volaris

Integrated Annual Report

2020

Adaptation, Flexibility and Resilience

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Volaris, the Lowest Cost Publicly **Traded Airline in the Americas**

Content

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1.1. Message from the **President and Chief Executive Officer**

To our stakeholders:

From the outset, I would like to thank the entire Volaris Family for their hard work and commitment over a year of enormous challenges. I also share the grief of those who have lost their loved ones due to the pandemic. This company and its future depend on you, and together we all will work to support our team members, our families and our customers who have faced unimaginable loss and challenges during this past year.

2020 represented a scenario hardly imaginable. An affected global economy, numerous cities in lockdown, border closures, trips to international and national destinations reduced to a minimum. As a was the case across the globe, the air transportation industry in Mexico suffered a strong impact.

Volaris responded decisively to this deep crisis. Faced with unprecedented challenges, Volaris assessed the changing needs of its staff and customers. Although the process was difficult at times, Volaris quickly adapted to the “new normal”, finding opportunities to re-position itself and, at the same time, contribute actively to the economic recovery of Mexico and the region.

We achieved this through dialogue with our Customers, for whom we developed new digital tools to better serve them and give them the confidence to be able to fly with us under strict biosafety protocols, in accordance with the highest national and international standards. These were endorsed by the World Travel & Tourism Council (WTTC) “Safe Travels” and by the governments of Mexico City and the state of Yucatan. We have been working closely with our government and industry partners to support the recovery of the tourism sector, which is so vital to our national economy. We have also contributed in solidarity with the country by transporting more than 45 tons of humanitarian aid, as well as rescuers, medical personnel, organs and tissues for transplant purposes and patients, through the *Avión Ayuda Volaris* program.

Even in the face of the health crisis and economic shocks caused by the pandemic, Volaris proven to be resilient, emerging as the leading airline in terms of market recovery in Mexico and the Americas. It is an achievement in the eyes of all, that we take pride on and that compels us to recognize our strengths. This was possible due to numerous factors implemented around our business model, including financial discipline, resilience and adaptation to the new normal, understanding the needs of our stakeholders, a corporate sustainability strategy and, of course, the extraordinary work of the Volaris Family. Also, thanks to the dialogue with our Ambassadors and the union, we preserved all our jobs, a remarkable achievement that laid a strong foundation for our newly-renewed business concession to provide air transportation services for 20 more years.

The ultra-low-cost business model has proven to be the most resilient to the global pandemic. Our priority now is to continue to offer safe and reliable service while maintaining strong cost discipline in order to deliver the lowest prices in the market and increase total revenue per available seat mile.

In 2020 we launched thirteen new routes, five domestic and eight international, diversified our point-to-point network, and strengthened our presence at Mexico City International Airport. Also, in the last quarter of the year, we recovered the profitability of our business.

Volaris continued to offer low base fares during 2020. Although the company's total consolidated operating revenues decreased 36% compared to the previous year, we managed to offset them through revenue from our ancillary services, reaching a record figure of MX$ 659 per passenger, a 24% increase compared to the previous year.

As we rebuild the sector, we adapt to the new reality that demands a world that is more equal, fair and environmentally responsible, starting from the premise that the viability of the long-term business is closely linked to its sustainability. For this purpose, we integrated our corporate sustainability strategy – in line with the UN Sustainable Development Goals and the ESG criteria– into our business model, so today we are one of the five airlines in the Dow Jones Sustainability Index and the only one to be part of the Mila-Pacific Alliance Index.

Through efficient fuel management, in 2020, the company reduced emissions by 12.5% in terms of gCO_2/RPK, compared to 2015, equivalent to 35.8 million gallons in fuel savings and a reduction of 247,278 tons of CO_2 emissions.

We closed 2020 with 86 aircraft with an average age of 5.3 years, one of the youngest fleets in the Americas. Thirty-five percent of them are Airbus A320 Family NEO aircraft, with the most advanced technology to reduce fuel consumption and sound footprint.

Today we have one of the most competitive fleet expansion plans and engine agreements on the market, and we achieved one of the fastest recoveries in capacity. We are also returning to the ultra-low unit cost levels prior to the pandemic, capitalized the company through a primary follow-on equity offering and ensured the job continuity of our Ambassadors.

With our industry leadership comes great responsibility, and we are therefore working to ensure that our growth remains sustainable. Our challenge is to reduce, by 2026, 23% of carbon emissions in our operations, compared to 2015, to maintain and retain talent, to generate new jobs, continue to evolve toward a digital business and advance the democratization of the skies at the lowest prices, to help revitalize and strengthen the economy of the markets where we operate.

Although we have survived a global crisis, we are mindful that enormous challenges await us in the coming years. We are heartened by the fact that in the face of the worst crisis in modern history, the Volaris DNA has proved the strength of a world-class company to respond effectively to global challenges.

On behalf of the Board of Directors and myself, I want to sincerely thank all Volaris Ambassadors, Customers, investors and financial institutions, authorities, members of the industry, suppliers and communities in which we operate for being part of this success story.

Enrique J. Beltranena
President and Chief Executive Officer

1.2. 2020 **Highlights and Initiatives**

14.7
million reserved passengers

Ps. **$22.16**
billion Total Operating Income

69
destinations **+50** under the codeshare agreement with Frontier

Ps. **$9.70** billion
Ancillary Revenue

1st
Member of Dow Jones Sustainability Indices Powered by the S&P Global CSA
year in the Dow Jones Sustainability MILA Pacific Alliance Index

209
routes **+117** under the codeshare agreement with Frontier

Net proceeds from a subsequent IPO for **US $164.4** millon

1st
public airline in the American continent to recover capacity measured in available seat miles (ASMs)

+6.5 million
followers in social media

80% of our ticket and ancillary services' sales were through the volaris.com website and our mobile app

86
aircraft; 35% of fleet is Airbus A320neo Family

38% of our Customers used mobile check-in; equal to saving 25.96 tons of paper

12.5%
reduction of g CO_2/RPK emissions vs. 2015

Negotiation of **171** Pratt & Whitney GTF engines for NEO aircraft

+144 tons of paper saved; equal to saving 2,460 trees and +3.8 million liters of water vs. 2019

2026 Goals:
vs. 2015
- -23% g CO_2/RPK emissions
- -22% fuel consumption

35.8 million gallons of fuel saved vs. 2015

We renewed the ISO 9001 and 14001 Certifications in operating areas and processes, as well as in administrative activities in our corporate offices (green offices)

33,274
certified carbon credits purchased since 2015

+45 tons of humanitarian aid transported through the *Avión Ayuda Volaris* Program

4,846 Ambassadors in Mexico and Central America

42 strategic alliances to create value in the communities where we operated in 2020

344 organs and tissues transported for transplant purposes since 2009

42,931 training hours in 2020

CRUZ ROJA MEXICANA

Alliance with the Mexican Red Cross to transport medical equipment and volunteers to vulnerable communities and mitigating health risks resulting from the COVID-19 pandemic

891 airplane tickets donated to fulfill dreams since 2015, in alliance with *Dr. Sonrisas* foundation

Approximately, **76%** of our Ambassadors are unionized

7th consecutive year as Top Member in the implementation of The Code-ECPAT

Safe travels

1st airline with a biosafety protocol, obtaining the "Safe Travels" stamp from the WTTC, the Tourist Safety stamp of Mexico City and the Best Health Practices Certificate from the Government of Yucatan

ESR EMPRESA SOCIALMENTE RESPONSABLE

11th consecutive year as a Socially Responsible Company (ESR), a badge granted by CEMEFI

Sinibí Jípe

Alliance with the Sinibí Jípe association for supporting *Rarámuri* women. Purchasing hand-made face masks; thus reactivating our operations and creating value for the community

GRI 102-1, 102-5, 102-6

1.3. About **Volaris**

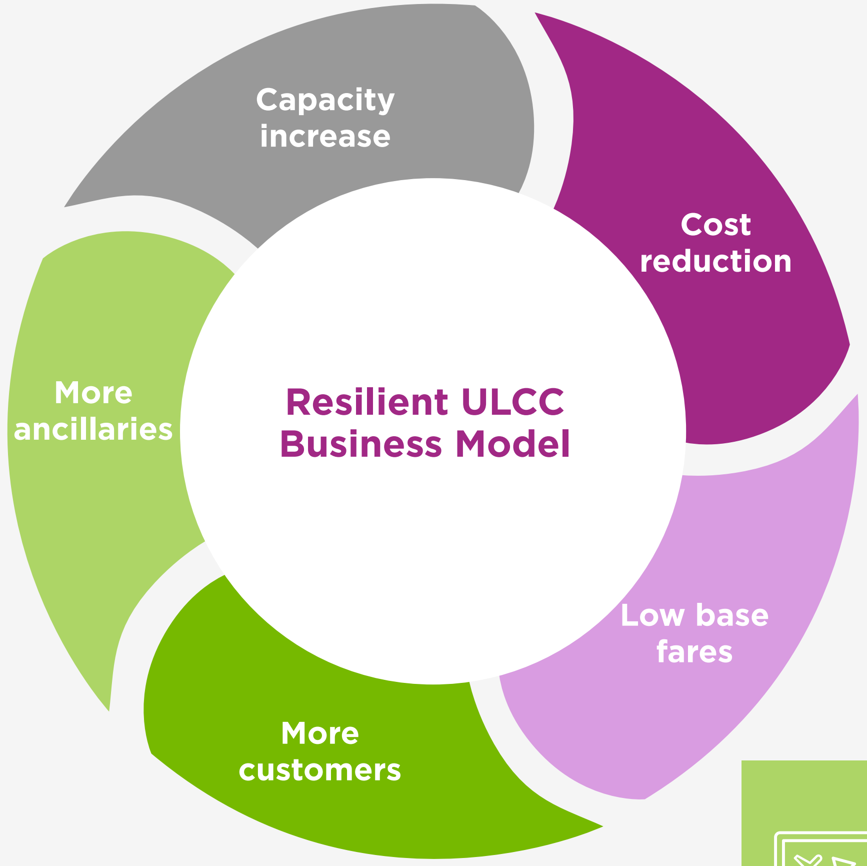
Controladora Vuela Compañía de Aviación, S.A.B. de C.V. (NYSE: VLRS and BMV: VOLAR), is an ultra-low-cost carrier (ULCC), with point-to-point operations, serving Mexico, the United States of America and Central America. Volaris offers low base fares to build its market, providing quality service and extensive Customer choice. Since beginning operations in March 2006, Volaris has increased its routes from 5 to 209 and its fleet from 4 to 86 aircraft. Volaris offers more than 337 daily flight segments on routes that connect 44 cities in Mexico and 25 cities in the United States of America and Central America, with one of the youngest fleets in the Americas. Volaris targets passengers who are visiting friends and relatives (VFR) and cost-conscious business and leisure travelers both in Mexico and in selected destinations in the United States of America and Central America.

Business Model

"Volaris has proven to be a resilient airline due to its business model, which has adjusted to the challenges and opportunities brought by the COVID-19 pandemic. We are one of the airlines with the lowest unit costs in the world, allowing us to offer the lowest prices in the Mexican market and, thus, consolidate ourselves as the leading airline in the country in terms of the number of transported passengers."

Holger Blankenstein
Executive Vice President Airline Commercial and Operations

Our disruptive, ultra-low-cost business model helps us make air travel accessible for everyone, so more people can travel well!



More customers
We strive to make air travel accessible to everyone, so more people can travel well! By offering low fares that compete with bus fares more people choose air travel.

More ancillaries
We offer a wide array of ancillary products to supplement our Customers' trips. This way, our Customers only pay for what they actually need and Volaris increases its non-ticket revenue.

Cost reduction
Low costs are the Volaris' foundation for building our market, stimulating demand and maintaining a high load factor.

Capacity increase
We aim to expand and diversify our network by increasing the number of point-to-point routes, focusing on our target Customers, i.e., the VFR segment.

Low base fares
We are committed to offering the lowest base fares to our Customers while achieving a profitable growth.

GRI 102-12, 102-20

Volaris Corporate Sustainability Program

At Volaris we strive to satisfy the present needs of our Customers, planning the ideal scenarios for future generations. By integrating our Corporate Sustainability Program to the Company's business model we focus on creating an appropriate environment so that ultra-low-cost aviation creates value for our stakeholders and remains a growth engine for many years to come. Our Program is aligned with the Environmental, Social and Governance (ESG) criteria and with the United Nations Sustainable Development Goals (SDG)".

José Alfonso Lozano
Corporate Affairs Director

We have focused our efforts on integrating our **Corporate Sustainability Program** to our business model and we have aligned our initiatives and goals to the SDGs and ESG Principles. The Program's three approaches are: Economic and Corporate Governance Focus, People Care Focus and Planet Care Focus.

Based on the four main topics of the **Economic and Corporate Governance Focus**, we carry out actions in order to:

- Reduce costs and optimize resources
- Ensure low fares to stimulate demand
- Maintain high standards of operational efficiency
- Implement the best Corporate Governance practices
- Work in a culture of ethics and legality, implementing anticorruption and antibribery practices, managing risks and crises, and ensuring the protection of information and transparency in all our processes
- Participate in the processes of public policy creation
- Manage our supply chain responsibly

As part of our **Planet Care Focus**, we defined our Comprehensive Environmental Protection Policy, called #CielitoLimpio, which includes actions and initiatives (environmental programs) aiming to contribute to the planet's protection, reducing Volaris' carbon footprint and guiding our operations towards a more eco-efficient management. This Policy includes the following initiatives:

- Efficient fuel consumption management through the Fuel Saving Program consisting of purchasing a young fleet, investing in the best technology and implementing other fuel-saving techniques, such as reduction of on-board weight and flight techniques, among others.
- The #CielitoLimpio Carbon Emissions Offset Program, through which our Customers have the option to offset part of the carbon footprint produced by their flight. With these voluntary contributions, we purchase carbon credits certified by the Mexican Carbon Platform.

- Eco-friendly initiatives, such as paper saving and electricity consumption reduction programs, recycling initiatives and removal of plastic in our operations.
- Efforts for biodiversity, such as reforestation and environmental awareness campaigns.
- Environmental regulation compliance, through emissions' reporting, correct hazardous waste management, and certifications such as ISO 14001 and 9001.

Finally, through our **People Care Focus**, we strengthen our commitment to People, who are the core of any sustainable business management, i.e., commitment to our Ambassadors, to the communities where we operate and to our Customers.

