose all or part of your investment.

The risks described below are those that we currently believe may adversely affect us or the ADSs. In general, investing in the securities of issuers in emerging market countries, such as Mexico, involves risks that are different from the risks associated with investing in the securities of U.S. companies and companies located in other countries with developed capital markets. Any of these risks could materially and adversely affect our business and results of operations.

To the extent that information relates to, or is obtained from sources related to, the Mexican government or Mexican macroeconomic data, the following information has been extracted from official publications of the Mexican government and has not been independently verified by us.

**Risks related to Mexico and the other countries in which we operate**

***Economic political and social developments in Mexico as well as changes in Mexican federal governmental policies may have an adverse effect on our business, results of operations, financial condition and prospects.***

Our business, results of operations and financial condition are affected by economic, political or social developments in Mexico, including, among others, any political or social instability in Mexico, changes in the rate of economic growth or contraction, changes in the exchange rate between the peso and the U.S. dollar, an increase in inflation or interest rates, changes in Mexican taxation and any amendments to existing Mexican laws, federal governmental policies and regulations.

Adverse social or political developments in or affecting Mexico could negatively affect us and Mexican financial markets generally, thereby affecting our ability to obtain financing. Presidential and federal congressional elections in Mexico were held on July 1, 2018. Mr. Andrés Manuel López Obrador, a member of the National Regeneration Movement (*Movimiento Regeneración Nacional*), was elected President of Mexico and took office on December 1, 2018. The President's party and its allies currently hold the majority of the Chamber of Deputies and the Senate. We cannot provide any assurance that the current political situation or any future developments in Mexico will not have a material adverse effect on our business, results of operations, financial condition, or prospects.

In addition, the Mexican federal government has exercised, and continues to exercise, significant influence over the Mexican economy. In particular, Mexican governmental actions and policies concerning air transportation and similar services could have a significant impact on us. In 2022, the Mexican government implemented subsidies to offset the sharp increase in oil prices, specifically for diesel, which is the primary fuel used in buses and goods transportation. These subsidies are not applicable to jet fuel. As a result, the subsidies benefit the bus market, but do not provide any benefit to us or the airline industry.

In December 2022, President Andrés Manuel López Obrador announced plans to create a new airline owned and operated by the Mexican government, to that effect in April 2023, the Chamber of Deputies approved amendments to the Mexican Civil Aviation Law (*Ley de Aviación Civil*) and Mexican Airports Law (*Ley de Aeropuertos*) that, among other things, would allow governmental entities to have concessions to operate both, civil airlines and airports. Such proposals, if adopted, would further increase our competition. On February 2, 2023, the Mexican federal government published a decree ordering the termination of domestic and international air cargo transport operations, both regularly scheduled and unscheduled flights, at the Mexico City International Airport.

We cannot assure you that changes in Mexican laws, regulations and policies, including those recently adopted, currently proposed and any changes that may be adopted in the future, will not adversely affect our business, results of operations, financial condition and prospects or the price of the ADSs.

***Adverse economic conditions in Mexico and the other countries in which we operate may adversely affect our business, results of operations and financial condition.***

We are a Mexican corporation and most of our operations are conducted in Mexico. For the year ended December 31, 2022, 67% of our total revenues were attributable to our Mexican domestic operations. As a result, our business is affected by the performance of the Mexican economy. In 2020, 2021 and 2022, the Mexican economy contracted 8.4%, grew 5.1% and grew 3.1%, respectively, in terms of gross domestic product, or GDP, according to the INEGI. Moreover, in the past, Mexico has experienced prolonged periods of economic crises, caused by internal and external factors, over which we have no control. Those periods have been characterized by exchange rate instability, high inflation, high domestic interest rates, economic contraction, a reduction of international capital flows, a reduction of liquidity in the banking sector and high unemployment rates.

We conduct an important part of our operations in the United States and Central and South America. For the year ended December 31, 2022, 33% of our total revenues were attributable to our operations in the United States and Central and South America. As a result, our results are not only dependent of our domestic operations, but they are also affected by the ones in the United States and Central and South America.

As of the date of this annual report, we believe that the main risk factors for the countries where we operate include, but are not limited to, the following: (i) continuation of persistent supply-demand mismatches, increasing inflation and a faster-than-anticipated monetary policy normalization cycle, and its impact on the global economy, emerging markets, risk aversion, foreign exchange markets, debt, and financial market volatility; (ii) escalation of social unrest; (iii) more adverse climate shocks; (iv) an escalation of trade and technology tensions, notably between the United States and China, could weigh on investment and productivity growth, raising additional roadblocks in the recovery path; (v) rapid growth of cryptocurrencies without clear regulation that could lead to financial instability with negative effects for the global economy; (vi) an increase in the spread and destructiveness of cyberattacks involving critical infrastructure could act as further drags on the recovery, particularly as telework and automation increase; and (vii) other geopolitical risks.

Unfavorable economic conditions in Mexico and the other countries in which we operate, including a slowdown or recession in their economies, as well as higher inflation rates, may result in decreased demand for our flights, lower fares or a shift towards alternative ground transportation options, such as long-distance buses. We cannot assure you that economic conditions in Mexico and the other countries in which we operate will not worsen, or that those conditions will not have an adverse effect on our business, results of operations and financial condition.

***Economic, political, or social developments in the United States and the Central and South American countries in which we operate may have an adverse effect on our business, results of operations, financial condition and prospects.***

Our business, results of operations and financial condition are affected by economic, political or social developments in the United States and the Central and South American countries in which we operate. Like other companies with international operations, political, economic, geopolitical or social developments in the countries in which we operate, such as elections, new governments, changes in public policy, economic circumstances, laws and/or regulations, trade policies, political agreements or disagreements, civil disturbances and a rise in violence or the perception of violence, could have a material adverse effect in the countries in which we operate or on the global financial markets, and in turn on our business, results of operations, financial condition and prospects.

***If inflation rates increase in Mexico and the other countries in which we operate, demand for our services may decrease and our costs may increase.***

Mexico has historically experienced levels of inflation that are higher than the annual inflation rates of its main trading partners. The annual rate of inflation, as measured by changes in the Mexican national consumer price index, calculated and published by the Mexican Central Bank and INEGI was 3.15% for 2020, 7.36% for 2021 and 7.82% for 2022. In addition, since the beginning of 2021, inflation, as measured by the consumer price index has increased in advanced and emerging market economies, reaching 40-year record high in the United States, driven mainly by supply chain issues (including input shortages, labor constraints, and rising commodity prices), excess demand for goods and services, and significant increases in energy prices. High inflation rates could adversely affect our business and results of operations by reducing consumer purchasing power, thereby adversely affecting consumer demand for our services, increasing our costs beyond levels that we could pass on to our customers and by decreasing the benefit to us of revenues earned to the extent that inflation exceeds growth in our pricing levels.

**Currency fluctuations or the devaluation and depreciation of the U.S. dollar could adversely affect our business, results of operations, financial condition and prospects.**

Foreign exchange gains or losses included in our total cost of comprehensive financing resulted primarily from the impact of changes in the US dollar-peso exchange rate on our Mexican peso-denominated monetary liabilities (such as Mexican peso-denominated debt, Mexican pesos financial debt, suppliers and other accounts payable) and assets (such Mexican peso-denominated cash, cash equivalents, accounts receivable, guarantee deposits and derivative financial instruments denominated in Mexican pesos). As of December 31, 2020 and 2021, our net monetary liability position denominated in U.S. dollars was U.S. \$1.7 billion and U.S. \$1.6 billion, respectively. As of December 31, 2022, our net monetary Mexican peso and other currencies liability position denominated in U.S. dollars was U.S. \$0.2 billion. As a result of either the appreciation or depreciation of the peso against the U.S. dollar in 2020, 2021, and 2022, and our net U.S. dollar liability position, we recorded a foreign exchange gain (loss), net of U.S. \$13.6 million, U.S. \$(124.2) million and U.S. \$(3.6) million, respectively.

The value of the U.S. dollar has been subject to significant fluctuations with respect to the peso in the past and may be subject to significant fluctuations in the future. This trend in fluctuations has continued as the U.S. dollar appreciated 5.8% in 2020 against the peso in nominal terms. As of December 31, 2021 and 2022, the U.S. dollar appreciated 3.2% and depreciated 5.9%, respectively, against the peso in nominal terms since December 31, 2020.

During the second half of 2021, we identified in the primary economic environment in which our main subsidiary Volaris Opco operates (i) an increase in its international market transactions during 2021, (ii) a change in the determination of rates, and (iii) that most of Volaris Opco's representative costs are determined and denominated in U.S. dollars. As a result, management determined that the functional currency of Volaris Opco had changed from Mexican peso to the U.S. dollar as of December 31, 2021.

Furthermore, after considering our dependency on our subsidiary Volaris Opco, management determined that our functional currency also changed from Mexican peso to U.S. dollar as of December 31, 2021. Effective January 1, 2022, and for all subsequent periods, as permitted by IAS 21, and with the authorization of our board of directors, after considering the favorable opinion of our audit and corporate governance committee, we changed our presentation currency from Mexican peso to the U.S. dollar.

A change in presentation currency is a change in accounting policy which is accounted for retrospectively. In making this change in presentation currency, the Company followed the requirements set out in IAS 21 "The Effect of Changes in Foreign Exchange Rates."

**Devaluation or depreciation of the peso against the U.S. dollar may adversely affect the U.S. dollar value of an investment in the ADSs, as well as the U.S. dollar value of any dividend or other distributions that we may make.**

Fluctuations in the exchange rate between the peso and the U.S. dollar, particularly depreciations in the value of the peso, may adversely affect the U.S. dollar equivalent of the peso price of the Series A shares on the Mexican Stock Exchange. Such peso depreciations will likely affect the market price of the ADSs. Exchange rate fluctuations would also affect the U.S. dollar equivalent value of any dividends and other distributions we may elect to make in the future and may affect the timely payment of any peso cash dividends and other distributions to holders of CPDs that we may elect to pay in the future.

**Developments in other countries could adversely affect the Mexican economy, the market value of our securities, our financial condition and results of operations.**

The market value of securities of Mexican companies is affected by economic and market conditions in developed and other emerging market countries. Although economic conditions in those countries may differ significantly from economic conditions in Mexico, investors' reactions to developments in any of these other countries, may have an adverse effect on the market value of securities of Mexican issuers. In recent years, for example, prices of both Mexican debt and equity securities have sometimes suffered substantial drops as a result of developments in other countries. In 2008-2009, credit issues in the United States related principally to the sale of sub-prime mortgages resulted in significant fluctuations in securities traded in global financial markets, including Mexico.

In addition, the direct correlation between economic conditions in Mexico and the United States has strengthened in recent years because of the North American Free Trade Agreement, or NAFTA, and increased economic activity between the two countries (including increased remittances of U.S. dollars from Mexican workers in the United States to their families in Mexico). On November 30, 2018, Mexico, the United States and Canada signed the USMCA (United States-Mexico-Canada Agreement), which entered into force on July 1, 2020, as a replacement for NAFTA. During his presidency, President Trump implemented immigration policies that have adversely affected United States-Mexico travel behavior, especially in the VFR and leisure markets. President Trump's immigration policies had a negative impact on our results of operations. In addition, as a result of the COVID-19 pandemic, on April 22, 2020, President Trump signed a Presidential Proclamation entitled: "Suspending Entry of Immigrants Who Present Risk to the U.S. Labor Market During the Economic Recovery Following the COVID-19 Outbreak." On January 20, 2021, Joseph Biden became the President of the United States. While President Biden reversed many of President Trump's immigration policies, we can offer no assurance of the extent to which his administration will continue to do so. In addition, even if President Biden continues to reverse President Trump's immigration policies, subsequent presidential administrations could reimpose them, which could have a material adverse effect on our operations and revenues and affect the market price of our securities, including the ADSs.

***Mexican antitrust provisions may affect the fares we are permitted to charge to customers.***

The Mexican Aviation Law (*Ley de Aviación Civil*) provides that in the event that the SICT determines that there is no effective competition among permit and concession holders (required to operate airlines in Mexico), the SICT may request the opinion of the Mexican Antitrust Commission (*Comisión Federal de Competencia Económica*) and then issue regulations governing the fares that may be charged for air transportation services by airlines operating in Mexico. Such regulations would be in effect only while the conditions that resulted in their establishment remain. The imposition of fare regulations by the SICT could materially affect our business, results of operations and financial condition.

***Violent crime in Mexico has adversely impacted, and may continue to adversely impact, the Mexican economy and may have a negative effect on our business, results of operations or financial condition.***

Mexico has experienced high levels of violent crime over the past few years relating to illegal drug trafficking, particularly in Mexico's northern states near the U.S. border. This violence has had an adverse impact on the economic activity in Mexico. In addition, violent crime may further affect travel within Mexico and between Mexico and other countries, including the United States, affect the airports or cities in which we operate, including airports or cities in the north of Mexico in which we have significant operations, and increase our insurance and security costs. We cannot assure you that the levels of violent crime in Mexico or their expansion to a larger portion of Mexico, over which we have no control, will not increase or decrease and will have no further adverse effects on the country's economy and on our business, results of operations or financial condition.