- Ambassadors' Relations, Practices and Wellbeing. We have the best labor practices in place to guarantee strong and lasting labor relations that promote the wellbeing and personal and professional development of our Ambassadors, through:
    - Volaris Culture
    - Equal opportunities and non-discrimination
    - Organizational development
    - Corporate volunteering
    - Compensation and benefits
    - Occupational health and safety

- Human Rights and Community Relations. We voluntarily assume the commitment to create strategic partnerships and implement programs to safeguard Human Rights and to protect people in vulnerable situations. The initiatives that allow us to meet these goals are:
    - Human Rights Protection Program
    - *Avión Ayuda* Volaris Program

Member of

Dow Jones Sustainability Indices

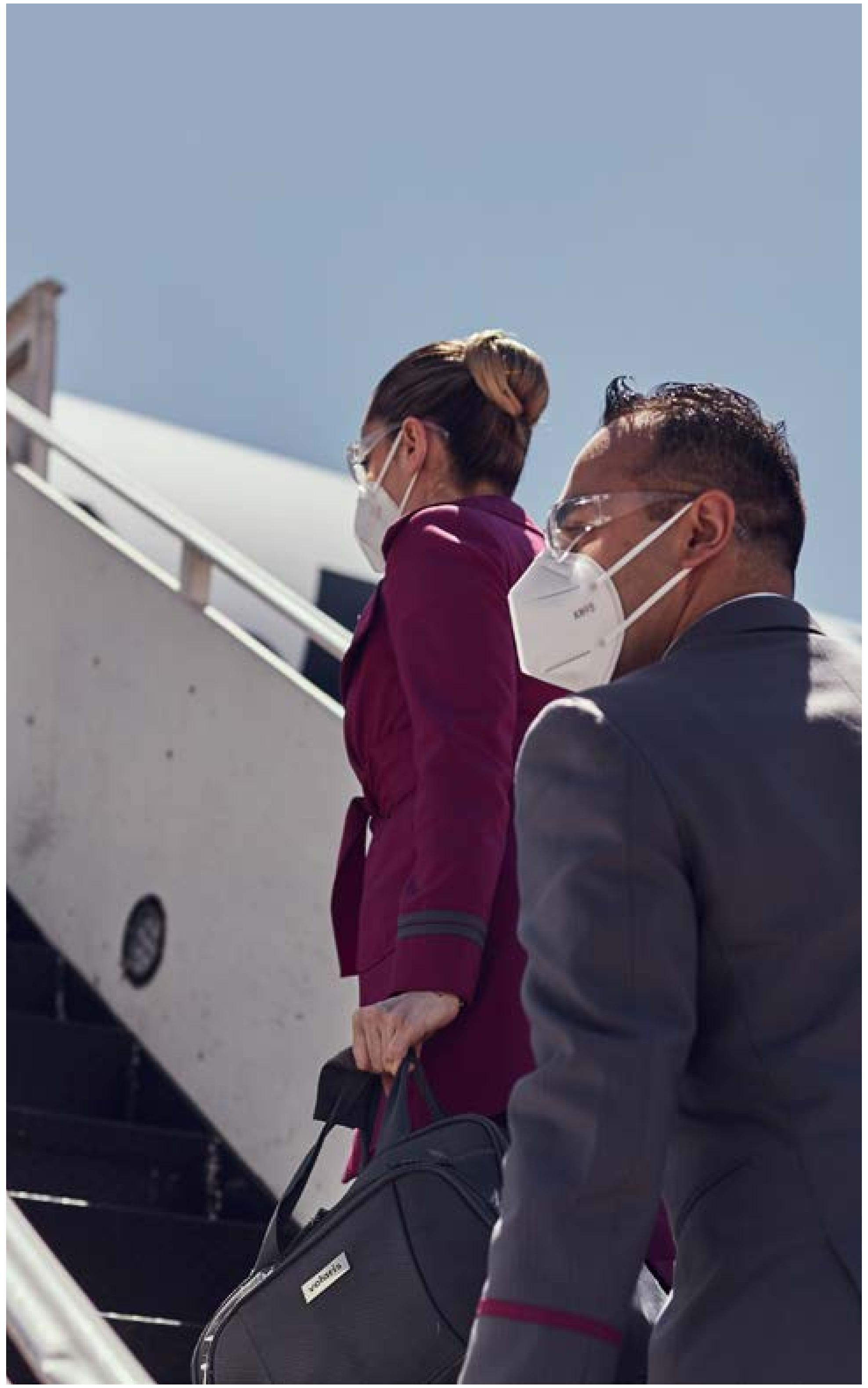
Powered by the S&P Global CSA

Thanks to our efforts and commitment to the best ESG practices, Volaris became a member of the Dow Jones Sustainability Index. We are one of the five airlines included in this index globally, and the only one in the MILA Pacific Alliance.

- Customer Welfare. As one of the essential factors in the Company's sustained growth and business continuity, we continuously strive to guarantee our Customers' welfare, protect their rights and provide the best travel experiences by providing:
    - An aviation security and safety program
    - Personal data protection protocols
    - Plans, programs and continuous training to provide the best customer service

ESR EMPRESA SOCIALMENTE RESPONSABLE

For the 11th consecutive year and as a result of our best practices that contribute to the wellbeing of all our stakeholders, we were awarded the Socially Responsible Company (ESR) badge granted by the Mexican Center for Philanthropy (CEMEFI).



GRI 102-18, 102-22, 102-23, 102-24, 102-25, 102-26, 102-27, 102-28, 102-33, 102-35, 102-36

Corporate Governance

The Volaris Board of Directors and senior management are committed to implementing in the Company the highest Corporate Governance standards. Since 2013 we have been listed on the Mexican Stock Exchange (BMV) and the New York Stock Exchange (NYSE). As a publicly traded company, we adhere to the best corporate governance practices in an effort to manage the Company within a framework of legality and transparency and to inform our investors of the Company's financial activities.

Voting Rights (Dual Class Shares)

According to Mexican laws, all holders of Series A and B shares of Volaris are entitled to one vote.*

Board of Directors and Committees

The Board of Directors of Volaris is elected by the Annual Ordinary General Shareholders´ Meeting. Company Bylaws provide that the Board shall consist of no more than 21 directors, 25% of whom must be independent, pursuant to the Mexican Securities Market Law.

Our Board of Directors is comprised of qualified members with a background and expertise in aviation, business, marketing, finance, economics, law and technology, besides meeting the legal criteria for independence.

Pursuant to our Bylaws and the Mexican Securities Market Law, any shareholder or group of shareholders representing 10% of Volaris' outstanding capital stock is entitled to appoint one director.

The Board of Directors is comprised of 14 proprietary directors and 4 alternate directors, **64% of whom —9 proprietary and 2 alternate directors— are independent. Furthermore, 14% of the members of our Board of Directors are women.**

During 2020, the Board of Directors met five times for ordinary meetings and on three occasions approved unanimous resolutions passed by all members without a meeting. During meetings, the Board assessed and resolved a wide array of relevant matters, i.e., approving the Company's consolidated financial results for fiscal year 2019 and quarterly results for fiscal year 2020; taking note of risk and contingency reports and information on operating, financial, and legal matters; approving reports on Company's management, including the report on strategic issues; approving reports submitted by the Audit and Corporate Governance Committee and the Compensation and Nominations Committee; approving operations and actions recommended and deemed appropriate by the management and the Committees; meeting attendance percentage was 100%.

Proprietary Directors	Alternate Directors
Brian H. Franke Chairman of the Board	Andrew Broderick Alternate
William A. Franke Director	Andrew Broderick Alternate
Harry F. Krensky Director	
Marco Baldocchi Kriete Director	Rodrigo Antonio Escobar Nottebohm Alternate
Enrique Javier Beltranena Mejicano Director	
Alfonso González Migoya Independent Director	
Stanley L. Pace Independent Director	
William Dean Donovan Independent Director	
José Luis Fernández Fernández Independent Director	José Carlos Silva Sánchez-Gavito Alternate
Joaquín Alberto Palomo Déneke Independent Director	José Carlos Silva Sánchez-Gavito Alternate
John A. Slowik Independent Director	José Carlos Silva Sánchez-Gavito Alternate
Ricardo Maldonado Yañez Independent Director	Eugenio Macouzet de León Alternate
Guadalupe Phillips Margain Independent Director	
Mónica Aspe Bernal Independent Director	
Jaime Esteban Pous Fernández Secretary Non-member	

Under our Bylaws Board Directors must be elected annually. In April 2020, the Board increased the number of directors from 12 to 14 so that the average tenure of our current directors was 7.7 years.

* Holders of ADS and CPOs shall not be entitled to vote the underlying Series A shares. Mexican holders of Series A shares shall be entitled to vote their shares on all matters. Holders of Series B shares shall be entitled to vote their shares on all matters and will have the specific voting rights described under "Shareholders' Meetings." Series A shares underlying the CPOs and CPOs underlying the ADS will be voted by the CPO trustee in the same manner as the majority of Series A shares votes cast at the relevant Shareholders' Meeting in all cases.

Proprietary directors

Brian H. Franke has been a member of our Board of Directors since 2010 and Chairman of the Board since April 2020. Currently, he is a principal specializing in aviation investments with Indigo Partners LLC, a private equity firm based in the United States. Mr. Franke has been a member of the board of directors of Tiger Airways Holdings (Singapore) since 2008 and Tiger Airways Australia since May 2009. He is also a member of the board of directors of Frontier, JetSMART and APiJET, joining the latter in 2020. Prior to that, Mr. Franke was vice president of Franke & Company Inc., a boutique private equity firm focused on small and medium enterprises investments. He was also a director in marketing for Anderson Company, a U.S. real estate developer, from 1989 to 1992 and a marketing manager for United Brands Inc., a U.S. distribution and licensing company for consumer goods, from 1987 to 1989. Mr. Franke holds a Bachelor of Science in Business from the University of Arizona and a master's degree in international management from Thunderbird School of Global Management. He also serves on the University of Arizona Foundation Board and participates on its Investment Committee. He is William A. Franke's son.

*There is a direct line blood relationship (lineal consanguinity) between Brian H. Franke and William A. Franke.

William A. Franke has been a member of our Board of Directors since 2010. He is also a member of the board of directors of Wizz Air Holdings Plc (Hungary). He is currently the managing member of Indigo Partners LLC (since 2002), a private equity firm. Mr. Franke is chairman of the board of directors of Frontier, JetSMART (Chile), Energet (Canada) and APiJET (USA) and was the founding chairman of Tiger Airways Holdings (Singapore), a member of the board of directors of Spirit and the Chief Executive Officer / chairman of America West Airlines from 1993 to 2001. He is also a member of the board of directors of Falcon Acquisitions Group, Inc. Mr. Franke has undergraduate and graduate degrees from Stanford University. He also has an honorary doctorate from Northern Arizona University awarded in 2008. He is Brian H. Franke's father.

Harry F. Krensky has been a member of our Board of Directors since our founding. He is also a member of the board of directors of Traxion, a transportation company, of H+ (SISI), a hospital operator, and of AMCO International, an education company. Mr. Krensky is managing partner of the private equity firms Discovery Americas and Discovery Air. Previously, he was a founder of emerging market hedge fund managers Discovery Capital Management and Atlas Capital Management, and a founder of Deutsche Bank's emerging market hedge fund. He has been an assistant professor in international business at the NYU Stern Business School and was a member of the Board of Trustees of Colby College. Mr. Krensky has a Bachelor of Arts from Colby College, a master's degree from the London School of Economics and Political Science and a Master of Business Administration from the Columbia University Graduate School of Business.

Marco Baldocchi Kriete has been a member of our Board of Directors since April 2020 and interim director from July 2019 to April 2020. Since 2010, he served as an alternate director. He is the Chief Executive Officer of Central American Comercial, S.A. de C.V, a retail company in Latin America. He was a founding member of Transactel Inc. He is currently a member of the board of Aeromantenimiento (MRO Holdings, Inc.). Past board experience includes Onelink Holdings, Avianca-Taca and Banco Agricola. Mr. Baldocchi has a Bachelor of Arts from Vanderbilt University and a Master of Business Administration from the Kellogg School of Management.

Enrique Javier Beltranena Mejicano has been our Chief Executive Officer since March 2006 and a member of our Board of Directors since September 2016. He previously held several executive positions at Grupo TACA, such as chief operating officer, human resources and institutional relations vice president, cargo vice president and commercial director for Mexico and Central America. He was also general director of Aviateca in Guatemala. Mr. Beltranena started his career in the aerospace industry in 1988. During the 1990s, he was responsible for the commercial merger of Aviateca, Sahsa, Nica, Lacsa and TACA Peru, consolidating them into a single management entity called Grupo TACA. While at Grupo TACA, Mr. Beltranena also led the development of the single operating codeshare and negotiated the open sky bilateral agreements entered between each of the Central American countries and the United States. In 2001, as the chief operating officer of Grupo TACA, Mr. Beltranena led its complete reorganization. In 2017, Mr. Beltranena participated in one of the largest joint negotiations with Airbus for the purchase of single-aisle aircraft. In 2009, Mr. Beltranena was awarded with the Federico Bloch Awards by the Latin American & Caribbean Air Transport Association. In 2012, Mr. Beltranena was named Entrepreneur of The Year Mexico after being nominated for the EY Hall of Fame in Monaco by Ernst & Young – Innovation. In 2011, he was also nominated and named Entrepreneur of The Year in Mexico by Ernst & Young – Mexico. He was also awarded with the National Order of Merit by the President of France.

Alfonso González Migoya has been a member of our Board of Directors since November 2014. He served as our Chairman of the Board from November 2014 to April 2020. He is also a director at FEMSA, Coca Cola FEMSA, Bolsa Mexicana de Valores and Instituto Tecnológico de Estudios Superiores de Monterrey (ITESM), among others. Previously, Mr. González was chairman and chief executive officer of Grupo Industrial Saltillo, chief executive officer of Servicios Interpuerto Monterrey, held different senior positions at Grupo ALFA and was executive vice president and chief financial officer of Grupo Financiero BBVA Bancomer. Mr. González holds a Bachelor of Science in Electromechanical Engineering from ITESM and a Master of Business Administration from Stanford University Graduate School of Business.

Stanley L. Pace has been a member of our Board of Directors since April 2017. He is a senior partner and director at Bain & Company where he has served as a member and chairman of most of the company's key governance boards. Mr. Pace was the founder of the transformation and airline practices at Bain & Company and has led many of the company's largest and most successful relationships and transformations. For a period of two years in the late 1990s, Mr. Pace was the chief executive officer of ATA. At that time, ATA was the largest charter airline in the world. Mr. Pace received an undergraduate degree in finance from the University of Utah, where he graduated as valedictorian. He later received his Master of Business Administration from Harvard Business School, where he graduated with honors.

William Dean Donovanhas been a member of our Board of Directors since 2010 (prior to April 2017, he served as an alternate director). Mr. Donovan sits on the board of Prophet Brand Strategy, a marketing consultancy, and was a board member at the Metropolitan Bank. In 2005, he co-founded Volaris along with several other parties. Between 1989 and 2003, Mr. Donovan worked with Bain & Company. He was Managing Director of Bain Africa between 1999 and 2002 and head of Bain's airline practice and auto practice at various times. He is also a consultant for Stellar Labs, a software company focused on fleet optimization and revenue management in the private aviation industry. Mr. Donovan co-founded Casino Marketing Alliance, a provider of marketing and analytics services to the casino industry. Mr. Donovan has served as chief operating officer of Nimblefish Technologies, a specialized micromarketing agency and as chief executive officer of SearchForce, a paid search workflow management and optimization platform. Mr. Donovan received his Bachelor of Arts from the University of California Berkeley, where he graduated Phi Beta Kappa and Summa Cum Laude, and his Master of Business Administration from the Wharton School at the University of Pennsylvania.

José Luis Fernández Fernández has been one of our independent directors since 2012 serving also as the Chairman of our Audit and Corporate Governance Committee. He is also a member of the audit committees of various companies, including Grupo Televisa, S.A.B., Grupo Financiero Banamex and Banco Nacional de México S.A., and an alternate member of the board of Arca Continental, S.A.B. de C.V. Mr. Fernández is a non-managing limited partner at Chevez Ruiz Zamarripa. Mr. Fernández has a degree in Public Accounting from Universidad Iberoamericana and is certified by the Mexican Institute of Public Accountants.

Joaquín Alberto Palomo Déneke has been one of our directors since 2005 and serves also as a member of our Audit and Corporate Governance Committee. He is also a member of the board of directors of Aeroman. Mr. Palomo has over two decades of experience in the financial air transportation and commercial aerospace sectors, where he created and implemented the first reorganization of Grupo TACA. He also actively participated in the planning, purchasing negotiation, closing, organization and eventual merger of AVIATECA, Tan/Sahsa, TACA de Honduras, Nica, Lacsa, Isleña de Inversiones, La Costeña, Aeroperlas and Trans American Airlines to form Grupo TACA. Mr. Palomo negotiated the financing of more than $1 billion in aircraft leases, sales and leasebacks. Mr. Palomo has a Bachelor of Science degree in Agricultural Economics from Texas A&M University.

John A. Slowik has been one of our directors since 2012 and serves also as a member of our Audit and Corporate Governance Committee. He has over three decades of experience in the air transportation and commercial aerospace sectors as a banker at Citi (and its predecessors) and Credit Suisse, where he managed its America's Airline Industry investment banking practice. His extensive experience includes corporate and investment banking, where his activities involved public and private capital raising, structured debt issuance, aircraft leasing, capital investment and mergers and acquisitions. Mr. Slowik is also a member of the board of directors of Fan Engine Securitization, Ltd. and Turbine USA LLC, private commercial jet engine leasing companies operating out of Ireland and the United States, respectively. He is also an alternate director of Rotor Engine Securitization Ltd., a private commercial jet engine leasing company operating out of Ireland. Mr. Slowik is a board member and chairman of the audit committee of Quintillion Subsea Holdings, LLC, a privately held company operating a subsea fiber optic cable system connecting Nome to Prudhoe Bay, with four landing stations in between, and a terrestrial fiber optic cable system connecting Prudhoe Bay to Fairbanks, Alaska. Mr. Slowik serves as a senior advisor to volofin Capital Management Ltd., a specialty finance company focused on delivering innovative financing solutions for the commercial aviation market. Mr. Slowik has an undergraduate degree in Mechanical Engineering from Marquette University and a master's degree in management from the Kellogg School, Northwestern University.