**Risks related to the airline industry**

***We operate in an extremely competitive industry.***

We face significant competition with respect to routes, fares, services and slots in airports. Within the airline industry, we compete with legacy carriers, regional airlines and low-cost airlines on many of our routes. The intensity of the competition we face varies from route to route and depends on a number of factors, including the strength of competing airlines. Our competitors may have better brand recognition and greater financial and other resources than we do. In the event our competitors reduce their fares to levels which we are unable to match while sustaining profitable operations or are more successful in the operation of certain routes (as a result of service or otherwise), we may be required to reduce or withdraw services on the relevant routes, which may cause us to incur losses or may impact our growth, financial condition or results of operations. See Item 4: "Information on the Company-Business Overview -Competition."

The airline industry is particularly susceptible to price discounting, because once a flight is scheduled, airlines incur only nominal additional costs to provide service to passengers occupying otherwise unsold seats. Increased fare or other price competition could adversely affect our results of operations and financial condition. Moreover, other airlines have begun to unbundle services by charging separate fees for services such as baggage transported, food and beverages consumed onboard and advance seat selection. This unbundling and potential reduction of costs could enable competitor airlines to reduce fares on routes that we serve, which may result in an improvement in their ability to attract customers and may affect our results of operations and financial condition.

In addition, airlines increase or decrease capacity in markets based on perceived profitability. Decisions by our competitors that increase overall industry capacity, or capacity dedicated to a particular region, market or route, could have a material adverse impact on our business. Our growth and the success of our ULCC business model could stimulate competition in our markets through our competitors' development of their own ULCC strategies or new market entrants. Any such competitor may have greater financial resources and access to cheaper sources of capital than we do, which could enable them to operate their business with a lower cost structure than we can. If these competitors adopt and successfully execute a ULCC business model, we could be materially adversely affected, including our business, results of operations and financial condition.

We also face competition from air travel substitutes. On our domestic routes, we face competition from other transportation alternatives, such as bus or automobile. In addition, technology advancements may limit the desire for air travel. For example, video teleconferencing and other methods of electronic communication may reduce the need for in-person communication and add a new dimension of competition to the industry as travelers seek lower cost substitutes for air travel.

In December 2022, President Andrés Manuel López Obrador announced plans to create a new airline owned and operated by the Mexican government, to that effect in April 2023, the Chamber of Deputies approved amendments to the Mexican Civil Aviation Law (*Ley de Aviación Civil*) and Mexican Airports Law (*Ley de Aeropuertos*) that, among other things, would allow governmental entities to have concessions to operate both, civil airlines and airports. Such proposals, if adopted, would further increase our competition. If we are unable to adjust rapidly in the event the basis of competition in our markets changes, it could have a material adverse effect on our business, results of operations and financial condition.

***The airline industry is heavily impacted by the price and availability of fuel. Continued volatility in fuel costs or significant disruptions in the supply of fuel could have a material adverse effect on our business, results of operations and financial condition.***

Fuel is a major cost component for airlines and is our largest operating expense. The cost of fuel accounted for 27%, 34% and 46% (including derivative and non-derivative financial instruments for 2020 and 2021) of our total operating costs in 2020, 2021, and 2022, respectively. As such, our operating results are significantly affected by changes in the cost and availability of fuel. Both the cost and the availability of fuel are subject to economic, social and political factors and other events occurring throughout the world, which we can neither control nor accurately predict. Fuel prices have been subject to high volatility, fluctuating substantially over the past several years. Because Russia is one of the world's largest oil exporters, we expect recent global developments relating to Russia's invasion of Ukraine, and resulting export restrictions, will likely lead to decreased global supply and increased fuel prices, which effects could be more acute if the participants of the Organization of the Petroleum Exporting Countries, or OPEC, decide not to, or are unable to, increase their supply production. Due to the large proportion of fuel costs in our total operating cost base, even a relatively small increase in the price of fuel can have a significant negative impact on our operating costs and on our business, results of operations and financial condition. For more information on our cost of fuel, see Item 4: "Information on the Company—Business Overview—Fuel."

***Our inability to renew our concession or the revocation by the Mexican government of our concession would materially adversely affect us.***

We hold a concession from the Mexican federal government that authorizes us to provide domestic air transportation services of passengers, cargo and mail within Mexico, or our Concession. Our Concession was granted by the Mexican government through the SICT on May 9, 2005 for an initial term of five years and was extended by the SICT on February 17, 2010 for an additional term of ten years. On February 21, 2020, our Concession was extended for an additional 20-year term starting on May 9, 2020.

Mexican law provides that concessions may be renewed several times. However, each renewal may not exceed 30 years and the law requires the concessionaire to:

- have complied with the obligations set forth in the concession to be renewed;
- have requested the renewal one year before the expiration of the concession term;
- have made an improvement in the quality of the services during the term of the concession; and
- have accepted the new conditions established by the SICT according to the Mexican Aviation Law (*Ley de Aviación Civil*).

Failure to renew our Concession would have a material adverse effect on our business, results of operations, financial condition and prospects and would prevent us from continuing to conduct our business.

In addition, we are required under the terms of our Concession to comply with certain ongoing obligations. Failure to comply with these obligations could result in penalties against us. The Mexican government has the right to revoke our Concession and the permits we currently hold for various reasons, including:

- service interruptions;
- failure to comply with the terms of our Concession;
- if we assign or transfer rights under our Concession or permits;
- if we fail to maintain insurance required under applicable law;
- if we charge fares different from those registered with the SICT;
- if we violate statutory safety conditions;
- if we fail to pay statutory indemnification; or
- if we fail to pay to the Mexican government the required compensation.

If our Concession or permits are revoked, we will be unable to operate our business as it is currently operated and be precluded from obtaining a new concession or permit for five years from the date of revocation. For more information on the potential causes for revocation of our Concession and permits, see Item 4: "Information of the Company-Regulation."

***Under Mexican law, our assets could be taken or seized by the Mexican government under certain circumstances.***

Pursuant to Mexican law and our Concession, the Mexican federal government may take or seize our assets, temporarily or permanently, including our aircraft, in the event of a natural disaster, war, serious changes to public order or in the event of imminent danger to national security, internal peace or the national economy. The Mexican federal government, in all cases, except in the event of international war, must indemnify us by paying the respective losses and damages at market value. In these circumstances, we would not be able to continue with our normal operations. Applicable law is unclear as to how indemnification is determined and the timing of payment thereof. In addition, on March 28, 2023, the Mexican federal government sent an initiative to the Chamber of Deputies proposing amendments to 23 laws that regulate relationships between private parties and the government relating to, among other things, licenses, permits and concessions. Such amendments, if approved, could further limit the concessions and indemnifications that the Mexican federal government would be required to provide in these circumstances. Any seizure of our assets is likely to have a material adverse effect on our business, results of operations and financial condition.

***The airline industry is particularly sensitive to changes in economic conditions. A global economic contraction could negatively impact our business, results of operations and financial condition.***

Our business and the airline industry in general are affected by changing economic conditions beyond our control, including, but not limited to:

- changes and volatility in general economic conditions, including the severity and duration of any downturn in Mexico, the United States or the global economy and financial markets;
- changes in consumer preferences, perceptions, spending patterns or demographic trends, including any increased preference for higher-fare carriers offering higher amenity levels, and reduced preferences for low-fare carriers offering more basic transportation, during better economic times or for other reasons;
- higher levels of unemployment and varying levels of disposable or discretionary income;

- health outbreaks, pandemics and other safety concerns;
- decreases in housing and stock market prices;
- lower levels of actual or perceived consumer confidence;
- high inflation rates; and
- increases in exchange rate volatility and fuel prices, especially in the context of the conflict between Russia and Ukraine.

These factors can adversely affect our results of operations and financial condition, our ability to obtain financing on acceptable terms and our liquidity generally. Current unfavorable general economic conditions, such as higher unemployment rates, a constrained credit market, housing-related pressures and increased focus on reducing business operating costs can reduce spending for leisure, VFR and business travel. For many travelers, in particular the leisure and VFR travelers we serve, air transportation is a discretionary purchase that they can eliminate from their spending in difficult economic times.

In addition, adverse economic conditions could affect our ability to raise prices to counteract increased fuel, labor or other costs, which could result in a material adverse effect on our business, results of operations and financial condition. We are currently striving to increase demand for our flights among the portion of the population in Mexico that has traditionally used ground transportation for travel due to price constraints, by offering lower fares that compete with bus fares on similar routes. Unfavorable economic conditions could affect our ability to offer these lower fares and could affect this population segment's discretionary spending in a more adverse manner than other travelers.

Further, in an inflationary environment, such as the current Mexico and U.S. economic environments, we may be unable to manage through the resulting increases in our operating costs depending on its effects on the airline industry and other economic conditions. We cannot predict how long the current inflationary period will last or if it will re-occur in the future. As such, we cannot guarantee that we will be able to maintain our costs at their current level. If our costs increase and we are no longer able to maintain a competitive cost structure, it could have a material adverse effect on our business, results of operations and financial condition.

***The airline industry is heavily regulated and our financial condition and results of operations could be materially adversely affected if we fail to maintain the required U.S., Mexican, Central American and South American governmental concessions or authorizations necessary for our operations.***

The airline industry is heavily regulated and we are subject to regulation in Mexico and in the United States for the routes we serve between Mexico and the United States. In order to maintain the necessary concessions or authorizations issued by the SICT, acting through the AFAC, the FAA and some of the aviation authorities in the Central and South American countries in which we operate, including authorizations to operate our routes, we must continue to comply with applicable statutes, rules and regulations pertaining to the airline industry, including any rules and regulations that may be adopted in the future.

We cannot predict which criteria the SICT will apply for awarding rights to landing slots, bi-lateral agreements, and international routes, which may prevent us from obtaining routes that may become available. In addition, international routes are limited by bi-lateral agreements and our expansion plans in the international market will be limited if we are unable to obtain new international routes. Furthermore, we cannot predict or control any actions that the AFAC, FAA or the aviation authorities in the Central and South American countries in which we operate may take in the future, which could include restricting our operations or imposing new and costly regulations.

Furthermore, our fares are subject to review by the AFAC, the FAA and some of the aviation authorities in the Central and South American countries in which we operate, any of which may in the future impose restrictions on our fares. Our business, results of operations and financial condition could be materially adversely affected if we fail to maintain the required U.S., Mexican, Central American and South American governmental concessions or authorizations or slots necessary for our operations.



***The airline industry is subject to increasingly stringent environmental regulations and non-compliance therewith may adversely affect our financial condition and results of operations.***

The airline industry is subject to increasingly stringent federal, state, local and foreign laws, regulations and ordinances relating to the protection of the environment, including those relating to emissions to the air, levels of noise, discharges to surface and subsurface waters, safe drinking water, and the management of hazardous substances, oils and waste materials. Compliance with all environmental laws and regulations can require significant expenditures and any future regulatory developments in Mexico, the United States and other countries in which we operate could adversely affect operations and increase operating costs in the airline industry. For example, some form of federal regulation may be forthcoming in the United States with respect to greenhouse gas emissions (including carbon dioxide, or CO<sub>2</sub>, and/or 'cap and trade' legislation), compliance with which could result in the creation of substantial additional costs to us. The U.S. Congress is considering climate change legislation and the EPA issued a rule that regulates larger emitters of greenhouse gases. Concerns about climate change and greenhouse gases may result in additional regulation or taxation of emissions, including aircraft emissions, in the United States and Mexico. Future operations and financial results may vary as a result of such regulations in the United States and equivalent regulations adopted by other countries, including Mexico, Central and South America. Compliance with these regulations and new or existing regulations that may be applicable to us in the future could increase our cost base and could have a material adverse effect on our business, results of operations and financial condition.

Furthermore, in 2016, the International Civil Aviation Organization, or ICAO, adopted a resolution creating the Carbon Offsetting and Reduction Scheme for International Aviation, or CORSIA, providing a framework for a global market-based measure to stabilize CO<sub>2</sub> emissions in international civil aviation (i.e., civil aviation flights that depart in one country and arrive in a different country). CORSIA will be implemented in phases, starting with the participation of ICAO members on a voluntary basis during a pilot phase (from 2021 through 2023), followed by a first phase (from 2024 through 2026) and a second phase (from 2027). To the extent most of the countries in which we operate continue to be ICAO member states, in the future we may be affected by regulations adopted pursuant to the CORSIA framework. In addition, in January 2021, the EPA finalized greenhouse gas emission standards for new aircraft engines designed to implement the ICAO standards on the same timeframe contemplated by the ICAO. Like the ICAO standards, the EPA standards would not apply to engines in-service aircraft. The EPA standards have been challenged by several states and environmental groups and the Biden administration has announced plans to review the EPA standards along with others issued by the prior administration. The outcome of the legal challenge and administrative review cannot be predicted at this time. Certain CORSIA details remain to be developed and could potentially be affected by political developments in participating countries or the results of the pilot phase of the program, and thus the impact of CORSIA cannot be predicted at this time. However, CORSIA is expected to increase operating costs for airlines that operate internationally.

We may also be subject to other climate-related regulation, including relating to disclosures. For example, the SEC has published proposed rules that would require companies to provide significantly expanded climate-related disclosures in their periodic reporting, which may require us to incur significant additional costs to comply and result in increased oversight obligations for our management and board of directors.