Ricardo Maldonado Yáñez has been one of our independent directors since April 2018. He is a partner at Mijares, Angoitia, Cortés y Fuentes, S.C., since 1999. Mr. Maldonado has 25 years of experience providing advice and counseling to Mexican and foreign companies and clients on domestic and cross-border merger and acquisition transactions, joint ventures and strategic alliances. He also represents issuers and financial institutions in public and private debt and equity offerings, and advises clients on the negotiation, structuring and drafting of commercial loans, on complex financings and on infrastructure projects. Mr. Maldonado also focuses part of his practice on corporate governance matters advising family-owned and publicly listed companies. Mr. Maldonado serves as member and/or secretary of the board of directors of several companies including Grupo Televisa, Consorcio Arca, Grupo Aeroportuario del Centro Norte (OMA) and ICA Tenedora, S.A. de C.V. Mr. Maldonado received his LLM from University of Chicago Law School, holds a certificate on Corporate Law from the *Instituto Tecnológico Autónomo de México* and holds a law degree from the *Universidad Nacional Autónoma de México*. He is a member of the National Association of Corporate Directors (NCD) and of the International Corporate Governance Network (ICGN).

Guadalupe Phillips Margain has been one of our directors since April 2020. She is the Chief Executive Officer of Empresas ICA Tenedora, S.A. de C.V. She previously worked at Grupo Televisa, where she was Vice-president of Finance and Risk having also held other positions. Ms. Phillips serves as member of the board of directors of several companies including Grupo Televisa, Grupo Financiero Banorte, Innova, Grupo Axo and Grupo Aeroportuario del Centro Norte (OMA). Ms. Phillips holds a Ph.D. and a M.A.L.D. (Master of Arts in Law and Diplomacy) from The Fletcher School of Law and Diplomacy, Tufts University and holds a law degree from the *Instituto Tecnológico Autónomo de México.*

Mónica Aspe Bernal has been one of our directors since April 2020. She is the Chief Executive Officer of AT&T, Mexico. She was previously ambassador to Mexico's Permanent Delegation to the OECD. She served as Vice-Minister of Communications of the Ministry of Communications and Transportation. Ms. Aspe holds a master's degree in political science from Columbia University and a degree on Political Science from the *Instituto Tecnológico Autónomo de México.*

Board of Directors' Duties

Our Company is managed by the Board of Directors and the Chief Executive Officer. The Board of Directors establishes the guidelines and general strategy for conducting our business and supervises compliance with these standards.

Pursuant to the Mexican Securities Market Law and our Bylaws, the duties of our Board of Directors include, among others, the following:

- approving our general strategy;
- monitoring our management and that of our subsidiaries;
- subject to the prior input from the Audit and the Corporate Governance Committee, approving, on a case-by-case basis (i) transactions with related parties, subject to certain limited exceptions, (ii) the election of our Chief Executive Officer, his compensation and removal, and the policies for the appointment and comprehensive compensation of other executive officers, (iii) our guidelines for internal controls and internal audits, including those for our subsidiaries (iv) our accounting policies, (v) our financial statements and those of our subsidiaries, (vi) unusual or non-recurring transactions and any operations during any fiscal year involving (a) the acquisition or sale of assets with a value equal to or exceeding 5% of our consolidated assets, or (b) the granting of collaterals or guarantees or the acceptance of liabilities with a value equal to or exceeding 5% of our consolidated assets, and (vii) the selection of the external auditors;
- calling Shareholders' Meetings and taking action based upon their resolutions;
- the annual submission to our Ordinary General Shareholders' Meeting of (i) the Chief Executive Officer´s report and (ii) the opinion of the Board of Directors on the contents of the such report;
- creating special committees and granting them authority, provided that committees shall not have the authority to take any action which by law or under our Bylaws is expressly reserved to our shareholders or our Board of Directors;
- voting the shares we hold in our subsidiaries; and
- policies to be followed for the disclosure of information.

Our Bylaws provide that the meetings of our Board of Directors are validly convened and held if a majority of the members or their respective alternates are present. Resolutions passed at these meetings will be valid if they are approved by a majority of the disinterested members of the Board of Directors. The chairman of the Board of Directors will not have a tie-breaking vote.

The members of our Board of Directors are appointed annually by our Annual Ordinary General Shareholders´ Meeting. All our directors remain in office for one year and may be reelected.

Committees

Our Board of Directors is supported by Committees approved by the Annual Ordinary General Shareholders' Meeting. Committees analyze specific matters and issue recommendations to the Board of Directors.

Audit and Corporate Governance Committee

Main duties:

- Supervising, evaluating and analyzing the external auditors and their reports
- Analyzing and supervising the preparation of our financial statements and recommending their approval to the Board of Directors
- Reporting to the Board of Directors on the status of our internal controls, our internal audit and their adequacy
- Supervising related-party transactions and their execution according to the applicable laws
- Requesting our executive officers or independent experts, as appropriate, to submit reports
- Investigating and informing the Board of Directors of any irregularities encountered
- Calling shareholders' meetings

José Luis Fernández Fernández
Independent Chairman

Joaquín Alberto Palomo Déneke
John A. Slowik
Independent Directors

José Carlos Silva Sanchez-Gavito
Independent Alternate Director

Jaime Esteban Pous Fernández
Secretary Non-member

Compensation and Nominations Committee

Main duties:

- Submitting proposals to the Board of Directors relating to the appointment or removal of officers to or from the Company's first two corporate levels
- Proposing the creation and amendment of any incentive plan for Ambassadors
- Consulting with third-party experts in connection with any issues related to compensation, organizational development, labor market studies and other related matters
- Proposing compensation packages for officers within the first four corporate levels
- Proposing to our Board of Directors the execution, amendment or termination of any collective bargaining agreements
- Assessing the performance of relevant executives and reporting it to the Board of Directors and the Audit and Corporate Governance Committee

Marco Baldocchi Kriete
Chairman

Brian Franke
Harry F. Krensky
Enrique Javier Beltranena Mejicano
Directors

Rodrigo Antonio Escobar Nottebohm
Alternate Director

Ricardo Maldonado Yañez
Secretary Non-member

GRI 102-19, 102-20, 102-21, 102-26, 102-29, 102-31, 102-32

Committees of Senior Mangement

The Company has also the following Committees not regulated by the Mexican Securities Market Law.

Ethics Committee

This Committee meets monthly, and its main duties are:

- Ensuring compliance with the Volaris Code of Ethics, solving conflicts through effective and timely decisions
- Building an ethical culture in the Company and periodically reviewing and updating best practices and business conduct standards
- Ensuring that all reports sent through the Whistle Blowing Line on malpractice, misconduct or non-compliance with current standards and regulations are received and addressed
- Assessing disputes, conflicts, and misconduct related to the Code of Ethics
- Proposing sanctions and action plans for cases related to breaches of the Code of Ethics
- Reviewing the operating guidelines that guarantee compliance with the Code of Ethics
- Supervising the existence and implementation of a training plan on ethical culture for all Ambassadors

The Ethics Committee consists of the following members: the President and Chief Executive Officer, the Chief Legal Officer VP, the Customer Sales and Service Director, the Human Resources Director, the Internal Audit Director, the Comptroller and Compliance Director, the Operational Safety Director, and the Organizational Development Director.

Cybersecurity Committee

This Committee meets monthly and its main duties are:

- Observing and discussing global trends in cybersecurity and data protection
- Analyzing the different historical threats and the steps that have been taken to solve them
- Observing and discussing the cybersecurity and data protection strategy that has been implemented and any following evolutionary steps
- In coordination with the Internal Audit department, providing certainty to the Audit and Corporate Governance Committee regarding the steps that have been taken on matters of cybersecurity, data protection and the Company's cyber incident recovery capabilities

The Cybersecurity Committee consists of the following members: the President and Chief Executive Officer, the Executive Vice President Airline Commercial and Operations, the Chief Financial Officer SVP, the Chief Legal Officer VP, the Comptroller and Corporate Compliance Director, the Technology and Corporate Transformation Senior Director, the Information Security and IT Internal Control Manager and the IT Security Manager.

Sustainability Committee

As part of redefining the Volaris' sustainability strategy in 2020, we decided to create the Sustainability Committee. This Committee meets monthly and its main duties are:

- Ensuring the business' sustainable development
- Integrating sustainability into our business strategy by involving the Company's senior management in all matters related to ESG issues and other business sustainability trends
- Making decisions that favor the Company's sustainability strategy and setting future goals. Furthermore, we're seeking to transform into actions every one of the agreements reached by this Committee thus achieving cross-sectional sustainability in all areas of Volaris.

The Sustainability Committee consists of the following members: the President and Chief Executive Officer, the Corporate Affairs Director who is responsible for managing Volaris' Corporate Sustainability Program and serves as Secretary. The President and Chief Executive Officer reports to the Board of Directors the most relevant aspects of the Company's sustainability efforts.

Senior Management

The Board of Directors is responsible for managing the appointment, compensation and removal of senior mangement, in accordance with recommendations made by the Compensation and Nominations Committee and the Audit and Corporate Governance Committee.

As of April 30, 2021, **75%** of our senior mangement are men and **25%** are women.

Activities of the Management Team

Our President and Chief Executive Officer, as well as other members of our senior management are required to direct their activities towards creating value for the Company, making decisions that significantly transcend the administrative, financial, operating and legal situation of Volaris.

Senior management members duties include, mainly, (i) complying with agreements reached at our shareholders' meeting and those of our Board of Directors, (ii) submitting the main strategies for the business for the approval of the Board of Directors, (iii) submitting proposals for our internal control system for the approval of the Audit and Corporate Governance Committee, (iv) disclosing all material information to the public, (v) complying with the applicable laws related to share repurchases and subsequent purchases, (vi) initiating actions regarding liabilities incurred by us, (vii) complying with applicable regulations relating to payment of dividends, (viii) maintaining adequate accounting and recordkeeping internal control systems and mechanisms, and (ix) establishing internal mechanisms and controls which will allow us to verify that the actions and operations of the Company and legal entities controlled by it have adhered to the applicable regulations, as well as monitoring the results of those internal mechanisms and controls and taking the necessary measures, if any are required.

The relevant executives shall be responsible for any non-compliance or failure to timely and diligently address all matters related to their tenure, as provided in the applicable laws and the Company's by-laws.

Senior Management Compensation

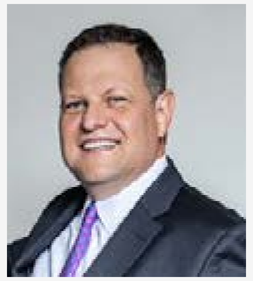
Compensation at Volaris is mostly aimed at creating value for its shareholders, its Customers and Ambassadors. Therefore, the Company has a General Compensation Policy closely linked and aligned with Volaris' strategy, mission, vision and conducts.

This Policy establishes the guidelines for defining and developing the compensation strategy at the Company's different levels, paying, initially, a suitable equitable compensation according to the obligations, responsibilities, complexity and contribution of each office to the results of Volaris and, secondly, a competitive compensation, by participating in several compensation surveys aimed at comparing our total compensation levels versus market levels and, making sure we implement the best practices that create value for our Ambassadors and our shareholders.

The General Compensation Policy and other policies resulting thereof are reviewed by the Compensation and Nominations Committee and the Audit and Corporate Governance Committee, and based on their recommendation are ultimately approved by the Board of Directors.

Additionally, to achieve a high level of performance-oriented results, more than 50% of our executive's total compensation is based on short and long-term variable compensation plans, as measured by the most important key performance indicators (KPIs) of our business, i.e., financial, operating and commercial.

Finally, total compensation as a concept includes not only salary compensation but also benefits, provisions and emotional salary. The latter understood as the Ambassador's growth, development, working environment and conditions and, overall, his/her experience at Volaris, all together constituting the strongest bond between the Ambassador and the Company.



Enrique Javier Beltranena Mejicano
President and Chief Executive Officer

Mr. Beltranena has been our Chief Executive Officer since March 2006 and a member of our Board of Directors since September 2016. He previously held several executive positions at Grupo TACA, such as chief operating officer, human resources and institutional relations vice president, cargo vice president and commercial director for Mexico and Central America. He was also general director of Aviateca in Guatemala. Mr. Beltranena started his career in the aerospace industry in 1988. During the 1990s, he was responsible for the commercial merger of Aviateca, Sahsa, Nica, Lacsa and TACA Peru, consolidating them into a single management entity called Grupo TACA. While at Grupo TACA, Mr. Beltranena also led the development of the single operating codeshare and negotiated the open sky bilateral agreements entered between each of the Central American countries and the United States. In 2001, as the chief operating officer of Grupo TACA, Mr. Beltranena led its complete reorganization. In 2017, Mr. Beltranena participated in one of the largest joint negotiations with Airbus for the purchase of single-aisle aircraft. In 2009, Mr. Beltranena was awarded with the Federico Bloch Awards by the Latin American & Caribbean Air Transport Association. In 2012, Mr. Beltranena was named Entrepreneur of The Year Mexico after being nominated for the EY Hall of Fame in Monaco by Ernst & Young – Innovation. In 2011, he was also nominated and named Entrepreneur of The Year in Mexico by Ernst & Young – Mexico. He was also awarded with the National Order of Merit by the President of France.

Holger Blankenstein
Executive Vice President Airline Commercial and Operations

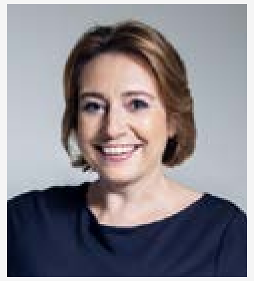
Mr. Blankenstein has been our Executive Vice President Airline Commercial and Operations since November 2017. Prior to his current position, starting on 2009, he was our Chief Commercial Officer, leading the areas of sales, marketing, planning, itineraries, revenue management and cargo and the IT department. Blankenstein was part of the team that took the Company public in 2013; he has been with the Company since its inception in 2005, as one of the founding members of the team he was involved both setting up and launching the airline. Prior to that, from 2003 to 2005, he was Director of Strategic Development at TACA International Airlines in El Salvador, where he led many key projects such as the integrated airline systems migration, TACA's maintenance business growth strategy and the business plan for Volaris. He began his career in 1998 as a consultant in the Munich office of Bain & Company. Blankenstein transferred to the Sydney office in 2000. He was involved in financial services, automotive and retail industries. Blankenstein earned an MBA from the University of Iowa and a graduate degree in business and economics from Goethe University in Frankfurt, Germany.

Jaime Esteban Pous Fernández
Senior Vice President and Chief Financial Officer

Mr. Pous has been our Chief Financial Officer since March 2021. He previously served as our interim Chief Financial Officer since June 2020 and as our Senior Vice President, Chief Legal Officer and Corporate Affairs since November 2017. Prior thereto, he served as our Chief Legal Officer since January 2016 and as our General Counsel since January 2013. Additionally, he has served as secretary of our Board of Directors since 2018 and secretary of our Audit and Corporate Governance Committee since 2013. Prior to joining us, he worked at Grupo Televisa, where he had been legal director from 1999 to 2012. Mr. Pous received his LLM from The University of Texas at Austin, School of Law and holds a law degree from the *Instituto Tecnológico Autónomo de México.*

José Luis Suárez Durán
Senior Vice President and Chief Operating Officer

Mr. Suárez has been our Chief Operating Officer since November 2017. He previously served as our Operating Executive Officer since October 2015. He joined Volaris in early 2006 as sales director. In 2012, he held the position of Retail and Customer Service Director, where he supervised airport operations, ramp management, flight attendants and customer solutions. Prior to joining Volaris, Mr. Suárez Durán worked for ten years at Sabre Holdings. Mr. Suárez Durán received his master's degree in science in Industrial Engineering and master's degree in business administration from the University of Missouri, Columbia. He also holds a degree in Executive Management from IPADE and a Bachelor of Science in Industrial Engineering from the *Universidad Iberoamericana.*



Carolyn Prowse*
Vice President and Chief Commercial Officer

Carolyn Prowse has been our Chief Commercial Officer since March 2019. Prior to joining Volaris, Ms. Prowse ran her own business advising aviation clients in Europe, Africa, the Indian Ocean and the Middle East on a wide range of topics including strategy, transformation and restructuring. Most recently, she worked with easyJet on their five-year plan and core strategic initiatives, and other clients include advisory firms, hedge funds and both full service and low cost airlines and their shareholders. From 2011 to 2013 she was Senior Vice President, Corporate Strategy and Special Projects for Etihad Airways in Abu Dhabi, responsible for strategy, mergers & acquisitions, the corporate program management office and other key initiatives and special projects. Her career in aviation also includes ten years with British Airways Plc in London. Carolyn's background also includes roles in investment banking (managing a global portfolio of private equity, investment banking and strategic investments) and strategy consulting with LEK Consulting. She has a bachelor's degree in chemistry from the University of Oxford.

* On April 29, 2021, our Board of Directors was informed that Ms. Prowse has resigned from her position effective May 7, 2021. Holger Blankenstein, our Executive Vice President Airline Commercial and Operations, will temporarily perform the functions of the Commercial Vice-Presidency while a replacement is appointed.

Jimmy Zadigue
Internal Audit Director

Mr. Zadigue has been our Internal Audit Director since November 2020. He previously served as our Internal Audit Director from April 2011 to February 2019. Mr. Zadigue worked as the internal audit director of Sempra Mexico (IEnova), as director of operations, finance and administration at Swarovski in Mexico and as director of finance and business control at Bombardier North America. Mr. Zadigue is also a Chartered Public Accountant in Canada. He holds a Bachelor of Business Administration degree from HEC-Montreal and a Master of Science degree in Accounting Sciences from the *Université du Québec*.

Isela Cervantes Rodríguez
Interim Chief Legal Officer

Mrs. Cervantes has been our interim Chief Legal Officer since March 2021 and is the deputy secretary of our Board of Directors. She joined Volaris in June 2007 and was previously in charge of the legal corporate and securities compliance department. She holds a Law Degree from Escuela Libre de Derecho and received her LLM from *Universidad Panamericana.*

GRI 201: 103-1, 103-2, 103-3
GRI 102-11, 102-13, 102-15, 102-29, 102-30

Risks and Opportunities

Volaris is a Mexican airline listed on the Mexican Stock Exchange (BMV) and the New York Stock Exchange (NYSE). Risk management is of vital importance as a tool for achieving the Company's objectives, for decision making, for strengthening sustainable growth and for building confidence among our stakeholders in the short, medium and long term.

Therefore, at Volaris we have implemented the best international practices and systems for risk management, such as COSO (reference standard containing the main directives for the implementation and management of a control system), COSO ERM (integrated framework for enterprise risk management), and COBIT (reference framework aimed at controlling and supervising information technology). These systems help us identify and evaluate the Company's risks in a timely manner, define indicators for monitoring purposes, and develop mitigation plans to avoid impact on our operations.

These management systems include:

a) Control environment: a culture of control environment is endorsed throughout the Company, from our Board of Directors to our commitment to each of the Company's Ambassadors as far as complying with our values and ethical principles, governed by our Code of Ethics and the applicable regulations.
b) Risk assessment: the risks and opportunities to which Volaris is exposed are continuously monitored through different communication channels, such as interviews, surveys, questionnaires, among others, and assessed based on their impact and probability level. Additionally, these are prioritized by their level of importance and their alignment with the Company's strategic objectives.
c) Control activities: control activities and/or mitigation plans are defined and reviewed jointly with every individual responsible for each risk, establishing monitoring indicators, which in turn are reviewed by the parties responsible as part of the self-certification processes and follow-up of their daily activities.
d) Information and communication: efficient determination of the information and escalation channels, in order to have relevant and quality information that supports the other control components, with the purpose of disseminating such information to the entire Company.
e) Monitoring: continuous assessments are carried out, which are integrated into the business processes at the Company's different levels providing timely information. Independent evaluations, performed periodically, may vary in scope and frequency depending on risk assessment, the effectiveness of ongoing evaluations, and other senior management considerations. Results are evaluated by comparing them against the criteria established by regulators, other recognized bodies or by the senior management, the Audit and Corporate Governance Committee and the Board of Directors; subsequently, deficiencies are reported to senior management and the Board of Directors, as appropriate.

The control framework allows for enterprise risk management (ERM), internal control, and fraud detection in compliance with regulators' standards, such as the U.S. Securities and Exchange Commission (SEC), the Mexican Stock Exchange (MSE), and the National Banking and Securities Commission (CNBV).

The meetings of the Board of Directors include the submission of the Risk and Contingency Report (operating, financial and legal). Likewise, an Enterprise Risk Management (ERM) Report is submitted to the Audit and Corporate Governance Committee. The resolutions adopted are submitted to the Board of Directors for approval.

The President and Chief Executive Officer, as well as the Vice President and Chief Financial Officer are responsible for certifying the internal control system, which is submitted to the Board of Directors for its approval with the prior opinion of the Audit and Corporate Governance Committee. In the most recent assessment of our Internal Control on Financial Reporting, the Company's external auditors did not report any material or significant deficiencies.

It must be mentioned that Volaris manages all risks and opportunities that have an impact on our operations in order to design mitigation strategies, allowing our business to be sustainable in the future.

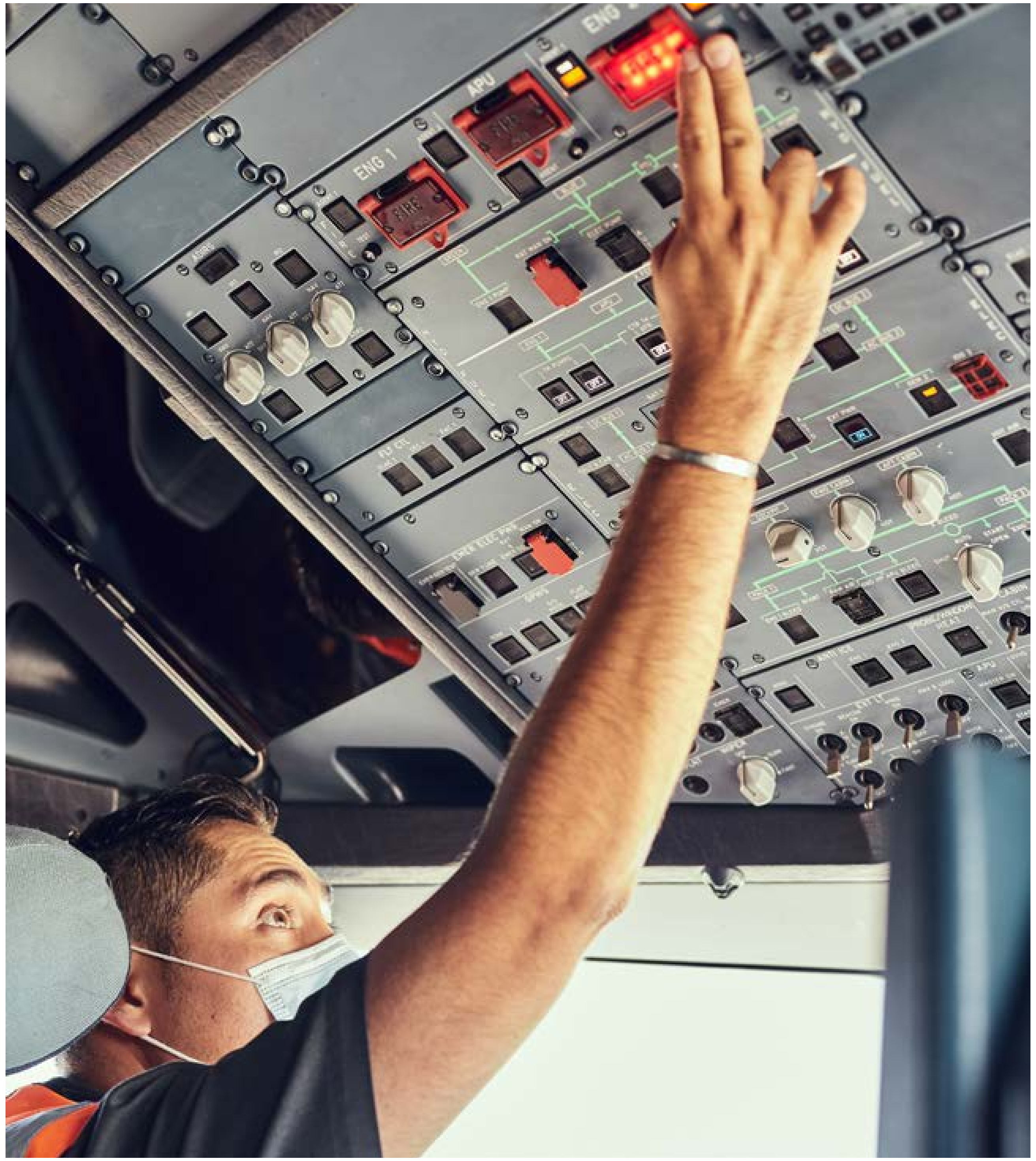
Risks related to Mexico

- Certain **political and social events** in Mexico, as well as **changes in Mexican federal government policies** may have an adverse effect on our business, operating results, financial condition and Annual Report.
- Adverse **economic conditions** in Mexico may adversely affect our business, operating results and financial condition. If inflation rates increase, demand for our services may decrease and our costs may increase. In addition, currency fluctuations or the devaluation and depreciation of the peso, as well as events in other countries, could adversely impact the Mexican economy and hence our business, our securities' market value, financial condition and operating results.
- **Mexican antitrust legislation** may affect the fares charged to our Customers.
- **Security in Mexico** has adversely impacted, and may continue to impact, the Mexican economy, which could have a negative effect on our business.

For more information, please see Form 20F on our Investor Relations website: http://ir.volaris.com/English/home/default.aspx

Risks related to the airline industry

- We operate in an extremely competitive industry.
- Our industry is heavily impacted by the price and availability of fuel.
- Our inability to renew our concession or its revocation by the Mexican government would have a material adverse impact on us.
- Under Mexican law, our assets could be taken or seized by the Mexican government under certain circumstances.
- The industry is particularly sensitive to changes in economic conditions.
- Our industry is heavily regulated and is subject to increasingly rigorous environmental regulations. Compliance with applicable laws involves significant costs, and regulations enacted in Mexico, the United States and Central America may significantly increase our costs in the future.
- Airlines are often affected by factors beyond their control, including air traffic congestion at airports, weather conditions, natural disasters, health outbreaks, pandemics or increased security measures, any of which could harm our business, operating results and financial condition.
- Certain airline consolidations and reorganizations could adversely affect the industry.
- Since the airline industry is characterized by high fixed costs and relatively elastic revenue, airlines cannot quickly reduce their costs to respond to shortfalls in expected revenue.
- Terrorist attacks or war may cause crises in the industry, which may alter travel behavior or increase costs.
- Increases in insurance costs and/or significant reductions in coverage could harm our business.
- Public health threats, such as the H1N1 flu virus, the bird flu, Severe Acute Respiratory Syndrome (SARS), the Zika virus, COVID-19 and other highly contagious diseases could lead to suspension of domestic and international flights and changes in travel behavior. This could have a material adverse effect on the airline industry, our reputation, the price of our shares, our business, operating results and financial condition.



For more information, please see Form 20F on our Investor Relations website: http://ir.volaris.com/English/home/default.aspx

Risks related to our business

- There is a possibility that we may not be able to implement our growth strategy.
- We have a significant number of fixed obligations that may impair our liquidity, thus affecting our business, operating results and financial condition.
- Our ultra-low-cost structure is one of our main competitive advantages and many factors could affect our ability to control our costs.
- Our fuel hedging strategy may not reduce our fuel costs.
- Inability to obtain lease or debt financing for additional aircraft may impair our growth strategy.
- Our limited credit lines and loan facilities make us highly dependent upon our operating cash flows.
- We are highly dependent on the Mexico City, Tijuana, Guadalajara and Cancun airports for a large part of our business.
- Our maintenance costs will increase as our fleet ages.
- Our business could be harmed by a change in the availability or cost of air transport infrastructure and airport facilities.
- We are exposed to increases in landing charges and airport restrictions, as well as other airport access fees, and cannot be assured access to adequate facilities and landing rights necessary to achieve our expansion plans.
- 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 and aircraft unavailability.
- Our reputation and business could be adversely affected in the event of an emergency, accident or similar incident involving our aircraft.
- 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 our business, our financial condition and operating results.
- The growth of our operations to the United States of America is dependent on continued positive safety assessment in Mexico and the Central American countries in which we operate.
- We rely heavily on technology and automated systems to operate our business and any failure or non-compliance by their operators could affect our business.
- We rely on third-party service providers to perform essential functions for our operations.
- Our processing, storage, use and disclosure of personal data could lead to liability as a result of government regulations.
- We depend on our non-ticket revenue to remain profitable, and we may not be able to maintain or increase our non-ticket revenue base.
- Restrictions or increased taxes applicable to fares or other charges applicable to ancillary products and services paid by Customers could harm our business, financial condition and operating results.
- Changes in how we or third parties are permitted to operate at airports could have a material adverse effect on our business.
- We rely on a number of exclusive suppliers for our fuel, aircraft and engines. Any real or perceived problem with the Airbus A320 Family aircraft or IAE and P&W engines could adversely affect our operations.
- Cyber-attacks or other incidents involving network or IT security, including breaches in data privacy, could have an adverse effect on our business.
- Inability to attract and retain qualified Ambassadors or failure to maintain our Company culture could harm our business.
- Increased labor costs, union disputes, Ambassador strikes, and other labor-related disruptions could adversely affect our operations.
- Our business, financial condition and operating results could have a negative material impact if we lose the services of our key Ambassadors.
- Our operating results could fluctuate.
- We don't have a Control group.
- Volaris is a holding company and does not have any material assets other than the shares of its subsidiaries.
- Changes in accounting standards could impact our reported earnings.

For more information, please see Form 20F on our Investor Relations website: http://ir.volaris.com/English/home/default.aspx

GRI 201: 103-1, 103-2, 103-3
GRI 102-11, 102-15

Data Privacy and Cybersecurity

Cyber-attacks or other cyber-incidents involving network or IT security may cause equipment failures or disruptions to our operations. Our inability to operate our networks 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. Cyber-attacks, which include malware, 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 electronic threat recovery actions to reduce the risk of cyber incidents and protect our information technology and communications.

During 2020, we experienced security incidents that did not have any negative financial or reputational impact, as they were detected and contained in a timely manner and with the appropriate instruments.

Despite all our preventive measures, there is always a risk that we may suffer a major cyber-attack that we are unable to mitigate. The costs associated with a major cyber-attack could increase our costs on cybersecurity measures, litigation, reputational damage, lost revenue from business interruption and loss of existing Customers and business partners. We therefore have a cybersecurity insurance and we constantly strengthen our protocols to prevent the theft of valuable information, such as financial data and confidential information, and to protect the privacy of confidential data of Customers and Ambassadors against network or IT security breaches.

In response to such threats, global legislative and regulatory focus on data privacy and cybersecurity has been reinforced, particularly with respect to critical infrastructure providers, including those in the transportation sector. Consequently, we must comply with a growing and fast-evolving set of legal requirements in this area, including substantive cybersecurity standards as well as requirements to notify regulators and affected individuals in the event of a data security incident.

The regulatory environment is increasingly challenging and could pose important obligations and risks to our business, including significantly greater compliance costs and substantial penalties. Other countries and states, as well as some of our commercial partners –such as credit card companies– may issue similar regulations in the future, so we develop sound strategies and processes to prevent any attack on information security.

In 2020, the efforts in cybersecurity were:

- Assurance of operational continuity in the face of social distancing due to the COVID-19 pandemic, through secure virtual networks (VPN).
- Implementation of double authentication factor to reduce the risk of unauthorized use of access accounts to Microsoft 365 services.
- Risk mitigation associated with advanced threat attacks on emerging collaboration technologies, such as Microsoft Teams.
- Strengthening traffic monitoring and analytics in the *www.volaris.com* ecosystem to detect non-human traffic.
- Development and implementation of “playbooks” for frequent threats.
- Increased number of exercises related to security assessments of the technological environment (ethical hacking) and validation of our information security culture program or security awareness (phishing test) effectiveness.
- The Cybersecurity Committee met twice.

GRI 102-16, 102-17, 102-25, 412-2
TR-AL-520a.1

Volaris Code of Ethics

At Volaris, we have available a **Code of Ethics** for all Ambassadors, suppliers and any third party with whom we do business. This document establishes our core values, standards and the Volaris Culture, all of which regulate our daily actions and behaviors. The Code of Ethics addresses the following:

- Occupational health and safety
- Equal opportunities and non-discrimination
- Human Rights protection –including avoidance of child and forced labor–
- Anticorruption practices
- Environmental protection
- Necessary elements to offer the best Customer service

At Volaris, we have an ethical culture guiding the actions of all our Ambassadors. Hence, all labor relations and with third parties are carried out under a framework of legality, respect for Human Rights and non-discrimination.