***We are subject to a series of risks related to climate change.***

Growing recognition among stakeholders of the dangers of climate change and related risks may translate, among others, into financial and reputational risks. For example, changes in the availability or cost of aircraft and components, as well as fuel, may adversely impact our operations. Additionally, customers may choose to fly less frequently or fly on an airline they perceive as operating in a manner that is more sustainable to the climate. Customers may choose to use alternatives to travel, such as virtual meetings and workspaces. As part of our climate strategy, we offer an option for travelers to purchase carbon offsets to partially offset their flight emissions; however, in recent years, there has been increased scrutiny on the use of offsets, and we may not be able to realize the anticipated benefits of their purchase as a result. For more information, see our risk factor titled "Increasing attention to, and scrutiny of, ESG matters could increase our costs, harm our reputation, or otherwise adversely impact our business."

Finally, the potential acute and chronic physical effects of climate change, such as increased frequency and severity of storms, floods, fires, sea-level rise, excessive heat, longer-term changes in weather patterns and other climate-related events, could affect our operations, infrastructure and financial results. Operational impacts, such as the canceling of flights, could result in loss of revenue. We could also incur significant costs to improve the climate resiliency of our infrastructure and otherwise prepare for, respond to, and mitigate such physical effects of climate change. However, we cannot predict the ultimate cost, or success, of such efforts due to, among other things, the uncertainty associated with longer-term projections associated with managing climate risk.

***Increasing attention to, and scrutiny of, ESG matters could increase our costs, harm our reputation, or otherwise adversely impact our business.***

Companies across industries are facing increasing scrutiny from a variety of stakeholders related to their ESG and sustainability practices. Expectations regarding voluntary ESG initiatives and disclosures and consumer demand for alternative forms of energy may result in increased costs (including but not limited to increased costs related to compliance, stakeholder engagement, suppliers contracts and insurance), changes in demand for certain products, enhanced compliance or disclosure obligations, or other adverse impacts to our business, financial condition, or results of operations.

While we may at times engage in voluntary initiatives (such as voluntary disclosures, certifications, or goals, among others) to improve our ESG profile or to respond to stakeholder expectations, such initiatives may be costly and may not have the desired effect. Expectations around our management of ESG matters continues to evolve rapidly, in many instances due to factors that are out of our control. For example, we may ultimately be unable to complete certain initiatives or targets, either on the timelines initially announced or at all, due to technological, cost, or other constraints, which may be within or outside of our control. Moreover, actions or statements that we may take based on expectations, assumptions, or third-party information that we currently believe to be reasonable may subsequently be determined to be erroneous or be subject to misinterpretation. If we fail to, or are perceived to fail to, comply with or advance certain ESG initiatives (including the timeline and manner in which we complete such initiatives), we may be subject to various adverse impacts, including reputational damage and potential stakeholder engagement and/or litigation, even if such initiatives are currently voluntary. For example, there have been increasing allegations of greenwashing against companies making significant ESG claims due to a variety of perceived deficiencies in performance or methodology, including as stakeholder perceptions of sustainability continue to evolve.

Certain market participants, including major institutional investors and capital providers, use third-party benchmarks and scores to assess companies' ESG profiles in making investment or voting decisions. Unfavorable ESG ratings could lead to increased negative investor sentiment towards us or our industry, which could negatively impact our share price as well as our access to and cost of capital. To the extent ESG matters negatively impact our reputation, it may also hamper our ability to compete as effectively to attract and retain employees or customers, which may adversely impact our operations. In addition, we expect there will likely be increasing levels of regulation, disclosure-related and otherwise, with respect to ESG matters. This and other stakeholder expectations will likely lead to increased costs as well as scrutiny that could heighten all of the risks identified in this risk factor. Additionally, many of our customers and suppliers may be subject to similar expectations, which may augment or create additional risks, including risks that may not be known to us.

***Compliance with airline industry regulations involves significant costs and regulations enacted in Mexico, the United States, Central America and South America may increase our costs significantly in the future.***

Airlines are subject to extensive regulatory and legal compliance requirements, both domestically and internationally, that involve significant costs. In the last several years, the U.S. Congress has passed laws, and the DOT, FAA and TSA have issued regulations, relating to the operation of airlines that have required significant expenditures. FAA requirements cover, among other things, collision avoidance systems, airborne wind shear avoidance systems, noise abatement and other environmental issues, and increased inspections and maintenance procedures to be conducted on older aircraft. We expect to continue to incur expenses in connection with complying with government regulations. Additional laws, regulations, taxes and airport rates and charges have been proposed from time to time that could significantly increase the cost of airline operations or reduce the demand for air travel. If adopted, these measures could have the effect of raising ticket prices, reducing revenue and increasing costs. For example, the DOT finalized rules, taking effect on April 29, 2010, requiring new procedures for customer handling during long onboard tarmac delays, as well as additional reporting requirements for airlines that could increase the cost of airline operations or reduce revenues.

The DOT released additional rules, most of which became effective in August 2011, that address, among other things, concerns about how airlines handle interactions with passengers through advertising, the reservations process, at the airport and on board the aircraft, including requirements for disclosure of base fares plus a set of regulatory mandated options and limits on cancellations and change fees. Failure to remain in full compliance with these rules, or new rules as enacted from time to time, may subject us to fines or other enforcement action, which could have a material effect on our business, results of operations and financial condition.

In addition, the TSA mandates the federalization of certain airport security procedures in the United States and imposes additional security requirements on airports and airlines, most of which are funded by a per ticket tax on passengers and a tax on airlines. The U.S. federal government has on several occasions proposed a significant increase in the per ticket tax. The proposed ticket tax increase, if implemented, could negatively impact our business, results of operations and financial condition.

Our ability to operate as an airline in the United States is dependent on maintaining our certifications issued to us by the DOT and the FAA. The FAA has the authority to issue mandatory orders relating to, among other things, the grounding of aircraft, inspection of aircraft, installation of new safety-related items and removal and replacement of aircraft parts that have failed or may fail in the future. A decision by the FAA to ground, or require time consuming inspections of or maintenance on, our aircraft, for any reason, could negatively affect our business, results of operations and financial condition. U.S. federal law requires that air carriers operating large aircraft be continuously 'fit, willing and able' to provide the services for which they are licensed. Our "fitness" is monitored by the DOT, which considers factors such as unfair or deceptive competition, advertising, baggage liability and disabled passenger transportation. While the DOT has seldom revoked a carrier's certification for lack of fitness, such an occurrence would render it impossible for us to continue operating as an airline in the United States. The DOT may also institute investigations or administrative proceedings against airlines for violations of regulations.

On July 26, 2017 amendments to the Mexican Aviation Law (*Ley de Aviación Civil*) and the Mexican Consumer Protection Law were enacted to provide for additional passenger rights, and this legislation has increased our costs and has reduced our ability to charge for certain ancillary services.

Furthermore, we cannot assure you that airline industry regulations enacted in the future in Mexico, Central America, South America and the United States will not increase our costs significantly.

***Airlines are often affected by factors beyond their control, including air traffic congestion at airports, weather conditions, health outbreaks or concerns, pandemics, or increased security measures, any of which could harm our business, results of operations and financial condition.***

Like other airlines, we are subject to delays caused by factors beyond our control, including air traffic congestion at airports, air traffic control inefficiencies, adverse weather conditions, health outbreaks or concerns, increased security measures and new travel related taxes. Delays frustrate passengers, reduce aircraft utilization and increase costs, all of which in turn could adversely affect our profitability. The governments of Mexico, the United States and the Central and South American countries in which we operate control their respective airspace and airlines are completely dependent on the AFAC, the FAA and the aviation authorities in the Central and South American countries in which we operate to operate these airspaces in a safe, efficient and affordable manner.

The air traffic control system, which is operated by Services to the Navigation in the Mexican Air Space (*Servicios a la Navegación en el Espacio Aéreo Mexicano*) in Mexico, the FAA in the United States and the Central American Corporation of Aerial Navigation Services (*Corporación Centroamericana de Servicios de Navegación Aérea*) in Central America, the Air Navigation Services Directorate (*Dirección de Servicios a la Navegación Aérea*) in Colombia, and the Peruvian Corporation of Airports and Commercial Aviation (*Corporación Peruana de Aeropuertos y Aviación Comercial*) in Peru, faces challenges in managing the growing demand for air travel. U.S. and Mexican air-traffic controllers often rely on outdated technologies that routinely overwhelm the system and compel airlines to fly inefficient, indirect routes resulting in delays. For example, on January 11, 2023, all flights in the United States were halted for a few hours because the FAA's system to alert pilots to safety issues went down as a result of a damaged database file. Adverse weather conditions and natural disasters can also cause flight cancellations or significant delays.

Cancellations or delays due to weather conditions, natural disasters, air traffic control problems, health outbreaks or concerns, pandemics, breaches in security or other factors and any resulting reduction in airline passenger traffic could have a material adverse effect on our business, results of operations and financial condition. Additionally, climate change concerns may increase the possibility of disrupting weather conditions that could affect certain of our destinations more frequently or for longer periods of time.

***Airline consolidations and reorganizations could adversely affect the industry.***

The airline industry has undergone substantial consolidation throughout the years and recently, and it may undergo additional consolidation in the future. Any consolidation or significant alliance activity within the airline industry could increase the size and resources of our competitors. In particular, the airline industry in Mexico has seen a sharp contraction with the exit of nine Mexican airlines since 2007, the most recent being Transportes Aeromar, S.A. de C.V., a regional carrier, which on February 15, 2023 announced its definitive cessation of operations, and Interjet, our third largest competitor by market share in 2020, which has been unable to resume flights since suspending their operations in December 2020. Interjet's fleet decreased by 100% in 2021, from three aircraft as of December 31, 2020 to zero as of December 31, 2021, according to information published by the AFAC. According to media reports, on April 10, 2023, Interjet declared bankruptcy in Mexico. We cannot predict the outcome of Interjet's future financial condition or its impact on the industry and our operations. It is possible that further airline reorganizations, consolidation, bankruptcies, or liquidations may occur in the current global economic environment, the effects of which we are unable to predict. We cannot assure you the occurrence of these events, or potential changes resulting from these events, will not harm our business or the industry.

***Because the airline industry is characterized by high fixed costs and relatively elastic revenues, airlines cannot quickly reduce their costs to respond to shortfalls in expected revenue.***

The airline industry is characterized by low gross profit margins, high fixed costs and revenues that generally exhibit substantially greater elasticity than costs. The operating costs of each flight do not vary significantly with the number of passengers flown and, therefore, a relatively small change in the number of passengers, fare pricing or traffic mix could have a significant effect on operating and financial results. These fixed costs cannot be adjusted quickly to respond to changes in revenues and a shortfall from expected revenue levels could have a material adverse effect on our results of operations and financial condition.

***Increases in insurance costs and/or significant reductions in coverage would harm our business, results of operations and financial condition.***

Following the terrorist attacks in the United States on September 11, 2001, or the September 11 terrorist attacks, premiums for insurance against aircraft damage and liability to third parties increased substantially, and insurers could reduce their coverage or increase their premiums even further in the event of additional terrorist attacks, hijackings, wars, seizures/confiscations, airline crashes or other events adversely affecting the airline industry. In the future, certain aviation insurance could become unaffordable, unavailable or available only for reduced amounts of coverage that are insufficient to comply with the levels of insurance coverage required by aircraft lenders and lessors or applicable government regulations. Events such as the conflict between Russia and Ukraine could increase insurance premiums or reduce coverage scope.

Governments in other countries have agreed to indemnify airlines for liabilities that they might incur from terrorist attacks or provide low-cost insurance for terrorism risks. In that respect, the Mexican government provided certain loans to help airlines face increases in aircraft insurance right after the September 11 terrorist attacks. However, the Mexican government has not indicated an intention to provide similar benefits now or at any time in the future.

A general increase in the cost of insurance coverage, may result in both higher fares and a decreased demand for air travel generally, which could materially and negatively affect our business, results of operations and financial condition.

***Downturns in the airline industry caused by terrorist attacks or war, which may alter travel behavior or increase costs, may adversely affect our business, results of operations and financial condition.***

Demand for air transportation may be adversely affected by terrorist attacks, war or political and social instability, natural disasters and other events. Furthermore, these types of situations could have a prolonged effect on air transportation demand and on certain cost items.

The September 11 terrorists attacks, for example, have had a severe and lasting adverse impact on the airline industry. Airline traffic in the United States fell dramatically after the attacks and decreased severely throughout Latin America. The repercussions of the September 11 terrorist attacks, including increases in security, insurance and fear of similar attacks, continue to affect us and the airline industry. Since the September 11 terrorist attacks, the DHS and the TSA in the United States have implemented numerous security measures that restrict airline operations and increase costs and are likely to implement additional measures in the future. For example, following the widely publicized attempt of an alleged terrorist to detonate plastic explosives hidden underneath his clothes on a Northwest Airlines flight on Christmas Day in 2009, international passengers became subject to enhanced random screening, which may include pat-downs, explosive detection testing or body scans.

Enhanced passenger screening, increased regulation governing carry-on baggage and other similar restrictions on passenger travel may further increase passenger inconvenience and reduce the demand for air travel. In addition, increased or enhanced security measures have tended to result in higher governmental fees imposed on airlines, resulting in higher operating costs for airlines. Therefore, any future terrorist attacks or threat of attacks, whether or not involving commercial aircraft, any increase in hostilities relating to reprisals against terrorist organizations, including an escalation of military involvement in the Middle East, or otherwise and any related economic impact, could result in decreased passenger traffic and materially and adversely affect our business, results of operations and financial condition.

***Public health threats, such as the Respiratory Syncytial Virus, or RSV, COVID-19, the H1N1 flu virus, the bird flu, Severe Acute Respiratory Syndrome, or SARS, the Zika virus, and other highly communicable diseases, could affect suspension of domestic and international flights, travel behavior and could have a material adverse effect on the Mexican economy, airline industry reputation, the price of our shares, our business, results of operations and financial condition.***

Health threats have historically impaired airline economics. During the second quarter of 2009, passenger traffic was negatively affected as a result of the H1N1 flu crisis, which resulted in lower overall demand for intra-Latin America travel, especially to and from Mexico. In the past, Latin American travel has also been negatively affected as a result of the Zika virus. Most recently, the outbreak of COVID-19 and the resulting measures to reduce its spread beginning in 2020 resulted in a severe decline in demand for air travel.

The COVID-19 pandemic caused countries around the world to respond by taking various containment measures, including imposing quarantines and medical screenings, restricting domestic and international travel, closing borders, restricting or prohibiting public gatherings and widely suspending previously scheduled activities and events. In addition, concerns related to COVID-19 drastically reduced demand for air travel and caused major disruptions and volatility in global financial markets, resulting in the fall of stock prices (including the price of our stock), both trends which may continue. Broad and continuing concerns related to the effects of COVID-19 on international trade (including supply chain disruptions and export levels), travel, restrictions on access to facilities or aircraft, requirements to collect additional passenger data, employee productivity, employee illness, increased unemployment levels, securities markets, and other economic activities, particularly for airlines, has had and may in the future continue to have a destabilizing effect on financial markets and economic activity.

Furthermore, our operations could be negatively affected if essential employees are required to be quarantined as the result of an actual or suspected exposure to COVID-19 or other public health threats. In the case of a COVID-19, or other public health-related shutdown involving us or any of our subsidiaries, our contractors, suppliers, customers and other business partners, our business, results of operations and financial condition may also be materially adversely affected. Furthermore, any actions taken by governmental authorities and other third parties in response to a pandemic may negatively impact our business, results of operations and financial condition.

As of the date of this annual report, COVID-19 continues to be one of the industry's biggest risks, not only in public health issues, but also in the economic environment. The governments in the markets in which we operate have implemented, and continue to implement, measures to control COVID-19, such as COVID-19 vaccination programs. These measures have stimulated growth in the tourism sector and the demand for air travel. For the year ended December 31, 2022, our ASMs increased by 26.0% and 53.7% compared to the years ended December 31, 2021 and 2020, respectively. We have managed to recover our pre-pandemic capacity.

In 2022, we experienced an increase in demand for travel. However, even with the lift of some restrictions implemented in response to the COVID-19 pandemic, the COVID-19 pandemic continues to negatively impact travel demand. We cannot predict the full extent of the impact that such ongoing pandemic will have on our operational and financial performance. The extent of the impact will depend on a number of developments, many of which could be temporary or permanent and are outside of our control, such as the timing of recovery, the volatility of aircraft fuel prices and, customer behavior and changes in their preferences.

We can offer no assurance that additional travel restrictions, requirements or border closures will not be enacted or reenacted in the countries where we operate, which could result in reduced passenger demand, revenue, and further capacity reductions. In addition, if governments in the markets in which we operate impose total or partial lockdowns in all or part of their respective jurisdictions or shut down airports in response to the COVID-19 pandemic or other public health threats, it may result in our inability to operate flights, which would have a material adverse effect on our business, results of operation and financial condition.

Our business and the airline industry experienced material adverse impacts due to the COVID-19 pandemic. We cannot offer any assurance that these impacts will not intensify to the extent that COVID-19 persists throughout Mexico. Further, additional government COVID-19 response measures remain unknown and depend on future developments with respect to COVID-19, including the scope and duration of the pandemic, which are highly fluid, uncertain and cannot be predicted. It is not yet possible to determine when the adverse effects of COVID-19 will abate and the extent to which they will further decrease demand for air travel, which could continue to materially and negatively affect our business, results of operations and financial condition. Furthermore, although our cash flows from operations and our available capital have been sufficient to meet our obligations and commitments to date, our liquidity has been, and may in the future be, negatively affected by the risk factors discussed herein, including risks related to future results arising from the COVID-19 pandemic. If our liquidity is materially diminished, we might not be able to timely pay our leases and debts or comply with certain operating and financial covenants under our financing agreements or with other material provisions of our contractual obligations. For more information about the current status of COVID-19 in Mexico and its impact on us, see Item 5: "Operating and Financial Review and Prospects—Recent Developments" and "Uncertainties Affecting Our Business."

#### **Risks related to our business**

##### ***We may not be able to implement our growth strategy.***

Effectively implementing our growth strategy is critical for our business to achieve economies of scale and to sustain or increase our profitability. Our growth strategy includes:

- increasing our flights to markets we currently serve;
- expanding the number of markets we serve, focusing on new markets where we expect our ultra-low-cost structure to be successful; and
- acquiring additional aircraft.

We face numerous challenges in implementing our growth strategy, including our ability to:

- maintain profitability;
- access airports located in our targeted geographic markets where we can operate routes in a manner that is consistent with our cost strategy;
- maintain our high level of service notwithstanding the number of different ground transportation services and airport companies that we use in the course of our business;
- maintain satisfactory economic arrangements (including benefits) with our executives and our union;
- access sufficient gates, slots and other services at airports we currently serve or may seek to serve;
- obtain authorization of new routes;

- manage through, and have adequate response for, global or local pandemics, such as the COVID-19 pandemic;
- comply with environmental regulations;
- renew or maintain our Concessions;
- gain access to international routes;
- hire, train and retain qualified pilots, flight attendants, maintenance technicians, ground personnel and other personnel; and
- obtain financing to acquire new aircraft and in connection with our operations.

Our growth depends upon our ability to maintain a safe and secure operation. Failure to hire and retain trained personnel, maintain suitable arrangements with our union, timely secure the required equipment, facilities and airport services in a cost-effective manner, operate our business efficiently or obtain or maintain the necessary regulatory approvals may adversely affect our ability to achieve our growth strategy, which could harm our business. In addition, expansion to new international markets may have other risks due to factors specific to those markets. When entering new international markets, we may be unable to foresee all of the risks associated with such market or respond adequately to these risks, and our growth strategy and our business may suffer as a result. In addition, our competitors may reduce their fares and/or offer special promotions following our entry into a new market. As a result, we cannot guarantee that we will be able to profitably expand our existing markets or enter new markets.

Our target growth markets are in Mexico, the United States and Latin America, including countries with less developed economies that may be vulnerable to more unstable economic and political conditions, such as significant fluctuations in GDP, interest and currency exchange rates, civil disturbances, government instability, nationalization and expropriation of private assets and the imposition of taxes or other charges by governments. The occurrence of any of these events in markets served by us may adversely affect our ability to implement our growth strategy.

Expansion of our markets and services may also strain our existing management resources and operational, financial and management information systems to the point that they may no longer be adequate to support our operations, requiring us to make significant expenditures in these areas. We currently expect that we will need to develop further financial, operational and management controls, reporting systems and procedures to accommodate future growth. However, we cannot assure you that we will be able to develop these controls, systems or procedures on a timely basis or at all, and the failure to do so could harm our business.

***Our ultra-low-cost structure is one of our primary competitive advantages and many factors could affect our ability to control our costs.***

Our ultra-low-cost structure is one of our primary competitive advantages but we have limited control over many of our costs. For example, we have limited control over the price and availability of fuel, aviation insurance, airport and related infrastructure taxes, the cost of meeting changing regulatory requirements, and our cost to access capital or financing. We cannot guarantee that we will be able to maintain a cost advantage over our competitors. If our cost structure increases and we are no longer able to maintain a cost advantage over our competitors, it could have a material adverse effect on our business, results of operations, financial condition and prospects.

***Our fuel hedging strategy may not reduce our fuel costs.***

Our fuel hedging policy allows us to enter into fuel derivative instruments to hedge against changes in fuel prices when we have excess cash available to support the costs of such hedges. As of December 31, 2022, we did not have hedge positions for our projected fuel requirements.

To the extent we decide to start a hedging program to hedge a portion of our future fuel requirements, such hedging program may not be successful in mitigating higher fuel costs and any price protection provided may be limited due to the choice of hedging instruments and market conditions, including breakdown of correlation between hedging instrument and market price of aircraft fuel and failure of hedge counterparties. To the extent that we decide to use hedge contracts that have the potential to create an obligation to pay upon settlement if fuel prices decline significantly, such hedge contracts may limit our ability to benefit fully from lower fuel prices in the future. If fuel prices decline significantly from the levels existing at the time we enter into a hedge contract, we may be required to post collateral (margin) beyond certain thresholds. There can be no assurance that our hedging arrangements, if any, would provide any particular level of protection against rises in fuel prices or that our counterparties will be able to perform under our hedging arrangements.

Furthermore, our ability to react to the cost of fuel is limited since we set the price of tickets in advance of incurring fuel costs. Our ability to pass on any significant increases in fuel costs through fare increases is also limited by our ULCC model. Additionally, deterioration in our financial condition could negatively affect our ability to enter into hedge contracts in the future. As a result, we cannot guarantee that we will be able to secure new fuel derivative contracts or transactions on terms which are commercially acceptable to us or at all.

***We have a significant amount of fixed obligations that could impair our liquidity and thereby harm our business, results of operations and financial condition.***

The airline business is capital intensive and, as a result, many airlines are highly leveraged. Most of our aircraft and spare engines are leased, and we paid the lessors rent and maintenance deposits aggregating U.S. \$449.0 million and U.S. \$63.8 million, respectively, in 2022, and have future operating lease obligations aggregating U.S. \$2.7 billion over the next 12 years. In addition, we have significant obligations for aircraft and engines that we ordered from Airbus, IAE International Aero Engines AG, or IAE, and Pratt & Whitney, or P&W, respectively, for delivery over the next eight years. Our ability to pay the fixed costs associated with our contractual obligations will depend on our operating performance and cash flow, which will in turn depend on, among other things, the success of our current business strategy, fuel prices, further weakening or improvement in the Mexican and U.S. economies, whether financing is available on reasonable terms or at all, as well as general economic and political conditions and other factors that are, to some extent, beyond our control. The amount of our aircraft related fixed obligations could have a material adverse effect on our business, results of operations and financial condition and could:

- require a substantial portion of cash flow from our operations for operating lease and maintenance deposit payments, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our ability to make required pre-delivery deposit payments to Airbus for our aircraft on order;
- limit our ability to obtain additional financing to support our expansion plans and for working capital and other purposes on acceptable terms or at all;
- make it more difficult for us to pay our other obligations as they become due during adverse general economic and market industry conditions because any related decrease in revenues could cause us to not have sufficient cash flows from operations to make our scheduled payments;
- reduce our flexibility in planning for, or reacting to, changes in our business and the airline industry and, consequently, place us at a competitive disadvantage to our competitors with less fixed payment obligations; and
- cause us to lose access to one or more aircraft and forfeit our rent and purchase deposits if we are unable to make our required aircraft lease rental payments or purchase installments and our lessors exercise their remedies under the lease agreement including under cross default provisions in certain of our leases.

A failure to pay our operating leases and other fixed cost obligations or a breach of our contractual obligations could result in a variety of adverse consequences, including the exercise of remedies by our creditors and lessors. In such a situation, it is unlikely that we would be able to fulfill our obligations, make required lease payments or otherwise cover our fixed costs, which would have a material adverse effect on our business, results of operations and financial condition.



***Inability to obtain lease or debt financing for additional aircraft would impair our growth strategy.***

We currently finance our aircraft through operating leases, as well as sale and leaseback arrangements. In the future, we may elect to own a portion of our fleet, as well as continue to lease aircraft through long-term operating leases. We may not be able to obtain lease or debt financing on terms attractive to us or at all. To the extent we cannot obtain such financing on acceptable terms or at all, we may be required to modify our aircraft acquisition plans or to incur higher than anticipated financing costs, which would have an adverse impact on the execution of our growth strategy and business.

Furthermore, upon the adoption of the Cape Town Treaty, an international treaty intended to standardize transactions for movable property such as aircraft and aircraft engines, Mexico selected the Alternative B insolvency provision, which gives more discretion to debtors and local courts to determine if and when defaults must be cured, or the aircraft returned to its owner or creditor. Mexico's selection of this insolvency provision may limit our access to, or increase our costs of, financing in the event we elect to own a portion of our fleet. Uncertainty regarding the rights of creditors in a Mexican bankruptcy proceeding and the factors discussed above may inhibit our ability to lease or acquire new aircraft on attractive terms or at all, which may have a material adverse impact on our business, financial condition and results of operations. In addition, if we are unable to obtain the financing necessary to acquire an aircraft for which we have entered into a binding purchase agreement and fail to cancel the order or delay delivery of the aircraft, we would be in default under the related purchase agreement. Potential liability for damages in the event of such a default could have a material adverse impact on our financial condition and results of operations.