Furthermore, the Code of Ethics establishes our commitment to maintain free and responsible market competition, prohibiting anti-competitive and monopolistic practices at all times. In addition, we comply with all the applicable regulations that help our competitiveness and profitability in the industry.

All Ambassadors must know and comply with the provisions of the Code of Ethics. Therefore, from their very first day of employment, Ambassadors familiarize themselves with this document. Also, Ambassadors are required to take an annual online course to reinforce and update their knowledge on the expected ethical conducts.

Volaris encourages free and healthy competition with all airlines in the industry.

During 2020, we reviewed our Code of Ethics. We carried out working sessions with the President and Chief Executive Officer, the management and our Ambassadors, to suggest amendments and updates to the Code and to adjust this instrument to the new requirements of our stakeholders and to the latest trends that will be driving our business profitability in the future. Amendments were authorized by the Audit and Corporate Governance Committee in 2020, and by the Board of Directors in 2021.

In 2020,

100%

our Ambassadors were certified in our Code of Ethics.

The most relevant amendments to the Code of Ethics were:

1. Updating the Letter of the President and Chief Executive Officer, using a more inclusive language and focused on the concept of person and dignity.
2. Structural change, currently divided into:
    a. culture, pillars and behaviors
    b. principles
    c. management of the Volaris Code of Ethics
    d. Policies related to the Code of Ethics
    e. Letter of Adherence to the Code of Ethics
3. Adding a section on "Principles" with stakeholders.
4. Update of Volaris Mission.
5. Incorporation of the Responsible Supply Chain Management program.
6. Incorporation of the Volaris Corporate Sustainability Program.
7. Establishing the review and update criteria applicable to the Code of Ethics.
8. Adding the training process to the Code for Ambassadors.
9. Amendment to the departments that comprise the Ethics Committee.
10. Updating of Volaris Ethics Line's supplier.
11. Removal of exhibits and their subsequent replacement by policies related to the Code.

Committed to continuous improvement, we added and described in detail the concepts of diversity, non-discrimination, child labor, forced labor, conflict of interest, non-complexity-simplification, harassment, labor-related abuse and money laundering.

Furthermore, we have internal policies that reinforce the Code of Ethics' guidelines:

Immunity Policy which protects people who report safety violations.

Conflict of Interest by Relationship Policy, which defines procedures to avoid and resolve any conflicts of interest that may arise.

Child-Grandparent Policy, which allows all Ambassadors to hold discussions with their supervisor's boss if they feel intimidated by their immediate supervisor or if the latter is violating the Code of Ethics.

Ethics Line Policy, which allows Ambassadors, suppliers, and the union to report any non-compliance or suspected non-compliance with the Code of Ethics, through established communication channels.

Anticorruption Practices

Together with the Code of Ethics and the previous policies that govern our daily behaviors, all Volaris operations are aligned with the Anticorruption Compliance Policy and the Fraud Prevention and Control Policy, which include compliance with all the applicable anticorruption laws, such as the Foreign Corrupt Practices Act (FCPA). This has several objectives, like complying with our responsibilities as a public company listed on the NYSE, ensuring transparent practices in line with the legal framework, as well as avoiding any act of corruption, including fraud, bribery, extortion and embezzlement. Some of the policies that help us achieve these goals are:

Anticorruption Compliance Policy and Fraud Prevention and Control Policy: These policies are directed to managing and implementing actions related to fraud, bribery, extortion, embezzlement, prohibition of facilitation payments, and restricted donations to political parties.

Management of Gifts and Benefits from Suppliers and Third-Parties: this policy establishes the guidelines for relationships with third parties, such as suppliers or public officers, among others, preventing the exchange of benefits for any preferential treatment or other activities that could lead to a conflict of interest.

Management of Gifts and Benefits for Suppliers and Third Parties: this policy establishes the guidelines for giving gifts to third parties, in order to create proper commercial relations or to satisfy certain local traditions; these cannot be of considerable value and must comply with the Law. Likewise, it is prohibited to give gifts or benefits to suppliers or third parties in exchange for practices related to bribery, illegal payments or improper fees.

Donations Policy: updated in 2020, this policy establishes the guidelines for giving, receiving, and managing donations to support social assistance institutions and individuals, through the Company's social responsibility programs, such as the *Avión Ayuda Volaris* Program and donations with purpose.

In 2020, there were no corruption incidents, as defined by the Anticorruption Compliance Policy and the Fraud Prevention and Control Policy.

In 2020, we had **98%** training sessions on anticorruption practices.

Ethics Line

During 2020 we celebrated the seven years of implementation of the Volaris Ethics Line, a set of communication tools managed by Ethics Global, so that Ambassadors, suppliers and the union can report or denounce any breach or suspected non-compliance with the Company's Code of Ethics.

The procedure to report any breach to the Code of Ethics starts by receiving the complaint through any channel of the Whistle Blowing Line; subsequently, attention, management and advice are given and, if necessary, corrective and preventive measures are applied for future cases.

Once a report or complaint is received, an investigation is carried out and recommendations or guidance are provided. Every month, a summary of the cases reported, investigated and their recommendations is shared with the members of the Ethics Committee. Additionally, if a member deems it appropriate, an Ethics Committee meeting will be scheduled to discuss the cases and the corresponding recommendations. Moreover, the Audit and Corporate Governance Committee is informed about these reports in its ordinary meetings.

Communication channels:

Website
lineadeescuchavolaris.com

Email
reporte@lineadeescuchavolaris.com

Telephone
800 T Escucho (800-837-2824)

App ETHICSGLOBAL
Available for IOS and Android

In 2020, 123 reports were received on the Volaris Ethics Line, of which 80% were attended and resolved, 20% are currently under investigation. Three cases were related to fraud issues and pertinent actions were taken; the rest, for the most part, were related to work environment topics and mishandling of assets. All reports were reviewed and investigated by the corresponding areas and action plans were implemented to solve each one.

Benefits of the Volaris Ethics Line:

- Strengthening the culture of integrity and ethics.
- Assuring the people who report of the confidentiality of the process; reports are managed by a third party.
- Ensuring proper and independent management of all cases reported.
- Encouraging respect among Ambassadors and people's individual development.
- Promoting a sense of belonging within the Volaris Family.
- Acting as a deterrent by reducing unethical conducts.
- Detecting cases affecting the work environment.
- Reducing staff turnover.
- Ensuring a workplace free of violence and discrimination.
- Contributing to comply with the guidelines of the Anticorruption Compliance Policy and the Fraud Prevention and Control Policy.
- Contributing to comply with the guidelines of the Sarbanes Oxley Act.
- Minimizing the risks of bribery, fraud and corruption.
- Preventing economic losses.
- Standardizing ethical practices in organizations' business units and geographic locations.
- Automating information gathering for analysis.

GRI 102-16

Volaris Culture

With our person-centered Culture, we transcend to continue offering the best travel experiences.

Our organizational culture, which is person-centered, is composed of all the values and behaviors expected from our Ambassadors[3]. Therefore, we have defined five pillars at Volaris for their comprehensive development: **health, family, professional development, spirit and social commitment.**

During 2020, due to the COVID-19 pandemic, we focused on the health pillar. Hence, we strive to create value for Ambassadors through a strategy that prioritizes their physical, mental and family wellbeing.

- Physical wellbeing: 24-hour medical care, physical activation content through the "With you at a distance" campaign, as well as COVID-19 detection tests for part of our administrative staff who returned to the offices and reactivated operating Ambassadors.
- Mental wellbeing: 116 "Sofa Talks", weekly content and challenges for recreation, intellectual and cultural stimulation, among other activities.
- Family wellbeing flexible hours and home-office for Ambassadors with children in school and those who care for senior adults or people in vulnerable situations.

> *A person-centered culture allows Volaris to achieve the results that keep us as the top airline in Mexico in passenger transport. It is not only a theoretical philosophy, it is evident in every program, forum, initiative and strategy, positively impacting Ambassadors. It is a culture that must be experienced and renewed daily in our work centers and at a distance."*
>
> **Juliana Angarita**
> Organizational Development Director

Volaris Culture

In 2020, we amended our Mission!
With the best people and at a low cost, we enable more people to travel well.

Vision
Transcend by creating and living the best travel experiences.

Pillars
Safety, Customer Service and Sustained Profitability

Behaviors
Credibility, Respect, Fairness, Fellowship and Pride.

Even while socially distancing, we maintain our family spirit

Aiming to preserve closeness among Ambassadors and reactivate operations efficiently, we implemented live communication forums with our senior management. Officers informed our entire family about the situation at Volaris, the outlook and reactivation plans.

Furthermore, we held 16 "Sofa Talks" to promote the physical, mental and family wellbeing of all Ambassadors. Each forum, directed by experts from several fields, were attended by 300 Ambassadors on average and dealt with topics such as strengthening personal finances, family leadership, living together at home, emotions workshop, nutrition advice, breast cancer and others.

[3] By Ambassador(s) we refer to all the women and men employed by Volaris and any of its subsidiaries.

GRI 402: 103-1, 103-2, 103-3
GRI 102-7, 102-8

Volaris Family

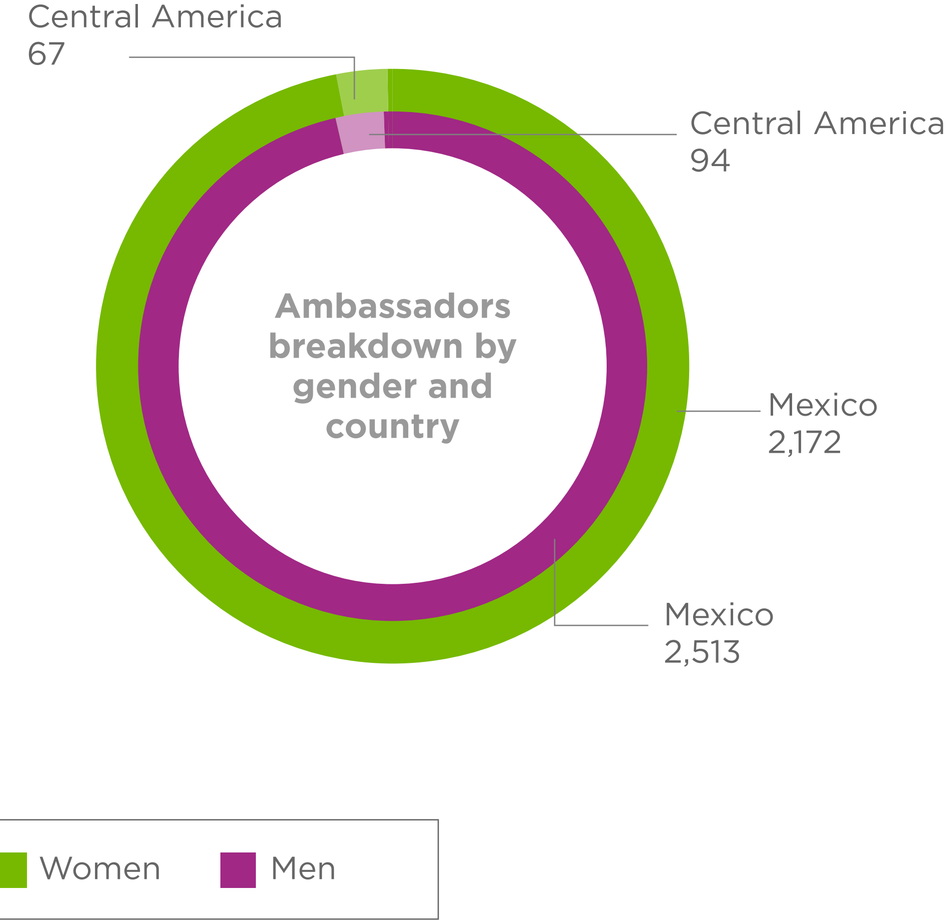
At Volaris, we are all a great family. We strive to create a work environment that ensures equal opportunities and our Ambassadors' physical and emotional integrity. We aim to promote a sense of pride and belonging, as we las to attract and retain the best talent.

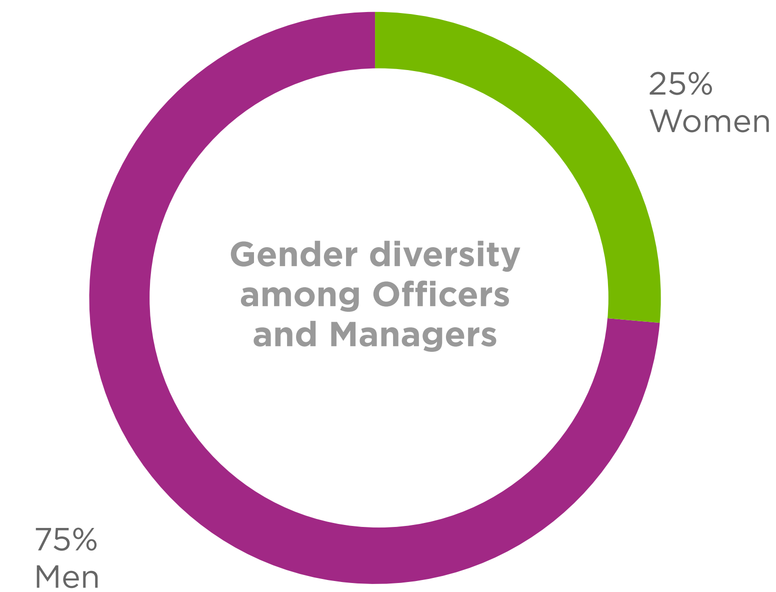
2,239
46%
Women

2,607
54%
Men

Ambassadors with disabilities: < 25%

Breakdown by age group:
< 30 years: 25-50% of our workforce
30-50 years: 50-75% of our workforce
> 50 years: <25% of our workforce





In addition, the percentage of women in key positions is:
34% in management positions
50% in junior management positions
31% in management positions with revenue-generating functions
2% in Science, Technology, Engineering and Mathematics (STEM) related positions

Turnover

2020 total turnover rate

8.9%

vs 14.7% in 2019

2020 voluntary turnover rate

3.5%

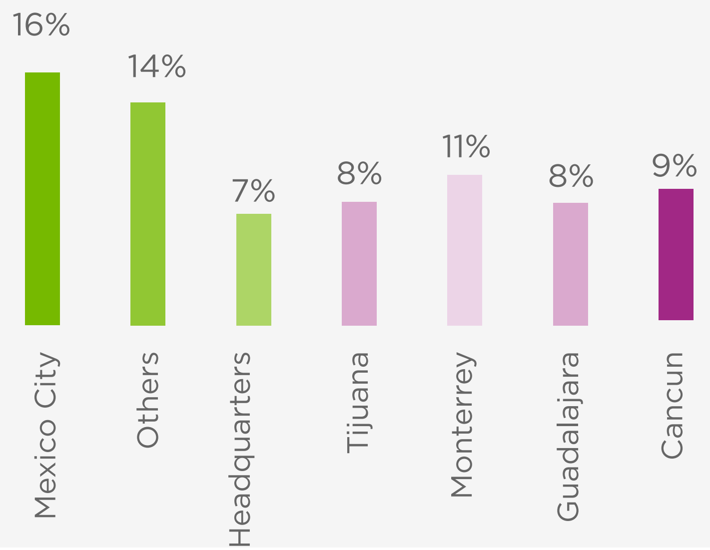
vs 12.1% in 2019

Turnover rate by gender

46% Women

54% Men

Turnover rate by region



In 2020 we retained our talent and reduced the turnover rate compared to 2019, due to the implementation of initiatives to ensure our Ambassadors' comprehensive wellbeing in the face of the COVID-19 pandemic.

1.4. Competitive **Advantages**

GRI 102-10
GRI 201: 103-1, 103-2, 103-3

Lower Unit Costs

We strive to decrease our cost structure by offseting any challenging situations, by reducing fixed costs and maintaining a high-density seating configuration and aircraft utilization.

This strategy, together with our ultra-low-cost business model, have yielded exceptional results for Volaris. We have stimulated demand and satisfied our Customers' needs and expectations; in addition, we have successfully adjusted to the current complicated situation resulting from the global pandemic, and maintained our profitability.

With the success of our strategies, we are the publicly traded airline with the lowest costs in the Americas.

In 2020,

14.7 million passengers chose to travel with Volaris.

We are the Mexican airline with the largest number of transported passengers.

5% of surveyed Customers traveled in an airplane for the first time.

We are the Latin American airline with the most routes to the United States of America.

We are a resilient airline; we achieved one of the fastest recoveries worldwide per available seat mile by taking advantage of current market opportunities and adjusting our operations.

As of December 2020, the Mexican airline industry recovered 56%; Volaris accounts for 17% of this recovery.

TR-AL-000.F

A Young and Efficient Fleet

We have one of the youngest and most efficient fleets in the American continent; 86 aircraft with an average age of 5.3 years.

Each aircraft has 188 seats on average and 79% are equiped with sharklets, aerodynamic devices that reduce fuel consumption by approximately 4% and prevent around 18,000 tons of CO_2 emissions.

In accordance with our ultra-low-cost strategy and our commitment to become the greenest airline in Mexico, we have steadily increased the number of Airbus NEO aircraft, which burn less fuel and offer competitive lease rates. Additionally, these aircraft have eco-efficient engines and sharklets; thereby reducing CO_2 emissions and fuel consumption, minimizing our environmental footprint.

In 2020, we acquired 7 new A320neo aircraft; 35% of our fleet are NEO aircraft and by 2023 it will be 58%

Operational Efficiency

In line with our cost reduction strategy and ability to adjust, we use several indicators to monitor operational efficiency.

- Itinerary reliability
- On-time performance (departure)
- On-time performance (arrival)
- Maintenance reliability
- Baggage irregularities
- Booked passengers
- Available seat miles (ASMs)
- Load factor
- Consumed fuel gallons
- Ambassadors per aircraft at the end of the period
- Average daily aircraft utilization (block hours)
- Average daily aircraft utilization (flown hours)
- Airports where we operate
- Passenger flight segments

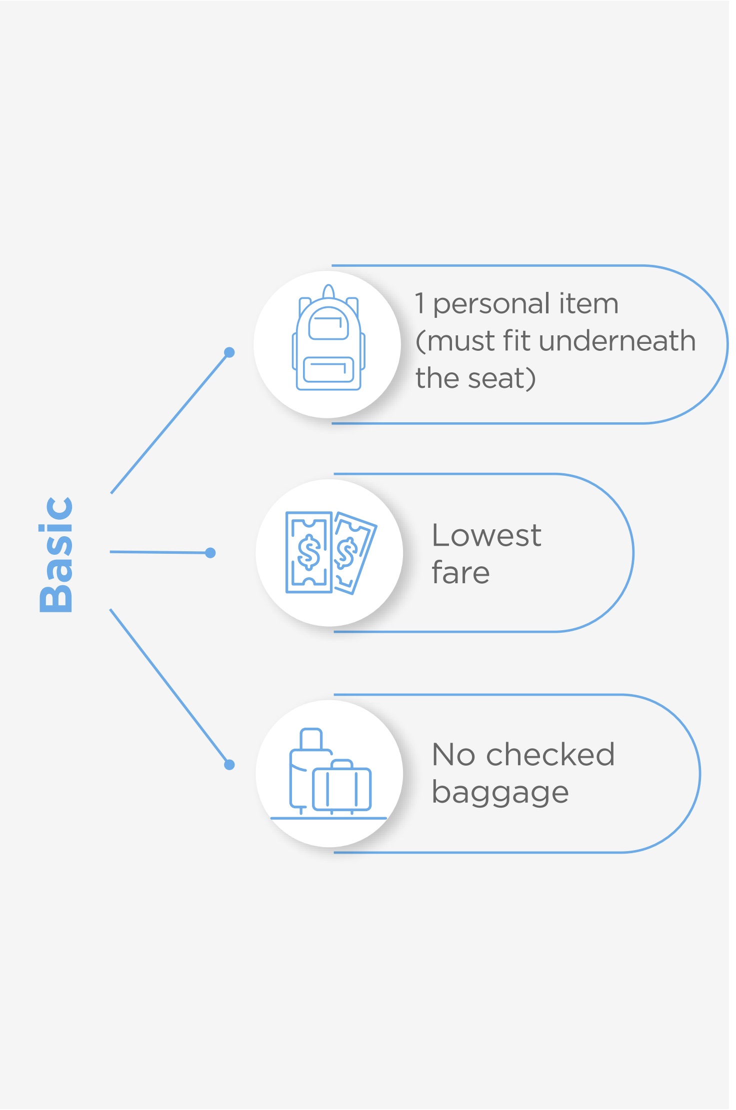
GRI 102-2, 102-6, 102-7

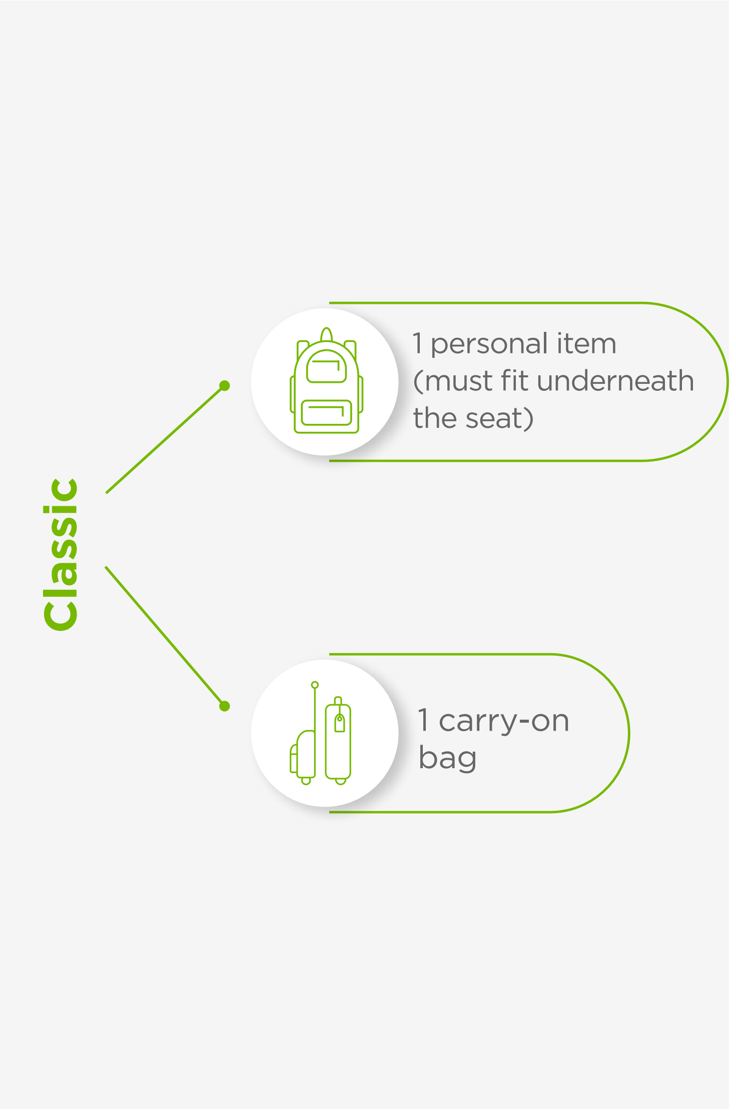
The *You Decide* Program and Ancillaries

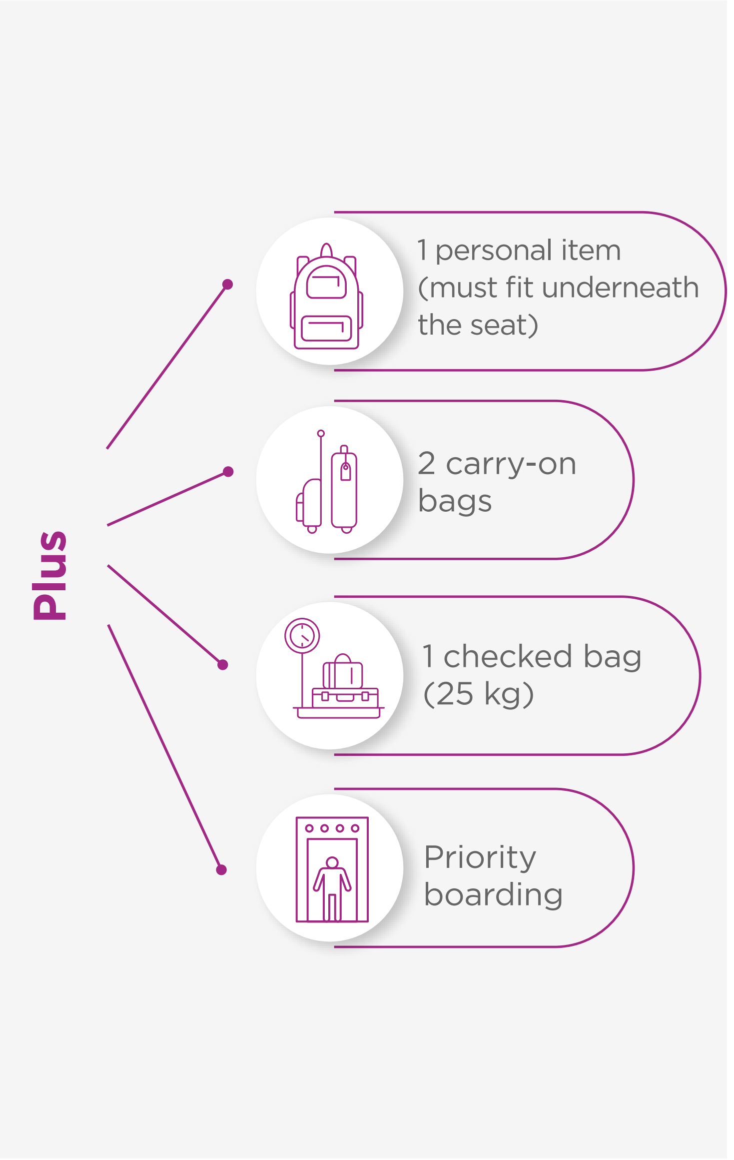
One of our greatest competitive advantages is our You Decide program. This ticket price-disaggregation framework allows us to offer the lowest base fare –Fly Basic– and ancillary services on a separate basis, so that our Customers only pay for what they need; hence, there is absolute transparency about the base fares and optional services purchased by the Customer.

As of the date of this report, we have the following fares:

With the *You Decide* program, we were able to make the benefits of air transport available to more and more people.







Furthermore, we have developed programs to strengthen ties with our frequent Customers and offer them special fares and promotions, creating a loyalty relationship between them and the Company. This will help us to maintain their preference in the future.

In 2020, we produced Ps. $9.70 billion in non-ticket revenue, approximately 39% of our total revenue.

v. club

This membership offers fares at a lower cost, and the possibility to choose from among three different options: individual, group (owner plus six passengers), and subscription (individual, with monthly payments). The benefits are:

- Best prices on all flights
- Savings of at least Ps. $100.00 Mexican pesos on each flight
- Exclusive promotions every Thursday

395,940 members

v. pass

Members of v.pass have access to the best prices on one-way or round-trip tickets once a month for any of our domestic destinations. The benefits are:

- Fixed monthly payment
- Only taxes are paid (VAT and airport fees)
- Not subject to seasonal price variations
- Baggage at preferential rates
- Access to v.club fares

23,600 members

Volaris-INVEX Credit Card

During 2020, we continued strengthening our partnership with Banco INVEX to offer even more benefits and opportunities for our Customers. Some of these benefits are:

- Electronic credits earned on purchases made with the INVEX credit card, which in turn can be used to pay for flights
- Initial and anniversary bonuses deposited directly to the electronic wallet
- 3, 6, and 11 months of credit with no interest
- Additional baggage at no cost to the credit card holder and companions
- 15% discount on the purchase of products from the In the Clouds on-board menu

294,000 members

Due to the situation resulting from the COVID-19 pandemic, we created three additional products to protect our Customers in all stages of their journey.

Combo FLEXIBILIDAD

Offering unlimited time and date changes during off season, with no difference in fare.

Combo REEMBOLSO

This travel cancellation or interruption insurance provides coverage in case of travel delays and air transportation for family member in case the beneficiary has an accident.

Combo SALUD

Provides medical assistance, support in case of accidental death and medical transport in emergencies.

YaVas

emerging business

This digital platform offers Customers the option to buy air travel + hotel + other travel-experience services at a lower price. We provide our Customers a wide range of destinations, the best hotels, and excellent tourist packages at affordable prices in Mexico, the United States of America, and Central America.

Our goal is to make aviation and tourism affordable for everyone, contributing to the economic and social development of the communities where we operate, enabling our Customers to have access to air transportation and tourist services. Therefore, YaVas is aligned with the 2020-2024 Tourism Sector Program of the Mexican Government, which has four priority objectives: 1) guaranteeing a social and respectful approach to Human Rights in the country's tourism activity; 2) fostering a well-balanced development of tourist destinations in Mexico; 3) strengthening the diversification of tourism markets at national and international levels; and 4) promoting sustainable tourism in the national territory.

Bus Switching Campaign

In 2020, we were more committed than ever to make flying accessible for everyone. We thus offered promotional fares at costs lower than bus fares on similar routes, aiming to stimulate demand for air services among passengers who have traveled long distances in buses.

In 2020, approximately **40%** of Volaris' Mexican capacity competed only against bus companies.

GRI 102-2, 102-4, 102-6, 102-7, 102-10

Route Network

We have a diversified point-to-point route network. This structure improves our resilience to the challenges faced by the industry today, by allowing us to offer more travel and connectivity options to our Customers visiting friends and relatives.

209 routes operated

127 domestic

82 international

+117 connecting routes under the codeshare agreement with Frontier

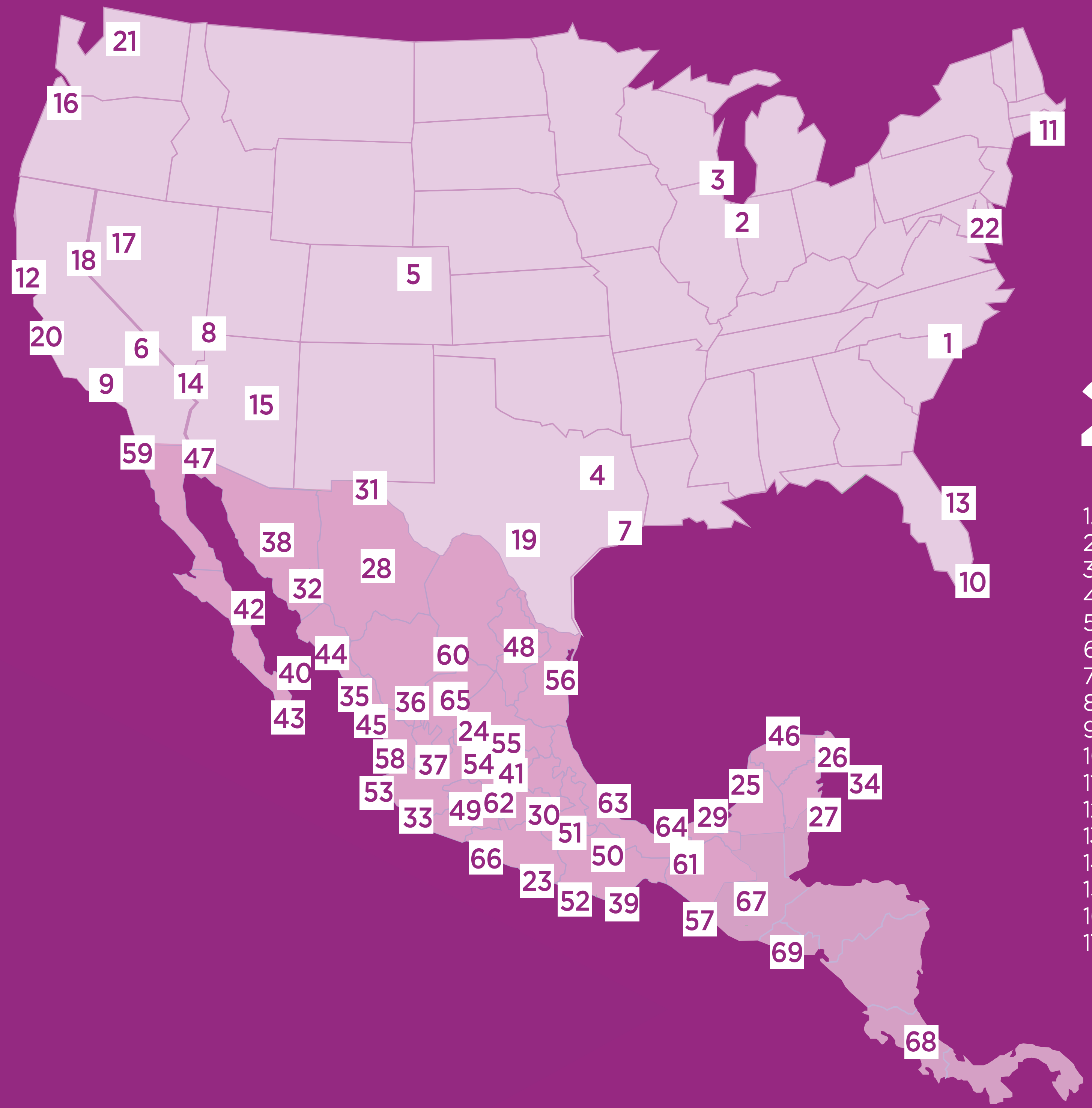
69 destinations

44 Mexico

22 United States of America

3 Central America

+50 destinations under the codeshare agreement with Frontier



2020 Route Map

1. Charlotte
2. Chicago (Midway)
3. Chicago (O´Hare)
4. Dallas Fort Worth
5. Denver
6. Fresno
7. Houston
8. Las Vegas
9. Los Angeles
10. Miami
11. New York
12. Oakland
13. Orlando
14. Ontario
15. Phoenix
16. Portland
17. Reno
18. Sacramento
19. San Antonio
20. San Jose, California
21. Seattle
22. Washington D.C.
23. Acapulco
24. Aguascalientes
25. Campeche
26. Cancun
27. Chetumal
28. Chihuahua
29. Ciudad del Carmen
30. Mexico City
31. Ciudad Juarez
32. Ciudad Obregon
33. Colima
34. Cozumel
35. Culiacan
36. Durango
37. Guadalajara
38. Hermosillo
39. Huatulco
40. La Paz
41. Leon
42. Loreto
43. Los Cabos
44. Los Mochis
45. Mazatlán
46. Merida
47. Mexicali
48. Monterrey
49. Morelia
50. Oaxaca
51. Puebla
52. Puerto Escondido
53. Puerto Vallarta
54. Queretaro
55. San Luis Potosi
56. Tampico
57. Tapachula
58. Tepic
59. Tijuana
60. Torreón
61. Tuxtla Gutierrez
62. Uruapan
63. Veracruz
64. Villahermosa
65. Zacatecas
66. Zihuatanejo
67. Guatemala, Guatemala
68. San Jose, Costa Rica
69. San Salvador, El Salvador