***Our limited lines of credit and borrowing facilities make us highly dependent upon our operating cash flows.***

We have limited lines of credit and borrowing facilities and rely primarily on operating cash flows to provide working capital. Unless we secure additional lines of credit, borrowing facilities or equity financing, we will be dependent upon our operating cash flows to fund our operations and to make scheduled payments on our debt and other fixed obligations. If we fail to generate sufficient funds from our operations to meet these cash requirements or are unable to secure additional lines of credit, other borrowing facilities or equity financing, we could default on our debt and other fixed obligations. Our inability to meet our obligations as they become due would materially adversely affect our ability to grow and seriously harm our business, results of operations and financial condition.

***We are highly dependent on the Mexico City, Tijuana, Guadalajara and Cancun airports for a large portion of our business.***

Our business is heavily dependent on our routes to and from the Mexico City, Tijuana, Guadalajara and Cancun. Routes through these cities make up a large portion of our total routes. The Mexico City International Airport has been declared saturated since 2014 and we cannot guarantee that in the future we may maintain or obtain additional slots in Mexico City. While we were permitted to use additional slots as a result of decreased operations by certain of our competitors facing financial difficulties during the pandemic, we will not be granted historical priority of the slots unless certain conditions are met, including the termination of a waiver of the minimum usage requirement which is currently in place. As such, we can offer no assurance that we will be permitted to continue to use these slots in the future.

In addition, we cannot provide any kind of assurance with respect to the changes, risks and costs related to the operation of Mexico City's Airport System (*Sistema Aeroportuario de la Ciudad de México*), including having to operate more than one airport in the Mexico City metropolitan area due to the opening of the Felipe Ángeles International Airport on March 21, 2022, which may have an impact in our business, operation results and financial condition. Any significant increase in competition, redundancy in demand for air transportation or disruption in service or the fuel supply at these airports, could have a material adverse impact on our business, results of operations and financial condition. The conditions affecting services at the airports or our slots in these cities, such as adverse changes in local economic or political conditions, negative public perception of these destinations, unfavorable weather conditions, violent crime or drug related activities, could also have a material adverse impact on our business, results of operations and financial condition.

***Our maintenance costs will increase as our fleet ages.***

As of December 31, 2022, the average age of our 117 aircraft in service was 5.4 years. Our relatively new aircraft require less maintenance now than they will in the future. Our fleet will require more maintenance as it ages and our maintenance and repair expenses for each of our aircraft will be incurred at approximately the same intervals. In addition, the terms of most of our lease agreements require us to pay supplemental rent, also known as maintenance deposits, to be paid to the lessor in advance of the performance of major maintenance, resulting in our recording significant aircraft maintenance deposits on our statements of financial position. We expect scheduled and unscheduled aircraft maintenance expenses to increase as a percentage of our revenue over the next several years. Any significant increase in maintenance and repair expenses would have a material adverse effect on our margins and our business, results of operations and financial condition.

***Our business could be harmed by a change in the availability or cost of air transport infrastructure and airport facilities.***

The lack of adequate air transport infrastructure can have a direct adverse impact on our business operations, including our future expansion plans. The availability and cost of terminal space, slots and aircraft parking are critical to our operations. Additional ground and maintenance facilities, including gates, hangars and support equipment, will be required to operate additional aircraft in line with our expansion plans and may be unavailable in a timely or economic manner in certain airports. Our inability to lease, acquire or access airport facilities on reasonable terms, at preferred times or based upon adequate service, to support our operations and growth could have a material adverse effect on our operations.

Further, the modernization of old airports and the construction of new airports may lead to increases in the costs of using airport infrastructure and facilities and may also result in an increase in related costs, such as landing charges. Such increases may adversely affect our business, results of operations and financial condition. Our ability to pass on such increased costs to our passengers is limited by several factors, including economic and competitive conditions.

***We are exposed to increases in landing charges and other airport access fees and restrictions, and cannot be assured access to adequate facilities and landing rights necessary to achieve our expansion plans.***

We must pay fees to airport operators for the use of their facilities. Any substantial increase in airport charges could have a material adverse impact on our results of operations and financial condition. Passenger taxes and airport charges have also increased in recent years, sometimes substantially. We cannot assure you that the airports used by us will not impose, or further increase, passenger taxes and airport charges in the future, and any such increases could have an adverse effect on our results of operations and financial condition.

Certain airports that we serve (or that we plan to serve in the future) are subject to capacity constraints and impose slot restrictions during certain periods of the day. As a result, we cannot assure you that we will be able to obtain a sufficient number of slots, gates and other facilities at airports to maintain or expand our services. It is also possible that airports not currently subject to capacity constraints may become so in the future. In addition, an airline must use its slots on a regular and timely basis or risks having those slots reallocated to other airlines. We may have to amend our schedules, change routes or reduce aircraft utilization slots or other airport resources are not available or their availability is restricted in some way, any of which could have an adverse effect on our business, results of operations and financial condition.

In addition, some of the airports we serve impose various restrictions, including limits on aircraft noise levels, limits on the number of average daily departures and curfews on runway use. We cannot assure you that airports at which there are no such restrictions may not implement restrictions in the future or that, where such restrictions exist, they may not become more onerous. Such restrictions may limit our ability to continue to provide or to increase services at such airports.

***Our reputation and business could be adversely affected in the event of an emergency, accident or similar incident involving our aircraft.***

We are exposed to potential significant losses and material adverse effects on our business in the event that any of our aircraft is subject to an emergency, accident, terrorist incident or other similar incident, and significant costs related to passenger claims, repairs or replacement of a damaged aircraft and its temporary or permanent loss from service. There can be no assurance that we will not be affected by such events, or that the amount of our insurance coverage will be adequate in the event such circumstances arise and any such event could cause a substantial increase in our insurance premiums. See “Increases in insurance costs and/or significant reductions in coverage would harm our business, results of operations and financial condition.” In addition, any future aircraft emergency, accident or similar incident, even if fully covered by insurance or even if it does not involve our airline, may create a public perception that our airline or the equipment we fly is less safe or reliable than other transportation alternatives, which could have an adverse impact on our reputation and could have a material adverse effect on our business, results of operations and financial condition.

***We are exposed to certain risks against which we do not have insurance.***

In line with industry practice, we leave some business risks uninsured including business interruption, loss of profit, environmental/pollution liability or revenue and consequential business losses arising from mechanical breakdown. To the extent that uninsured risks materialize, we could be materially and adversely affected. There can also be no assurance that our insurance coverage will cover actual losses incurred. To the extent that actual losses incurred by us exceed the amount insured, we may have to bear substantial losses which could have a material adverse effect on our financial condition and results of operations.

***A failure to comply with covenants contained in our aircraft or engine lease agreements, or the occurrence of an event of default thereunder, could have a negative impact on us and our financial condition and results of operations.***

We have entered into aircraft and engine operating lease agreements and sale and leaseback arrangements with various lessors. These agreements contain certain events of default and also require us to comply with certain covenants, including covenants triggered by a change of control, during the term of each agreement. The lease agreements generally provide for events of default if:

- we fail to obtain or maintain the insurance required;
- we breach any covenant or representation and warranty and do not cure it within the agreed time periods;
- we do not have unencumbered control or possession of the aircraft or engines;
- we discontinue (temporarily or otherwise) business or sell or otherwise dispose of all or substantially all of our assets;
- we no longer possess the licenses, certificates and permits required for the conduct of our business as a certificated air carrier;
- Volaris Opco experiences a change of control;
- we fail to pay when due any airport or navigation charges or any landing fees assessed with respect to the aircraft or any aircraft operated by us which, if unpaid, may give rise to any lien, right of detention, right of sale or other security interest in relation to the aircraft or parts thereof;
- in case of certain insolvency events; and
- if a material adverse change occurs in our financial condition which, in lessor’s reasonable opinion, would materially and adversely affect our ability to perform our obligations under the lease agreements and related documents.

Failure to comply with covenants could result in a default under the relevant agreement, and ultimately in a re-possession of the relevant aircraft or engine. Certain of these agreements also contain cross default clauses, as a result of which defaults under one agreement may be treated as defaults under other lease agreements. As such, a failure to comply with the covenants in our aircraft and engine lease agreements, or the occurrence of an event of default thereunder, could have a negative impact on us and, as a result, on our financial condition and results of operations.

***We rely on maintaining a high daily aircraft utilization rate to implement our ultra-low-cost structure, which makes us especially vulnerable to flight delays or cancellations or aircraft unavailability.***

One of the key elements of our business strategy is to maintain a high daily aircraft utilization rate. Our average daily aircraft utilization was 11.30 block hours in 2020, 12.53 block hours in 2021 and 13.28 block hours in 2022. Aircraft utilization is the average amount of time per day that our aircraft spend carrying passengers. Our revenue per aircraft can be increased by high daily aircraft utilization, which is achieved in part by reducing turnaround times at airports, so we can fly more hours on average in a day. Aircraft utilization is reduced by delays and cancellations arising from various factors, many of which are beyond our control, including air traffic congestion at airports or other air traffic control problems, adverse weather conditions, increased security measures or breaches in security, international or domestic conflicts, terrorist activity, health outbreaks, changes to supply chain and demand conditions, quality issues related to our limited suppliers or other changes in business conditions. In addition, pulling aircraft out of service for unscheduled and scheduled maintenance, which will increase as our fleet ages, may materially reduce our average fleet utilization. High aircraft utilization increases the risk that if an aircraft falls behind schedule during the day, it could remain behind schedule during the remainder of that day and potentially into the next day, which can result in disruption in operating performance, leading to passenger dissatisfaction related to delayed or cancelled flights and missed connections. Due to the relatively small size of our fleet and high daily aircraft utilization rate, the unavailability of one or more aircraft and resulting reduced capacity or our failure to operate within time schedules, could have a material adverse effect on our business, results of operations and financial condition.

***The growth of our operations to the United States is dependent on continued favorable safety assessment in Mexico and the Central and South American countries in which we operate.***

The FAA regularly conducts audits of foreign aviation regulatory authorities and assigns an IASA rating to each country. In February 2021, Costa Rica's IASA rating was upgraded back to Category 1 from Category 2, 21 months, after it was downgraded due to alleged deficiencies in the Costa Rican air safety standards. In May 2021, Mexico's IASA rating was downgraded from Category 1 to Category 2. Currently, the AFAC is taking steps to address the findings of the FAA. However, this downgrade has prevented us from adding new aircraft, services, or routes to the United States. We cannot assure you that the governments of Mexico, Costa Rica and El Salvador, and the AFAC, the General Directorate of Civil Aviation (*Dirección General de Aviación Civil*) of Costa Rica and the Civil Aviation Authority (*Autoridad de Aviación Civil*) of El Salvador in particular, or the aviation authorities in the Central and South American countries in which we operate, will continue to meet international safety standards, and we have no direct control over their compliance with IASA guidelines. Mexico's IASA ratings remains as Category 2 as of the date of this annual report. If the IASA rating of Mexico is not upgraded in the future or if the IASA ratings of Mexico or the other Central and South American countries in which we operate were to be downgraded in the future, it could restrict our ability to maintain or increase service to the United States and incorporate aircraft registered in the United States into our fleet, which would in turn adversely affect our business, results of operations and financial condition.

***We rely heavily on technology and automated systems to operate our business and any failure of these technologies or systems or failure by their operators could harm our business.***

We are highly dependent on technology and automated systems to operate our business and achieve low operating costs. These technologies and systems include our computerized airline reservation system, domain names system, revenue management system, flight operations system, enterprise resource planning system, human resources systems, maintenance systems, telecommunications, network, infrastructure, website, app, maintenance systems and check-in kiosks. For our operations to work efficiently, our website and reservation system must be able to accommodate a high volume of passengers, maintain secure information and deliver flight information. Substantially all of our tickets are issued to passengers as electronic tickets. We depend on our reservation system, which is hosted and maintained by third-party service providers, to be able to issue, track and accept these electronic tickets. If our reservation system fails or experiences interruptions or denial of service and we are unable to book seats for any period of time, we could lose significant amounts of revenues as customers book seats on competing airlines. We have experienced short duration reservation system outages from time to time and may experience similar outages in the future. Furthermore, if our flight operations system were to fail, our operations would be materially and adversely affected.

We also rely on third-party service providers of our other automated systems for technical support, software licensing, telecommunications, network, system maintenance, back-office systems and software upgrades. If our automated systems are not functioning or function partially or if the current providers were to fail to adequately provide updates or technical support for any one of our key existing systems, we could experience service disruptions and delays, which could harm our business and result in the loss of important data, increase our expenses and decrease our revenues. In the event that one or more of our primary technology or systems' vendors goes into bankruptcy, ceases operations or fails to perform as contemplated in the agreements, replacement services may not be readily available on a timely basis, at competitive rates or at all and any transition time to a new system may be significant.

We retain or some vendors collect personal or biometrical information received from customers and have put in place security measures to protect against unauthorized access to such information. Personal or Biometrical information is further protected under applicable Mexican and United States law. Personal or Biometrical information held both offline and online is highly sensitive and, if third parties were to access such information without the customers' prior consent or if third parties were to misappropriate that information, our reputation could be adversely affected and customers could bring legal claims against us, any of which could adversely affect our business, results of operations and financial condition. In addition, we may be liable to credit card companies should any credit card information be accessed and misused as a result of lack of sufficient security systems implemented by us or our vendors certified for this purpose.