GRI 102-6, 102-7

Codeshare Agreement with *Frontier**

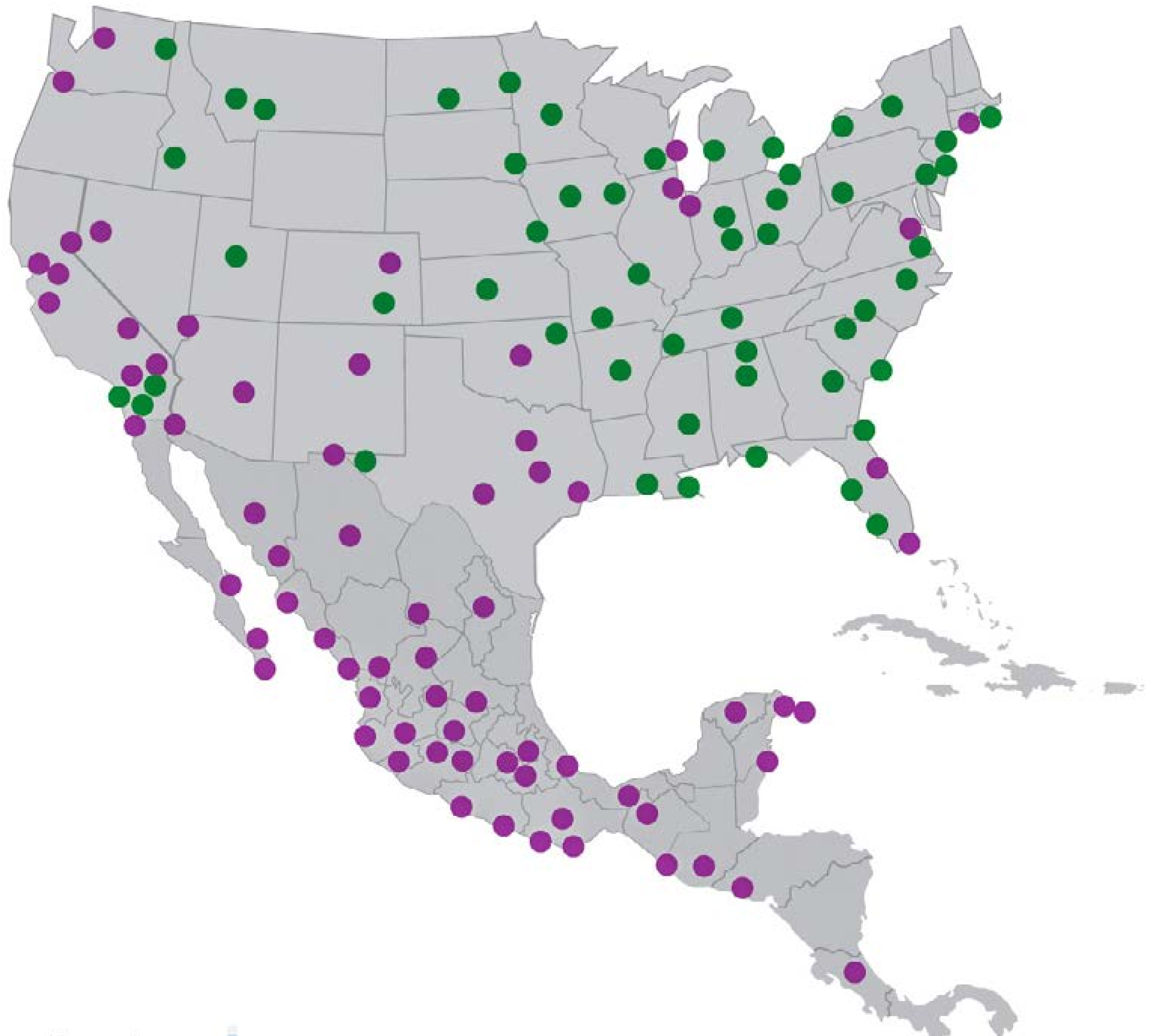
Since 2018, we began our codeshare operations with the U.S. airline *Frontier*, which enables our Mexican passengers to visit new U.S. destinations and American Customers to fly to new cities in Mexico.

Strong potential for connectivity

20
connecting airports

50
new destinations in the United States of America

+117
new connecting roundtrip routes



volaris + FRONTIER LOW FARES DONE RIGHT

* Due to the FAA downgrade of Mexico (from Category 1 to Category 2), Frontier has removed its code from flights operated by Volaris, although customers still have the option to purchase flights from Volaris and Frontier through our website.

New CBX Services

We established an alliance with the Cross Border Xpress (CBX) bridge, which connects the Tijuana International Airport with San Diego, California.

At the beginning of 2020, we began operating with this new station, which facilitates border crossing to and from any of the routes we offer at the Tijuana airport. Now, our Customers can purchase the CBX service on our website in the following two manners:

- As an ancillary product to the flight to or from Tijuana.
- As a station, i.e., as part of the flight to and from any of the 36 national routes we offer in Tijuana.

With this alliance, we were able to reinforce the strategy of connecting our Customers in the VFR (Visiting Friends and Family) segment on both sides of Mexico's northern border. In addition, we contribute to the recovery of local economies.

Volaris Digital Strategy

Since Volaris was founded in 2006, innovation and disruption have been part of the airline's DNA. The COVID-19 pandemic changed many things in the world, including the way people travel by plane and how goods and services are purchased. At Volaris, we adapted quickly and saw an opportunity in the crisis to accelerate crucial adjustments in our digital platforms. During the pandemic, the first thing we accomplished to fulfill our Customers' needs was the implementation of a self-service tool to deal with the flights affected, thus allowing the Customer to make automatic flight changes. Another modification was the migration of our reservation system, as well as the update of our website volaris.com. We launched an ambitious website with state-of-the-art technology, a project developed with the advisory services of Google, focused on a significant improvement of the User Experience. We made a simple and intuitive website for all our Customers, simplifying flight searches, the buying process and other self-services, such as Mobile Check-in or flight changes.

With these actions, we reduced the website's loading time by 50%, going from 10 to 5 seconds on average. Customer Service is one of the most important pillars of our Company, we therefore launched a new chatbot attending 80% of the conversations through digital channels we have with our Customers. We're able to meet our Customers' needs in a more efficient way.

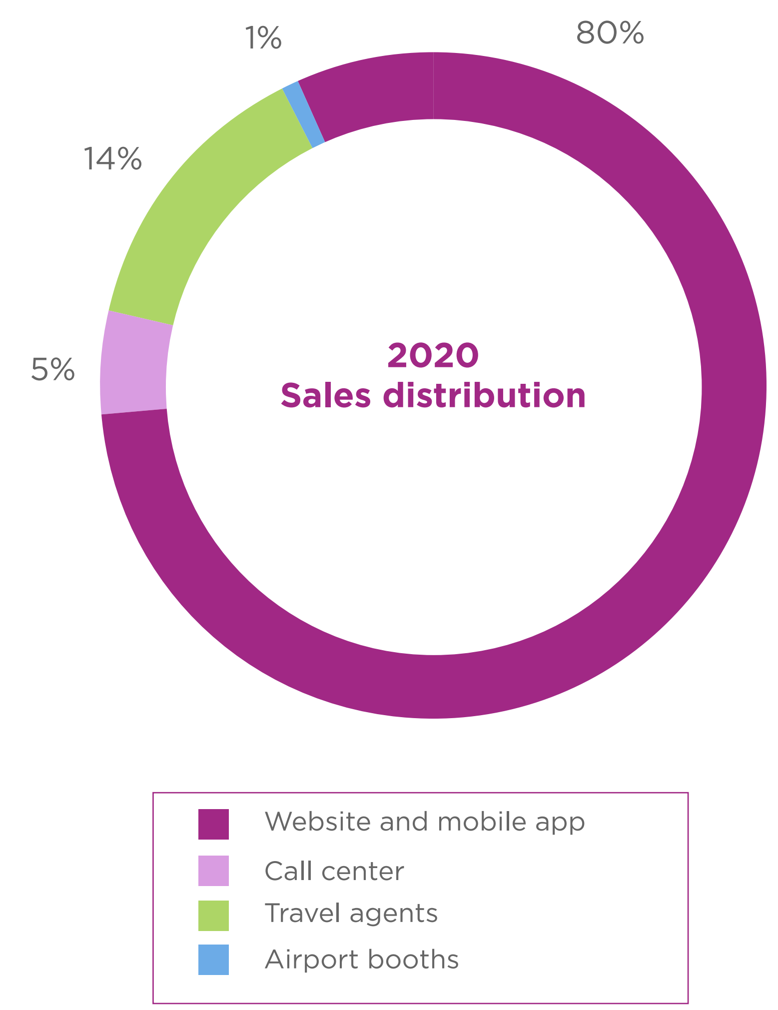
Volaris' current digital strategy is based on three pillars:

- Being faster
- Better performance on mobile devices
- Providing a great User Experience

The Company's next challenge is to continue leading the reopening of the skies and reactivating flights to and from destinations where we operate and beyond. Our business model and the discipline of all our Ambassadors place Volaris in a favorable position to achieve what we intend to do. During 2020, Volaris was a clear example of resilience in overcoming this turbulence. Today, we feel ready and completely confident to push Mexico and tourism forward, inviting **our more than 6 million followers on social media** and those who do not follow us yet, to take off together and continue on our mission to enable more people to travel well.

Our mobile apps have reached 10 million downloads since their launch.

80% of ticket and ancillary product sales were through the website and mobile app.



In 2020, 80% of our Customers checked in online, through our mobile app or website.

Marketing and Customer Communication

At Volaris, we want more people to travel well. Our Mission is reflected in all the marketing campaigns we carry out. The success of our promotions, Customer attraction and retention, the sale of ancillary services and our brand's recognition depend largely on them. By meeting our objectives, we ensured that more people had access to the benefits of air transport and we were able to consolidate sustained profitability for the Company.

All the terms, conditions and relevant information of our services can be consulted on our website, at airports booths, on social networks and by email.

During 2020, we conducted several campaigns on our digital channels, social networks, television and radio to position Volaris as the leading airline in Mexico and to build trust and empathy with Customers, contributing to the reactivation of the economy and the airline industry and to promote tourism.

#WeAreTogetherInThis

1st stage. Maintaining Customers informed about affected flights, flight changes on the website, flexibility options to reschedule trips, travel requirements and restrictions.

2nd stage. Developing inspirational initiatives for those people who remained at home and could not travel due to social distancing as a result of the COVID-19 pandemic.

3rd stage. Communicating our efforts for contributing to the communities where we operate, such as the transportation of humanitarian cargo and medical personnel for several governmental, non-governmental and private institutions.

Through campaigns focused on low fares, safety and flexibility, we restored the Customers' trust on air travel amid the COVID-19 pandemic.

In 2002, we achieved a 40% passenger share in the domestic market, which positions us as the leading airline in passenger transport in Mexico.

Closing wings

During April, we communicated our operations' reduction through an empathetic and emotional brand message, evidencing that we would continue flying for all those in need and that we would soon reactivate our operations.

With Volaris, Fly Sure

We were the first Mexican airline to implement and communicate our biosecurity protocols. In alliance with IATA and Airbus, we depicted airplanes as the safest means of transport during the pandemic, earning trust from our Customers. Furthermore, we carried out disruptive events at bus facilities in key cities to attract new Customers and continue with our bus switching strategy aimed at inviting more people to travel with us.

Leading the reopening of the skies to activate Mexico

When we reactivated operations, we focused on communicating our leadership in terms of new routes, destinations, operations, transported Customers and biosecurity protocols, consolidating ourselves as the best option to travel within the country and to the United States of America.

2 Volaris **Value Creation**

Content

2.1. Volaris Value Creation Model and our Contribution to the SDG
2.2. Stakeholder Engagement
2.3. Initiatives in Times of COVID-19

GRI 102-12, 102-21, 102-40, 102-42, 102-43, 102-44

2.1. Volaris Value Creation Model and **our Contribution to the SDG**

The **Volaris Value Creation Model** brings together the Corporate Sustainability Program and the identification of our stakeholders, along with the economic, social and environmental value that we create for each of them. Through this model we are able to maintain open communication channels to listen to their expectations and implement actions to meet their needs.

In addition, we have identified the Sustainable Development Goals (SDG) most impacted by our operations in order to contribute to their goals and ensure the prosperity of present and future generations. Throughout this report, we describe how our initiatives and actions contribute to each SDG.