In addition, our automated systems cannot be completely protected against events that are beyond our control, including natural disasters, computer viruses, cybersecurity incidents or telecommunications failures. Substantial or sustained system failures could cause service delays or failures and result in our customers purchasing tickets from other airlines. We have implemented security measures, back-up procedures and disaster recovery plans; however, we cannot assure you that these measures are adequate to prevent disruptions. Disruption in, changes to or a breach of, these systems could result in the disruption to our business and the loss of important data. These disruptions may also result in adverse economic consequences. Any of the foregoing could result in a material adverse effect on our business, results of operations and financial condition.

***We rely on third-party service providers to perform functions integral to our operations.***

We have entered into agreements with third-party service providers to furnish certain facilities and services required for our operations, including Lufthansa Technik AG for certain technical services and Aeromantenimiento S.A., or Aeroman, a FAA-approved maintenance provider, for our heavy airframe and engine maintenance, as well as other third-party service providers, including the concessionaries' of the Mexican airports in which we operate, for ground handling, catering, passenger handling, engineering, refueling and airport facilities as well as administrative and support services. We are likely to enter into similar service agreements in new markets we decide to enter, and there can be no assurance that we will be able to obtain the necessary services at acceptable rates.

Although we seek to monitor the performance of third-party service providers, their efficiency, timeliness and quality of contract performance are often beyond our control, and any failure by any of them to perform their contracts may have an adverse impact on our business and operations. We expect to be dependent on such third-party arrangements for the foreseeable future.

Furthermore, our agreements with third parties are subject to termination upon short notice. The loss or expiration of these contracts or any inability to renew them or negotiate and enter into contracts with other providers at comparable rates could harm our business. Our reliance upon others to provide essential services on our behalf also gives us less control over costs, and the efficiency, timelines and quality of contract services.

***Our processing, storage, use and disclosure of personal data could give rise to liabilities as a result of governmental regulation.***

In the processing of our customer transactions, we receive, process, transmit and store a large volume of identifiable personal data, including financial data such as credit card information. This data is subject to legislation and regulation, intended to protect the privacy of personal data that is collected, processed and transmitted. More generally, we rely on consumer confidence in the security of our system, including our internet site on which we sell the majority of our tickets. Our business, results of operations and financial condition could be adversely affected if we are unable to comply with existing privacy obligations or legislation or regulations are expanded to require changes in our business practices. Furthermore, lawsuits may be initiated against us and our reputation may be negatively affected if we fail to comply with applicable law and privacy obligations.

***We depend on our non-passenger revenue to remain profitable, and we may not be able to maintain or increase our non-passenger revenue base.***

Our business strategy significantly relies upon our portfolio of non-passenger revenues, including ancillary products and services and cargo revenue, on which we depend to remain profitable due to our ULCC strategy of low base fares. There can be no assurance that passengers will pay for additional ancillary products and services or that passengers will continue to choose to pay for the ancillary products and services we currently offer. Failure to maintain our non-passenger revenues would have a material adverse effect on our results of operations and financial condition. Furthermore, if we are unable to maintain and grow our non-passenger revenues, we may not be able to execute our strategy to continue to lower base fares in order to stimulate demand for air travel. In addition, our strategy to increase and develop non-passenger revenue by charging for additional ancillary services may be adversely perceived by our customers and negatively affect our business.

***Restrictions on or increased taxes applicable to fees or other charges for ancillary products and services paid by airlines passengers could harm our business, results of operations and financial condition.***

Our non-passenger revenues are generated from (i) air travel-related services, (ii) revenues from non-air-travel related services and (iii) cargo services. Air travel-related services include but are not limited to fees charged for excess baggage, bookings through the call center or third-party agencies, advanced seat selection, itinerary changes, charters and passenger charges for no-show tickets. Revenues from non-passenger revenues include commissions charged to third parties for the sale of hotel rooms, trip insurance and rental cars. Additionally, services not directly related to air transportation include sales of V-Club memberships and advertising spaces to third parties. Restrictions on or increased taxes applicable to fees or other charges for ancillary products and services paid by airlines passengers could harm our business, results of operations and financial condition.

In April 2011, the DOT published a broad set of final rules relating to, among other things, how airlines handle interactions with passengers through advertising, the reservations process, at the airport and on board the aircraft. The final rules require airlines to publish a full fare for a flight, including mandatory taxes and fees, and to enhance disclosure of the cost of optional products and services, including baggage charges. The rules restrict airlines from increasing ticket prices post-purchase (other than increases resulting from changes in government-imposed fees or taxes) and significantly increasing the amount and scope of compensation payable to passengers involuntarily denied boarding due to over sales. The final rules also extend the applicability of penalties to include international flights and provide that reservations made more than one week prior to flight date may be held at the quoted fare without payment, or cancelled without penalty, for 24 hours. Failure to remain in full compliance with these rules may subject us to fines or other enforcement action, including requirements to modify our passenger reservations system, which could have a material adverse effect on our business. Moreover, we cannot assure you that compliance with these new rules will not have a material adverse effect on our business.

In addition, the U.S. Congress and Federal administrative agencies have undertaken investigations of the airline industry practice of unbundling services, including public hearings held in 2010. If new taxes are imposed on non-passenger revenues, or if other laws or regulations are adopted that make unbundling of services impermissible, or more cumbersome or expensive than the new rules described above, our business, results of operations and financial condition could be materially adversely affected. Congressional and other government agency scrutiny may also change industry practice or public willingness to pay for ancillary services. See also “—Compliance with airline industry regulations involves significant costs and regulations enacted in Mexico, the United States, Central America and South America may increase our costs significantly in the future.”

***Changes in how we or others are permitted to operate at airports could have a material adverse effect on our business, results of operations and financial condition.***

Our results of operations may be affected by actions taken by the airports’ concessionaires, governmental or other agencies or authorities having jurisdiction over our operations at airports, including, but not limited to:

- termination of our airport use agreements, some of which can be terminated by the other party or airport authorities with little notice to us;
- international travel regulations such as customs and immigration;
- increases in taxes;

- allocation of slots;
- changes in the law that affect the services that can be offered by airlines in particular markets and at particular airports;
- strikes and other similar disruptions affecting airports;
- restrictions on competitive practices;
- hire, train and retain qualified pilots, flight attendants, maintenance technicians, ground personnel and other personnel;
- the adoption of statutes or regulations that impact customer service standards, including security and health standards and termination of licenses or concessions to operate airports; and
- the adoption of more restrictive locally-imposed noise regulations or curfews.

In general, any changes in airport operations could have a material adverse effect on our business, results of operations and financial condition.

***We rely on a limited number of suppliers for fuel, aircraft and engines.***

We rely on a limited number of suppliers for fuel, aircraft and engines. We purchase fuel from Airports and Auxiliary Services (*Aeropuertos y Servicios Auxiliares*), or ASA, which also supplies fuel and fills our aircraft tanks in Mexico, where we do most of the fillings. In the United States, we have entered into fuel supply agreements with suppliers such as World Fuel Services, AvFuel, Shell, BP Products North America, Chevron, Associated Energy Group, Puma Energy Group and Terpel pursuant to which those companies or their affiliates sell fuel to us at various airports as specified in the agreements. The agreement with ASA expires on December 31, 2023 and may be terminated by us with 30-days prior notice and by ASA only if we do not pay for the fuel provided. If ASA or our other fuel providers offer fuel to one or more of our competitors at a better price or with better terms, it may materially affect our ability to compete against other airlines and may have a material effect on our business. If ASA or our other fuel providers terminate their agreements with us, are unwilling to renew them upon termination or are unable or unwilling to cover our fuel needs, we would have to seek alternative sources of fuel. Currently, no substitute exists for ASA as a fuel supplier in Mexico. We cannot assure you that we will be able to find another fuel provider or, if so, whether we will be able to find one that provides fuel in such a cost-effective a manner as our current agreements with ASA and other fuel providers at all the airports in Mexico where we operate. Failure to renew agreements or to source fuel from alternate sources will materially and adversely affect our business, results of operations and financial condition.

One of the elements of our business strategy is to save costs by operating an aircraft fleet consisting solely of Airbus A319, A320 and A321 aircraft, narrow body aircraft, powered by engines manufactured by International Aero Engines, or IAE, and Pratt & Whitney, or P&W.

We currently intend to continue to rely exclusively on these aircraft and engine manufacturers for the foreseeable future.

Additionally, global supply chain challenges due to the COVID-19 pandemic, strict lockdown measures in China which slowed down the freight market, the invasion of Ukraine which resulted in international sanctions impacting a portion of the supply chain, among others, have caused shortages to the aircraft and engine manufactures, and as a result may impact our ability to receive aircraft and engines as planned. Our growth plans and operations could be materially affected as a result of the delays caused by shortages.

Furthermore, if any of Airbus, IAE or P&W is unable to perform its contractual obligations, or if we are unable to acquire or lease aircraft or engines or spare parts from other owners, operators or lessors on acceptable terms, we would have to find other suppliers for a similar type of aircraft, engine or spare parts. If we have to lease or purchase aircraft from another supplier, we would lose the significant benefits we derive from our current single fleet composition. We may also incur substantial transition costs, including costs associated with retraining our employees, replacing our manuals and adapting our facilities and maintenance programs. Our operations could also be materially affected by the failure or inability of aircraft, engine and parts suppliers to provide sufficient spare parts or related support services on a timely basis.

***Any real or perceived problem with the Airbus A320 family aircraft or IAE and P&W engines could adversely affect our operations.***

We operate a uniform fleet of Airbus A319, A320 and A321 aircraft, which belong to the Airbus A320 family aircraft. Our aircraft also exclusively use IAE and P&W engines. Our dependence on the Airbus A319, A320 and A321 aircraft and IAE and P&W engines makes us particularly vulnerable to any problems that might be associated with the Airbus A320 family aircraft or engines. If any design defect or mechanical problem is discovered, or if the technology relating to such aircraft should become obsolete, our aircraft may have to be grounded while such defect or problem is corrected, assuming it could be corrected at all. Any such defect or problem may also result in aviation authorities in Mexico and the United States implementing certain airworthiness directives which may require substantial cost to comply with. Further, our operations could be materially adversely affected if passengers avoid flying with us as a result of an adverse perception of the Airbus A320 family aircraft or IAE and P&W engines due to real or perceived safety concerns or other problems. Since 2017, P&W's PW1100G-JM engines have experienced technical and production issues worldwide. As a result, several A320neo operators, including us, have reportedly caused their aircraft to be inoperative for long periods of time. This problem has also resulted in the delay of delivery of our A320 and A321neo aircraft. We cannot assure you when such problems will be resolved by P&W.

***Cyber-attacks or other cyber-incidents involving network or information technology security, including breaches in data privacy, could have an adverse effect on our business.***

Cyber-attacks or other cyber-incidents involving network or information technology security may cause equipment failures or disruptions to our operations. An increase in the spread and destructiveness of cyberattacks involving critical infrastructure, particularly as remote working and automation increase may affect our ability to operate our networks and as a result of such events, even for a limited period of time, may result in significant expenses or loss of market share to other airlines. Cyberattacks, which include malware, ransomware, computer viruses, phishing, denial of service and other means of disruption or unauthorized access to companies, have increased in frequency, scope and potential harm in recent years. We take preventive response and virus attack recovery actions to reduce the risk of cyber incidents and protect our information technology and networks, but there is always a risk that we may suffer a major cyber-attack that we are unable to repel. The costs associated with a major cyber-attack on us could increase our expenditures on cyber security measures, litigation, damage to our reputation, lost revenues from business interruption and the loss of existing customers and business partners. In addition, if we fail to prevent the theft of valuable information such as financial data and sensitive information, or if we fail to protect the privacy of customer and employee confidential data against breaches of network or information technology security, it could result in damage to our reputation, which could adversely impact customer and investor confidence. Any of these occurrences could result in a material adverse effect on our results of operations and financial condition.

In response to these threats there has been heightened legislative and regulatory focus on data privacy and cybersecurity around the globe, particularly with respect to critical infrastructure providers, including those in the transportation sector. As a result, we must comply with a proliferating and fast-evolving set of legal requirements in this area, including substantive cybersecurity standards as well as requirements for notifying regulators and affected individuals in the event of a data security incident. The regulatory environment is increasingly challenging and may present material obligations and risks to our business, including significantly expanded compliance burdens, costs and enforcement risks. Mexico's Federal Personal Data Protection Law, or LFPDP, the European Union's General Data Protection Regulation, or GDPR, and the California Consumer Privacy Act, or CCPA, came into effect in July 2011, May 2018 and January 2020, respectively. LFPDP, GDPR and the CCPA impose data privacy and security requirements, imposing significant costs on us and carrying substantial penalties for non-compliance. Similar regulations may be enacted by other countries and states in the future, including in Central and South America.

In addition, many of our commercial partners, including credit card companies, have imposed data security standards that we must meet. While we continue our efforts to meet these standards, new and revised standards may be imposed that may be difficult for us to meet and could increase our costs.



***Political, social and geopolitical events, possible changes in public policies and other risks in some of the countries where we operate, which are inherent to the operations of an international company, could have a material adverse effect on our business, financial condition, liquidity and results of operations.***

We are exposed to the circumstances prevalent in the countries in which we operate. Although the majority of our revenue originates from our Mexican domestic operations, we also conduct an important part of our operations in the United States and Central and South America. For the year ended December 31, 2022, 33% of our total revenues were attributable to international operations. Like other companies with international operations, political, economic, geopolitical or social developments in the countries where we operate or elsewhere, such as elections, new governments, changes in public policy, economic circumstances, laws and/or regulations, trade policies, political agreements or disagreements, civil disturbances and a rise in violence or the perception of violence, could have a material adverse effect in the countries where we operate or on the global financial markets, and in turn on our business, financial condition, liquidity and results of operations.

A change in federal or national government or its conditions and the political party in control of the legislature in any of the countries in which we operate could result in changes to the countries' economic, political, or social conditions, and in changes to laws, regulations and public policies, which may contribute to economic uncertainty or adverse business conditions and could also materially impact our business, financial condition, liquidity and results of operations. Similarly, if no political party wins a clear majority in the legislative bodies of these countries, legislative gridlock and political and economic uncertainty may continue or result.

These and other political, economic, social and geopolitical issues have the potential to materially and adversely impact the global economy, financial markets and the overall stability of the countries and regions in which we operate and, in turn, our business, financial condition, liquidity and results of operations.

***If we are unable to attract and retain qualified personnel or fail to maintain our company culture, our business, results of operations and financial condition could be harmed.***

We require large numbers of pilots, flight attendants, maintenance technicians and other personnel, and our growth strategy will require us to hire, train and retain a significant number of new employees in the future. The airline industry has from time to time experienced a shortage of qualified personnel, particularly with respect to pilots and maintenance technicians. This has been particularly acute for Mexico. Retaining and recruiting people with the appropriate skills is particularly challenging as the economy in general, and the airline industry in particular, continue to recover from the COVID-19 pandemic resulting in competition for the human resources necessary to operate our business successfully. We may be required to increase wages and/or benefits or to implement additional training programs in order to attract and retain qualified personnel. If we are unable to hire, train and retain qualified employees, our business could be adversely affected and we may be unable to complete our growth plans. In addition, the airline industry has, from time to time, experienced a shortage of qualified personnel and employee turnover may occur from time to time, which may not always be predictable. When we experience higher turnover, our training costs may be higher due to the significant amount of time required to train each new employee and, in particular, each new pilot. We cannot be certain that we will be able to recruit, train and retain the qualified employees that we need to replace departing employees and continue our current operations. If we are unable to hire, train and retain qualified employees, our business could be adversely affected and we may be unable to successfully complete our growth plans.

In addition, as we hire new employees, it may be increasingly challenging to maintain our company culture. Our company culture, which is one of our competitive strengths, is important to providing high-quality customer service and having a productive, accountable workforce that helps keep our costs low. As our operations and geographic diversity continue to grow, we may be unable to identify, hire or retain enough people who meet the above criteria, including those in management or other key positions. If we fail to maintain the strength of our company culture, our business, results of operations and financial condition could be harmed.

***Increased labor costs, union disputes, employee strikes, and other labor-related disruption may adversely affect our operations.***

Our business is labor intensive, with labor costs representing 14%, 13% and 10% of our total operating expenses for the fiscal years ended December 31, 2020, 2021, and 2022, respectively. As of December 31, 2022, 78% of our workforce was represented by the general aviation union (*Sindicato de Trabajadores de la Industria Aeronáutica, Similares y Conexos de la República Mexicana-STIAS*) and thereby covered by substantially the same collective bargaining agreement entered into between us and each of our subsidiaries. The collective bargaining agreements are negotiated every two years in respect of general labor conditions and every year in connection with wages. Our current agreements with this union will expire in February 2024 with respect to salaries and February 2025 with respect to benefits. The terms and conditions of our future collective bargaining agreements may be affected by the results of collective bargaining negotiations at other airlines that may have a greater ability, due to larger scale, greater efficiency or other factors, to bear higher costs than we can. We cannot assure you that our labor costs going forward will remain competitive because in the future our labor agreements may be amended and new agreements could have terms with higher labor costs or more onerous conditions, one or more of our competitors may significantly reduce their labor costs, thereby reducing or eliminating our comparative advantages as to one or more of such competitors, or our labor costs may increase in connection with our growth. Traditionally, the relationship between Mexican legacy carriers and their unions has been complex. We may also become subject to additional collective bargaining agreements in the future as non-unionized workers may unionize or unionized workers may decide to join a different union. If we are unable to reach agreement with any of our unionized work groups on future negotiations regarding the terms of their collective bargaining agreements, we may be subject to work interruptions or stoppages. Any such action or other labor dispute with unionized employees (including negotiation of more onerous conditions), or the deterioration of the relationship between unions and businesses in Mexico, could disrupt our operations, reduce our profitability, or interfere with the ability of our management to focus on executing our business strategies.

Furthermore, changes in labor laws, such as the amendments to Mexican labor laws and other related regulations regarding labor subcontracting in Mexico, could adversely affect our business, results of operations and financial condition.

***Our business, results of operations and financial condition could be materially adversely affected if we lose the services of our key personnel.***

Our success depends to a significant extent upon the efforts and abilities of our senior management team and key financial and operating personnel. Competition for highly qualified personnel is intense, and the loss of any executive officer, senior manager or other key employee without adequate replacement or the inability to attract new qualified personnel could have a material adverse effect on our business, results of operations and financial condition. Experienced executives in the airline industry are difficult to source. We do not maintain key-man life insurance on our management team.

***Our results of operations will fluctuate.***

The airline industry is by nature cyclical and seasonal, and our operating results can be expected to vary from quarter to quarter. We generally expect demand to be greater during the summer months in the northern hemisphere, in December and around Easter, which can fall either in the first or second quarter, compared to the rest of the year. We generally experience our lowest levels of passenger traffic in February, September and October. Given our high proportion of fixed costs, seasonality can affect our profitability from quarter to quarter. Demand for air travel is also affected by factors such as economic conditions, war or the threat of war, fare levels, security and health concerns and weather conditions.

In addition, we expect our quarterly operating results to fluctuate in the future based on a variety of other factors, including:

- the timing and success of our growth plans as we increase flights in existing markets and enter new markets;
- changes in fuel, security, health and insurance costs;
- increases in personnel, marketing, aircraft ownership and other operating expenses to support our anticipated growth; and
- the timing and amount of maintenance expenditures.

Due to the factors described above and others described in this annual report, quarter-to-quarter comparisons of operating results may not be good indicators of our future performance. In addition, it is possible that in any quarter our operating results could be below the expectations of investors and any published reports or analyses regarding our company. In that event, the price of the ADSs could decline, perhaps substantially.

***We do not have a control group.***

Since the completion of our initial public offering on September 23, 2013, we have not had a control group and corporate decisions requiring shareholder approval, such as the election of a majority of the board of directors, are made by the majority of our Series A shareholders, which shares are required to be owned by Mexican nationals. We do not have a control group because holders of ADSs and CPOs do not have voting rights, and the CPOs and ADSs are voted by the CPO trustee in the same manner as the majority of the holders of Series A shares that are not represented by CPOs or ADSs. Thus, there are no large groups holding a large block. Furthermore, it is unlikely that a significant block of shareholders will form in the future because no person or group of persons is permitted to acquire more than 5% of our outstanding capital stock without our board of directors' consent. As a result, a shareholder or shareholders of a very small number of Series A shares could determine the outcome of any shareholder vote without being a control group.

***We are a holding company and do not have any material assets other than the shares of our subsidiaries and our trademarks.***

We are a holding company and conduct our operations through a series of operating subsidiaries. We support these operating subsidiaries with technical and administrative services through various other subsidiaries. All of the assets we use to perform administrative and technical services and to operate the concessions and authorizations are held at the subsidiary level. As a result, we do not have any material assets other than the shares of our subsidiaries and our trademarks. Dividends or payments that we may be required to make will be subject to the availability of cash provided by our subsidiaries. Transfers of cash from our subsidiaries to us may be further limited by corporate and legal requirements, or by the terms of the agreements governing our indebtedness. If a shareholder were to assert a claim against us, the enforcement of any related judgment would be limited to our available assets, rather than our assets and our combined subsidiaries.

***Changes in accounting standards could impact our reported earnings.***

The accounting standard setters and other regulatory bodies periodically change the financial accounting and reporting standards that govern the preparation of our consolidated financial statements. Any change made to accounting standards can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements.

***Risks related to our securities and the ADSs***

***The trading prices for the ADSs and our Series A shares may fluctuate significantly.***

Future trading prices of the ADSs or Series A shares may be volatile, and could be subject to wide fluctuations in response to various factors, including:

- changes in the market valuation of companies that provide similar services;
- economic, regulatory, political and market conditions in Mexico, the United States and other countries;
- industry conditions or trends;
- availability of routes and airport space;
- the introduction of new services by us or by our competitors;
- real or perceived health and safety standards in air travel and related services;
- our historical and anticipated quarterly and annual operating results;
- variations between our actual or anticipated results and analyst and investor expectations;

- announcements by us or others and developments affecting our business;
- changes in technology affecting our aircraft;
- announcements, results or actions taken by our competitors;
- investors' perceptions of us or the services we provide;
- changes in financial or economic estimates by securities analysts;
- our announcement of significant transactions or capital commitments;
- currency devaluations and imposition of capital controls;
- additions or departures of key management;
- future sales of the ADSs and Series A shares;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- accidents, health concerns, pandemics, and other events affecting airline operations;
- media reports and publications about the safety of our aircraft or the aircraft type we operate;
- changes in the price of fuel;
- announcements concerning the availability of the type of aircraft we use;
- changes in financial estimates or recommendations by securities analysts or failure to meet analysts' performance expectations; or
- sales of our common stock or other actions by investors with significant shareholdings.

Many of these factors are beyond our control. Broad market and industry factors could materially and adversely affect the market price of the ADSs and Series A shares, regardless of our actual operating performance.

The stock markets in general have experienced substantial volatility that has often been unrelated to the operating performance of particular companies. These types of broad market fluctuations may adversely affect the trading price of our Series A shares and ADSs. In the past, stockholders have sometimes instituted securities class action litigation against companies following periods of volatility in the market price of their securities. Any such litigation against us could result in substantial costs, divert management's attention and resources, and harm our business or results of operations.

***The relatively low liquidity and high volatility of the Mexican securities market may cause trading prices and volumes of our Series A shares and the ADSs to fluctuate significantly.***

The Mexican Stock Exchange is one of Latin America's largest exchanges in terms of aggregate market capitalization of the companies listed therein, but it remains relatively illiquid and volatile compared to other major foreign stock markets. Although the public participates in the trading of securities on the Mexican Stock Exchange, a substantial portion of trading activity on the Mexican Stock Exchange is conducted by or on behalf of large institutional investors. The trading volume for securities issued by emerging market companies, as Mexican companies, tends to be lower than the trading volume of securities issued by companies in more developed countries. These market characteristics may limit the ability of a holder of our Series A shares to sell its Series A shares and may also adversely affect the market price of the Series A shares and, as a result, the market price of the ADSs.

***If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our share price and trading volume could decline.***

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

***If we issue additional equity securities in the future, shareholders may suffer dilution, and trading prices for our securities may decline.***

In connection with our business strategy of expanding through acquisitions, we may finance corporate needs and expenditures, or future transactions, by issuing additional capital stock. Any such issuances of capital stock would result in the dilution of shareholders' ownership stake. In addition, future issuances of our equity securities or sales by our shareholders or management, or the announcement that we or they intend to make such an issuance or sale, could result in a decrease in the market price of the ADSs and Series A shares.

***Provisions of Mexican law and our by-laws make a takeover more difficult, which may impede the ability of holders of Series A shares or ADSs to benefit from a change in control or to change our management and board of directors.***

Provisions of Mexican law and our by-laws may make it difficult and costly for a third party to pursue a tender offer or other takeover attempt resulting in a change of control. Holders of ADSs may desire to participate in one of these transactions, but may not have an opportunity to do so. For example, our by-laws contain provisions which, among other things, require board approval prior to any person or group of persons acquiring, directly or indirectly, (i) 5% or more of our shares (whether directly or by acquiring ADSs or CPOs), or (ii) 20% or more of our shares (whether directly or by acquiring ADSs or CPOs) and in the case of this item (ii) if such approval is obtained, require the acquiring person to make a tender offer to purchase 100% of our shares and CPOs (or other securities that represent them) at a substantial premium over the market price of our shares to be determined by the board of directors, based upon the advice of a financial advisor.

These provisions could substantially impede the ability of a third party to control us, and be detrimental to shareholders desiring to benefit from any change of control premium paid on the sale of the company in connection with a tender offer. See Item 10: "Additional Information-Memorandum and Articles of Association-Overview-Change of Control Provisions" and "Additional Information-Memorandum and Articles of Association-Overview-Voting Rights."

***Substantial sales of the ADSs or Series A shares could cause the price of the ADSs or Series A shares to decrease.***

We may finance future corporate needs and expenditures by using shares of Series A common stock, to be evidenced by Series A shares, CPOs or ADSs. Any such issuances of such shares could result in a dilution of your ownership stake or a decrease in the market price of the ADSs or the Series A shares. In addition, our principal shareholders are entitled to rights with respect to registration of their shares under the Securities Act, pursuant to the registration rights agreement we have on file with the SEC. See Item 7: "Major Shareholders and related Party Transactions-Major Shareholders." For example, on December 11, 2020 we completed a primary follow-on equity offering in which we offered 134,000,000 CPOs, in the form of ADSs, at a price to the public of U.S. \$11.25 per ADS in the United States and other countries outside of Mexico, pursuant to our shelf registration statement filed with the SEC. In connection with that offering, the underwriters exercised their option to purchase up to 20,100,000 additional CPOs in the form of ADSs, for a total offering of 154,100,000 CPOs in the form of ADSs. The securities issued pursuant to the offering are eligible for trading in the public market, which may have an adverse effect on the market price of our Series A shares and ADSs.

***Non-Mexican investors may not hold our Series A shares directly and must have them held in a CPO trust, which releases CPOs underlying Series A shares, at all times.***

Each ADS represents ten CPOs and each CPO represents a financial interest in one Series A share. Non-Mexican investors in the ADSs may not directly hold the underlying Series A shares, but may hold them only indirectly through CPOs issued and released by a Mexican bank as trustee under the CPO trust or ADSs evidencing CPOs. Upon expiration of the 50-year term of our CPO trust agreement, the underlying Series A shares must be placed in a new trust similar to the current CPO trust for non-Mexican investors to hold an economic interest (but no voting rights) in such Series A shares, or be sold to third parties or be delivered to non-Mexican holders to the extent then permitted by applicable law (not currently permitted).

We cannot assure you that a new trust similar to the CPO trust will be created if the current CPO trust terminates, or that, if necessary, the Series A shares represented by the CPOs will be sold at an adequate price, or that Mexican law will be amended to permit the transfer of Series A shares to non-Mexican holders in the event that the trust is terminated. In that event, unless Mexican law has changed to permit non-Mexican investors to hold our shares directly, non-Mexican holders may be required to cause all of the Series A shares represented by the CPOs to be sold to a Mexican individual or corporation.

We have obtained authorization from the Mexican Ministry of Economy (*Secretaría de Economía*) for the issuance up to 90% of our outstanding capital stock in CPOs. Since non-Mexican investors are required to invest in CPOs in order to hold a financial interest in our capital stock, if this 90% threshold were to be met, we would be unable to obtain additional capital contributions from non-Mexican investors.

***Holders of the ADSs and CPOs have no voting rights.***

Holders of the ADSs and CPOs are not entitled to vote the underlying Series A shares. As a result, holders of the ADSs and CPOs do not have any influence over the decisions made relating to our company's business or operations, nor are they protected from the results of any such corporate action taken by our holders of Series A shares and Series B shares. Mexican investors determine the outcome of substantially all shareholder matters, subject to the rights of the holders of Series B shares that are required to vote affirmatively to approve certain limited matters. For a more complete description of the circumstances under which holders of our securities may vote, see Item 10: "Additional Information-Memorandum and Articles of Association-Overview."

***Preemptive rights may be unavailable to non-Mexican holders of the ADSs and CPOs and, as a result, such holders may suffer dilution.***

Except in certain limited circumstances, under Mexican law, if we issue new shares of common stock for cash as part of a capital increase, we must grant our shareholders the right to subscribe and pay for a sufficient number of shares to maintain their existing ownership percentage in our company. Rights to subscribe and pay for shares in these circumstances are known as preemptive rights. We may not legally be permitted to allow holders of ADSs and CPOs in the United States to exercise any preemptive rights in any future capital increase unless we file a registration statement with the SEC with respect to that future issuance of shares or the offering qualifies for an exemption from the registration requirements of the Securities Act and take certain corporate steps, including the publication of a preemptive rights notice in Mexico. Similar restrictions may apply to holders of ADSs and CPOs in other jurisdictions. We cannot assure you that we will file a registration statement with the SEC, or any other regulatory authority, to allow holders of ADSs and CPOs in the United States, or any other jurisdiction, to participate in a preemptive rights offering. At the time of any future capital increase, we will evaluate the costs and potential liabilities associated with filing a registration statement with the SEC and any other factors that we consider important to determine whether we will file such a registration statement. Under Mexican law, sales by the depositary of preemptive rights and distribution of the proceeds from such sales to you, the ADS holders, is not possible.

In addition, additional CPOs may be released only if the CPO deed permits the release of a number of CPOs sufficient to represent the shares to be issued to and held by the CPO trustee upon the exercise of preemptive rights. Because non-Mexican holders of ADSs and CPOs are not entitled to acquire direct ownership of the underlying Series A shares in respect of such ADSs and CPOs, they may not be able to exercise their preemptive rights if the CPO deed will not permit additional CPOs to be delivered in an amount sufficient to represent the shares of common stock to be issued as a result of the exercise of preemptive rights on behalf of non-Mexican ADS or CPO holders, unless the CPO deed is modified, or a new CPO deed is entered into, which permits delivery of the number of CPOs necessary to represent the shares to be subscribed and paid as a result of the exercise of such preemptive rights. Although we expect to take all measures necessary to maintain sufficient CPOs available to permit non-Mexican holders of ADSs and CPOs to exercise preemptive rights, if and when applicable, no assurances can be made that we will be able to do so, particularly because regulatory approvals in Mexico are necessary for the issuance and delivery of CPOs. As a result of the limitations described above, if we issue additional shares in the future in connection with circumstances giving rise to preemptive rights, the equity interests of holders of ADSs and CPOs may be diluted. See Item 10: "Additional Information-Memorandum and Articles of Association-Preemptive Rights."

***We do not intend to pay cash dividends for the foreseeable future, and our revolving line of credit with Banco Santander México and Bancomext may limit our ability to declare and pay dividends.***

We have never declared or paid cash dividends on our common stock. We currently intend to retain our future earnings, if any, to finance the further development and expansion of our business and do not intend to pay cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors, will require the approval of our general shareholders meeting, may only be paid if losses for prior fiscal years have been paid and if shareholders have approved the net income from which the dividends are paid and legal reserves have been created to the required levels, and will depend on our financial condition, results of operations, capital requirements, restrictions contained in current or future financing instruments and such other factors as our board of directors deems relevant.

In addition, our revolving line of credit with Banco Santander México, or Santander, and Banco Nacional de Comercio Exterior, S.N.C., or Bancomext, may limit our ability to declare and pay dividends in the event that we fail to comply with the payment terms thereunder. See Item 5: “Operating and Financial Review and Prospects—Liquidity and Capital Resources—Loan Agreements” and Item 8: “Financial Information—Consolidated Statements and Other Financial Information—Dividend Policy.”

***Minority shareholders may be less able to enforce their rights against us, our directors, or our controlling shareholders in Mexico.***

Under Mexican law, the protections afforded to minority shareholders are different from those afforded to minority shareholders in the United States. For example, because Mexican laws concerning fiduciary duties of directors (i.e., the duty of care and the duty of loyalty, the only duties recognized under Mexican law) have been in existence for a relatively short period of time and the laws concerning such duties are not as developed as the laws in the United States, it is more difficult for minority shareholders to bring an action for breach of fiduciary duties in Mexico as compared to the United States. Also, such actions may not be initiated as a direct action, but as a shareholder derivative suit (that is for the benefit of our company and not the initiating shareholder). The grounds for shareholder derivative actions under Mexican law are limited. Even though applicable law has been modified to permit shareholder derivative actions, and procedures for class action lawsuits have been adopted in Mexico, there is very limited precedent with regards to such class action lawsuits and how procedures for such suits are followed in Mexico. Therefore, it will be much more difficult for our minority shareholders to enforce their rights against us, our directors, or our controlling shareholders than it would be for minority shareholders of a U.S. company.

***Mexico has different corporate disclosure and accounting standards than those in the United States and other countries.***

A principal objective of the securities laws of the United States, Mexico and other countries is to promote full and fair disclosure of all material corporate information, including accounting information. However, there may be different or less publicly available information about issuers of securities in Mexico than is regularly made available by public companies in countries with highly developed capital markets, including the United States.

***Our interest rate expense for any particular period will fluctuate based on LIBOR, SOFR and other variable interest rates.***

A portion of our long-term indebtedness/derivative instruments bear interest at fluctuating interest rates, which may be based on the London Interbank Offered Rate, LIBOR, the Secured Overnight Financing Rate, SOFR, and the Tasa de Interés Interbancaria de Equilibrio, TIIE. LIBOR, tends to fluctuate based on general short-term interest rates, rates set by the U.S. Federal Reserve and other central banks, market the supply of and demand for credit in the London interbank market and general economic conditions. SOFR is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities. TIIE is determined by the Mexican Central Bank (Banco de México) based on quotes presented by credit institutions. We have not hedged our interest rate exposure with respect to our floating rate debt, except for TIIE. Accordingly, our interest expense for any period will fluctuate based on LIBOR, SOFR, TIIE and other variable interest rates. To the extent the interest rates applicable to our floating rate debt increase, our expense will increase, in which event we may have difficulties making interest payments and funding our other fixed costs, and our available cash flow for general corporate requirements may be adversely affected. As of December 31, 2022, all our U.S. dollar-denominated credit facilities bear interest based on SOFR.

On July 27, 2017, the U.K. Financial Conduct Authority (the authority that regulates LIBOR), or the FCA, announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR. In 2021, the FCA announced that one-week and two-month U.S. dollar-denominated LIBOR settings will no longer be provided or be representative after December 31, 2021, and that all other remaining U.S. dollar-denominated LIBOR settings will no longer be provided or be representative after June 30, 2023. The U.S. Federal Reserve also advised banks to cease entering into new contracts that use U.S. dollar-denominated LIBOR as a reference rate. In the United States, the Alternative Reference Rate Committee, a committee convened by the U.S. Federal Reserve that includes major market participants, has identified the Secured Overnight Financing Rate, or SOFR, a new index calculated by short-term repurchase agreements backed by U.S. Treasury securities, as its preferred alternative rate for U.S. dollar-denominated LIBOR. Working groups formed by financial regulators in other jurisdictions, including the U.K., the European Union, Japan and Switzerland, have also recommended alternatives to LIBOR denominated in their local currencies. Although SOFR appears to be the preferred replacement rate for U.S. dollar-denominated LIBOR, it is unclear if other benchmarks may emerge or if other rates will be adopted outside of the United States. At this time, it is not possible to predict how markets will respond to SOFR or other alternative reference rates as the transition away from LIBOR in the coming years, or what effect these changes in views or alternatives may have on financial markets for LIBOR-linked financial instruments. See Item 11: “Quantitative and Qualitative Disclosure about Market Risk-Interest Rates.”

**If we are classified as a “passive foreign investment company,” or PFIC, U.S. Holders of our ADSs may realize adverse U.S. federal income tax consequences.**

We would be classified as a PFIC for any taxable year if, after the application of certain look-through rules with respect to the income and assets of our subsidiaries, either: (1) 75% or more of our gross income for such taxable year is “passive income” (as defined in the relevant provisions of the Internal Revenue Code of 1986, as amended), or (2) 50% or more of the average quarterly value of our assets (which may be determined in part by our market capitalization, which is subject to change) is attributable to assets that produce or are held for the production of passive income. For this purpose, passive income includes, subject to certain exceptions, dividends, interest, rents, annuities, gains from commodities and securities transactions, net gains from the sale or exchange of property producing such passive income, net foreign currency gains and amounts derived by reason of the temporary investment of funds. Based on the market price of our ADSs and the composition of our income, assets and operations, we do not believe that we were classified as a PFIC for the taxable year ended December 31, 2022. However, this is a factual determination that must be made annually after the close of each taxable year. Therefore, there can be no assurance that we will not be classified as a PFIC for the current taxable year or for any future taxable year. Certain adverse U.S. federal income tax consequences could apply to a U.S. Holder (as discussed in more detail in “Taxation—Material U.S. Federal Income Tax Consequences”) if we are treated as a PFIC for any taxable year during which a U.S. Holder holds our ADSs.

#### ITEM 4 INFORMATION ON THE COMPANY

##### A. History and Development of the Company

We were founded on October 27, 2005 under the name Controladora Vuela Compañía de Aviación, S.A. de C.V. by Blue Sky Investments, S.à r.l., Discovery Air Investments, L.P., Corporativo Vasco de Quiroga, S.A. de C.V. and Sinca Inbursa, S.A. de C.V., Sociedad de Inversión de Capitales.

On July 16, 2010, we became a variable capital investment promotion stock corporation (*sociedad anónima promotora de inversión de capital variable*). In June 2013, we became a variable capital public stock corporation (*sociedad anónima bursátil de capital variable*), under the name Controladora Vuela Compañía de Aviación, S.A.B. de C.V. See Item 9: “The Offer and Listing—Markets—The Mexican Stock Market—Mexican Securities Market Law” for a description of the differences between these two forms of legal entities.

On September 23, 2013, we and certain of our shareholders completed a dual-listing initial public offering on the NYSE and the Mexican Stock Exchange. We raised approximately U.S. \$207.7 million of gross proceeds from the global offering of 173,076,910 Series A shares, consisting of (i) an offering of Series A shares in Mexico and (ii) a concurrent international offering of CPOs in the form of ADSs in the United States and other countries outside of Mexico, at a public offering price of U.S. \$1.20 dollars per share or U.S. \$12.00 per ADS. Each ADS represents ten CPOs and each CPO represents a financial interest in one of our Series A shares. The Series A shares were listed on the Mexican Stock Exchange under the trading symbol “VOLAR” and the ADSs were listed on NYSE under the trading symbol “VLRS.” The Series A shares and ADSs began trading on September 18, 2013.