Volaris Value Creation Model

Economic and Corporate Governance Focus

A. Business Strategy – Ultra-Low-Cost Business Model

B. Corporate Governance

C. Corporate Affairs

D. Supply Chain

People Care Focus

A. Ambassadors' Relations, Practices and Wellbeing

B. Human Rights and Community Relations

C. Customer Welfare

Planet Care Focus

#CielitoLimpio Comprehensive Environmental Protection Policy

A. Efficient Fuel Consumption Management

B. *#CielitoLimpio* Carbon Emissions Offset Program

C. Eco-friendly Initiatives and Efforts toward Biodiversity

D. Regulatory Compliance

Value created for our stakeholders

Customers	▪ Accessibility and connectivity ▪ Low prices ▪ Security ▪ Travel experience ▪ Corporate reputation ▪ Pollution footprint offset ▪ Alignment with Sustainable Development Goals (SDGs)
Ambassadors	▪ Volaris Family ▪ Equal opportunities and non-discrimination ▪ Competitive payment ▪ Sense of pride and belonging ▪ Safety and wellbeing ▪ Union relations ▪ Awareness of environmental protection ▪ Alignment with Sustainable Development Goals (SDGs)
Community	▪ Reduction of pollution footprint ▪ Human Rights protection ▪ Positive impact in the Communities where we operate ▪ Awareness of environmental protection ▪ Strategic partnerships to achieve goals ▪ Corporate volunteering ▪ Encouraging tourism and economic development ▪ Alignment with Sustainable Development Goals (SDGs)
Suppliers	▪ Reliable customer ▪ Long-term relationships ▪ Sustainable Supply Chain ▪ Human Rights protection ▪ Reduction of pollution footprint ▪ Environmental protection ▪ Alignment with Sustainable Development Goals (SDGs)
Investors	▪ Short, medium and long-term business plan ▪ Return of investment ▪ Revenue generation ▪ Cost reduction ▪ Resources optimization ▪ Strict risk control ▪ Ethics and transparency ▪ Alignment with Sustainable Development Goals (SDGs)
Authorities/ Industry	▪ Law enforcement ▪ Employment generation and economic development ▪ Collaboration and communication with the government and its agencies ▪ Tax payment ▪ Obtainment and renewal of operational certifications ▪ Reduction and offseting of the pollution footprint ▪ Alignment with Sustainable Development Goals (SDGs)

SUSTAINABLE DEVELOPMENT GOALS

No poverty
Ending poverty in all its forms everywhere

1. Air transportation connectivity and accessibility
2. Promoting tourism and economic development in the communities where we operate
3. Responsible Supply Chain Management Program
4. Direct and indirect employment creation
5. Formal employment
6. Diversity and Equal Employment Opportunities Policy
7. Fair wages, and benefits above the minimum established by law
8. #cielitolimpio Carbon Emissions Offset Program
9. *Avión Ayuda Volaris* Program

Good health and well-being
Ensure healthy lives and promote well-being for all at all ages

1. Prohibiting tobacco use on board
2. Responsible Supply Chain Management Program
3. Social security and major medical expenses insurance for Ambassadors and family
4. Biosecurity protocols in working spaces
5. Occupational health programs for Ambassadors and family
6. *Avión Ayuda Volaris* Program
7. Aviation Security and Safety
8. Addiction-free company
9. Comprehensive Environmental Protection Policy #cielitolimpio

Quality education
Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

1. Partnerships with schools related to aviation professions
2. Programs for attracting young talent
3. Training programs

Gender equality
Achieve gender equality and empower women and girls

1. Corporate Governance structure
2. Volaris Code of Ethics
3. Volaris Ethics Committee and Whistle Blowing Line
4. Diversity and Equal Employment Opportunities Policy
5. Compensation Policy
6. Maternity, Paternity and Use of Breastfeeding Rooms Policy
7. Home Office and Flex-time Policy
8. Talent attraction and promotion
9. Performance management
10. Recognition programs
11. Talent Review and Succession Planning
12. Career Paths
13. Leadership Development
14. Training programs
15. Fair wages, and benefits above the minimum established by law
16. Agreements with day care centers
17. Occupational health and safety
18. Programs and partnerships for Human Rights protection
19. Responsible Supply Chain Management Program

Decent work and economic growth
Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

1. Corporate Governance structure
2. Corporate Affairs
3. Responsible Supply Chain Management Program
4. #cielitolimpio Carbon Emissions Offset Program
5. Direct and indirect employment creation
6. Diversity and Equal Employment Opportunities Policy
7. Partnerships with schools related to aviation professions
8. Programs for attracting young talent
9. Performance management
10. Recognition Programs
11. Career and development plans
12. Training programs
13. Formal employment
14. Fair wages, and benefits surpassing the minimum established by law
15. Occupational health and safety
16. Biosecurity protocols in working spaces
17. Relations with the union
18. *Avión Ayuda Volaris* Program

Industry, innovation and infrastructure
Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

1. Accessible air transportation
2. Corporate Affairs - public policy to influence airport infrastructure processes
3. Investment in young fleet and new technology

Reducing inequalities
Reduce inequality within and among countries

1. Connectivity and accessibility of air transportation
2. Payment facilities through various channels and for all income levels
3. Responsible Supply Chain Management Program
4. Volaris Code of Ethics
5. Volaris Ethics Committee and Whistle Blowing Line
6. Diversity and Equal Employment Opportunities Policy
7. Compensation Policy
8. Maternity, Paternity, and Use of Breastfeeding Rooms Policy
9. Home Office and Flex-time Policy
10. Agreements with daycare centers
11. Direct and indirect employment creation
12. Formal employment
13. Performance management
14. Recognition Programs
15. Talent Review and Succession Planning
16. Career Paths
17. Leadership Development
18. Training programs
19. Fair wages, and benefits above the minimum established by law
20. Relations with labor union
21. Occupational health and safety
22. *Avión Ayuda Volaris* Program
23. Programs and partnerships for Human Rights protection
24. #cielitolimpio Carbon Emissions Offset Program

Responsible consumption and production
Ensure sustainable consumption and production patterns

1. Corporate Governance structure
2. Responsible Supply Chain Management Program
3. #cielitolimpio Comprehensive Environmental Protection Policy
4. Programs and partnerships for Human Rights protection
5. Integrated Annual Report

Climate action
Take urgent action to combat climate change and its impacts

1. Corporate Affairs
2. Responsible Supply Chain Management Program
3. Home Office and Flex-time Policy
4. Corporate voluntary work activities focused on environmental issues
5. #cielitolimpio Comprehensive Environmental Protection Policy

Peace, justice and strong institutions
Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

1. Corporate Governance structure
2. Corporate Affairs
3. Information privacy and cybersecurity
4. Responsible Supply Chain Management Program
5. Diversity and Equal Employment Opportunities Policy
6. Corporate voluntary work activities
7. *Avión Ayuda Volaris* Program
8. Programs and partnerships for Human Rights protection

Partnerships for the goals
Strengthen the means of implementation and revitalize the global partnership for sustainable development

1. Corporate Affairs
2. Strategic partnerships or the Company's operation
3. Responsible Supply Chain Management Program
4. Strategic partnerships for the Corporate Voluntary Work Program, Human Rights protection, the operation of the *Avión Ayuda Volaris* Program, and the #cielitolimpio Carbon Emissions Offset Program

GRI 102-43-, 102-44

2.2. Stakeholder **Engagement**

During 2020, we strengthened communications with our stakeholders like never before through a more open dialogue that allowed us to create value even in the harshest months of an unprecedented global crisis. Listening and understanding the needs and concerns of our main stakeholders provides us guidance to set goals, redefine strategies and identify risks and opportunities in order to run the business in a sustainable manner in the future.

Since the start of the pandemic, we have maintained a proactive and transparent discourse with all **investors** about the implementation of the biosecurity protocol, capacity evolution, competition and recovery. Since we were the first airline to receive the Safe Travels seal from the WTTC, as well as other biosecurity recognitions, we were able to reinforce the group's confidence, as well as that of our **Customers, Ambassadors and authorities.**

We were able to respond better and faster to our **passengers' needs** by focusing our efforts in Customer service innovation. Strengthening our channels such as the Volaris website, WhatsApp and Chatbot Vane on Facebook revolutionized the way we interact with them.

In addition, through monthly meetings via several corporate communication channels led by our management team, we held permanent dialogue with all our **Ambassadors** to follow up on their work plans and address concerns related to salaries and job stability. Every week, we carried out "Sofa Talks" with experts in mental health, emotional intelligence, nutrition, child psychology and personal finances, providing Ambassadors with tools to ensure their well-being in the workplace and with their families. These actions helped us maintain internal communication open, creating value for our most important pillar, the Volaris Family. Moreover, in 2021, we will perform the first work environment survey to listen and understand the most pressing issues for our Ambassadors and to create even more value for them.

Similarly, 2020 revealed our suppliers as strategic business partners. Through an honest and direct dialogue, we reached agreements with approximately 360 **suppliers** for implementing savings and payment deferral plans, increasing our cash flow and making it possible to extend payment terms up to an additional 31 days.

Furthermore, we were in constant communication and coordination with **industry** associations, such as the International Air Transport Association (IATA) to develop collaborative plans, protocols and strategies, as well as to obtain data and projections, in order to reach a sustainable worldwide reactivation of the industry.

Finally, we maintained constant communication with authorities to develop initiatives for the benefit of the entire value chain of the aviation and tourism industries in Mexico, which has allowed us to establish agreements that have contributed to the recovery of both sectors. Also, by activating our *Avión Ayuda Volaris* program, we established a communication line with the **communities where we operate** and where several associations were first responders to the health emergency. It should be mentioned that through this program we created new strategic alliances with numerous **institutions in the public and private sectors, civil society organizations, academia, and the industry,** among others.

In 2021, we shall carry out our new materiality assessment and dialogue with stakeholders, in order to learn about their most pressing issues. We decided to complete the analysis in the second half of 2021 in order to obtain updated results on the new normal, reflecting the change in habits and requirements resulting from the COVID-19 pandemic.

The resilience of our business model was strengthened by our stakeholders' empathy during the most critical moments for the Company. Thanks to their invaluable support, today we are one of the airlines with the highest capacity recovery worldwide and a leader in Mexico in terms of passengers. Our Company's success reflects the contribution of each Ambassador, Customer, investor, supplier and authority who have accompanied us along the way. We would not have been able to take off in 2020 without them.

Strategies for Stakeholder Engagement

Stakeholders	Key issues	Communication channels	Results
Customers	▪ Low fares ▪ Quality service ▪ Security and biosecurity ▪ Customer experience and satisfaction ▪ Customer service ▪ Environmental impact ▪ Carbon offsetting mechanism ▪ Corporate sustainability strategy ▪ Connectivity	▪ Digital platform (website, app, and social media) ▪ Call Center ▪ Volaris sale points ▪ Airports ▪ On-board service and magazine ▪ Net Promoter Score (NPS) ▪ External communication/means of communication, marketing campaigns, and corporate brand management strategies ▪ Integrated Annual Report	▪ Accessibility and connectivity (opening new routes) ▪ Low prices ▪ Security and biosecurity ▪ Confidence in going back to air travel ▪ More people using air transportation ▪ Travel experience ▪ Corporate reputation ▪ Opportunity to offset part of the pollution footprint ▪ Contribution to Sustainable Development Goals (SDG)
Ambassadors	▪ Occupational health and safety ▪ Job security ▪ Experience and Ambassadors' engagement ▪ Equal opportunities and non-discrimination ▪ Training and development ▪ Career and growth paths ▪ Corporate voluntary work ▪ Environmental impact ▪ Labor and family wellbeing ▪ Company's profitability ▪ Corporate sustainability strategy	▪ Volaris Whistle Blowing Line ▪ Human resources team in main airports where we operate ▪ Institutional communication ▪ Surveys ▪ Periodic reports from the Executive Committee and management team ▪ Special messages from the President and Chief Executive Officer and management team ▪ Labor union ▪ Integrated Annual Report	▪ Ethics cases reported to be investigated ▪ A great place to work (Volaris Family) ▪ Equal opportunities and non-discrimination practices ▪ Competitive compensation ▪ Sense of pride and belonging ▪ Biosecurity and wellbeing ▪ Union relations ▪ Awareness of environmental protection ▪ Contribution to Sustainable Development Goals (SDG)
Community	▪ Economic and social development of the communities and regions where we operate ▪ Strategic partnerships to achieve goals ▪ Support for civil organizations ▪ Corporate voluntary work ▪ Donations ▪ Environmental impact ▪ Carbon offsetting mechanism ▪ Human Rights protection ▪ Corporate sustainability strategy ▪ *Avión Ayuda Volaris*	▪ On-board magazine ▪ Biannual reports issued by foundations ▪ Integrated Annual Report ▪ Corporate voluntary work activities ▪ External communication/means of communication, marketing campaigns and corporate brand management strategies	▪ Pollution footprint reduction ▪ Economic impact from tourism, VFR passengers and business travel ▪ Human Rights protection ▪ Positive impact on communities where we operate ▪ Awareness of environmental protection ▪ Strategic alliances to achieve goals ▪ Corporate voluntary work ▪ Contribution to Sustainable Development Goals (SDG) ▪ Sustainable reactivation of the airline industry and its value chain
Suppliers	▪ Medium and long- term agreements ▪ Fair trade conditions ▪ Economic performance of the Company ▪ Human Rights protection ▪ Environmental impact ▪ Corporate sustainability strategy	▪ Meetings and phone calls ▪ Institutional communication channels ▪ Informative circulars ▪ Annual evaluation ▪ Audits ▪ Integrated Annual Report	▪ Reliable customer ▪ Long-term relationships ▪ Sustainable Supply Chain ▪ Human Rights protection ▪ Reduction of pollution footprint ▪ Environmental protection ▪ Contribution to Sustainable Development Goals (SDG) ▪ Contracts' renegotiation
Investors	▪ Economic performance of the Company ▪ Corporate Governance ▪ Risk Management ▪ Corporate Affairs ▪ Economic consequences due to environmental impact ▪ Corporate sustainability strategy	▪ Committees and Board of Directors meetings ▪ Annual Shareholders' Meeting ▪ Financial reports ▪ Integrated Annual Report ▪ Relevant events broadcast ▪ Volaris website ▪ Media ▪ Volaris news letters ▪ Surveys, indexes and ratings	▪ Short, medium and long-term business plan ▪ Return on investment ▪ Income generation ▪ Cost reduction ▪ Resource optimization ▪ Strict risk control ▪ Ethics and transparency ▪ Contribution to Sustainable Development Goals (SDG) ▪ Sustainable reactivation of the airline industry
Authorities / Industry	▪ Regulatory compliance ▪ Contribution to the economic development of the countries where we operate ▪ Job creation ▪ Employee health and safety ▪ Environmental impact ▪ Reactivation of the airline industry and its value chain ▪ Corporate sustainability strategy ▪ Biosecurity protocols	▪ Direct communication with strategic partnerships ▪ Participation in chambers and discussion forums ▪ Events and conferences ▪ Meetings ▪ Lobbying ▪ Integrated Annual Report ▪ Media	▪ Regulatory compliance ▪ Employment creation and economic development ▪ Collaboration and communication with the government and its agencies ▪ Tax payment ▪ Obtaining and renewing operating certifications ▪ Reduction and offsetting of pollution footprint ▪ Contribution to Sustainable Development Goals (SDG) ▪ Sustainable reactivation of the airline industry

GRI 201-1

2.3. Initiatives in Times of **COVID-19**

Actions to Address COVID-19 Impacts Promptly and Decisively

The airline industry worldwide experienced unprecedented hardships due to the COVID-19 pandemic. It is not yet possible to determine the full loss and effects on the global industry, or when the negative effects will abate.

However, at Volaris we managed to take off and, by the end of 2020 –an unprecedented year for the airline industry– we not only returned to pre-pandemic operating levels, in the last quarter we also recovered our business profitability.

In 2020, we began operations on thirteen new routes, five domestic and eight international, we diversified our point-to-point network and reinforced our presence at the Mexico City International Airport. All of this was possible as a result of six main strategies:

1. Focus on our ultra-low-cost business model
2. Implementation of biosecurity protocols
3. Bus switching campaign
4. Development of a liquidity preservation program
5. Acceleration of cost reduction strategies
6. Adoption of a conservative and flexible growth plan

Additionally, through our *Avión Ayuda Volaris* program and together with our strategic allies, we continued to support the communities where we operate during the health emergency, generating social and economic value for all those benefited.

Our ultra-low-cost business model creates a virtuous cycle that begins with a relentless focus on low costs as part of our organizational culture. This has positioned us as the publicly traded airline with the lowest costs in the Americas and among the main lowest cost carriers globally.

In order to protect the wellbeing of our passengers, crew and ground personnel, we implemented a new biosecurity and cleaning protocol through which we regained the trust of our VFR and pleasure Customers, especially bus passengers, based on a point-to-point model that enabled Volaris to achieve one the fastest capacity recoveries in the world.

During the last years, we have prepared our Company with the lowest cost structure possible, allowing us to offer very low rates –bus level low–consequently producing a conversion of bus passengers to airplane passengers.

We executed multiple actions to strengthen liquidity, reduce costs and capture market opportunities. We implemented a strict liquidity preservation program that included negotiations with key lessors and suppliers that produced $266 million dollars in benefits for 2020. We also postponed $200 million dollars in PDP financing until 2023.

As part of the liquidity preservation program, we negotiated cost reductions and credit extensions with more than 360 suppliers, dropping also non-essential expenses. During 2020, we were able to successfully negotiate contracts with our main suppliers, seeking to improve the commercial conditions that would allow us to continue operating, without breaching our contractual commitments. Some of these contracts are for the sale and maintenance of engines, auxiliary power units, avionics and seats for our Airbus A320neo Family aircraft that we purchased in 2017. The Company signed an agreement with Pratt and Whitney for the purchase of 171 additional GTF engines, along with maintenance services in a long-term variable scheme at competitive prices. These negotiations will improve the existing contracts throughout the useful life of these aircraft in an approximate amount of $300 million dollars. All this, in addition to the benefits that already apply to our current fleet as part of the negotiations with the same suppliers.

We also implemented licensing and online training programs to reduce costs. And we benefitted from our labor contracts with variable compensation schemes based on productivity.

Our flexible and strategic operating plan allowed us to reduce capacity and cancel or consolidate flights to protect our profitability. Month by month, we regain capacity with a focus on growth flexibility and cash generation.

We closely monitor capacity reductions from competitor for potential opportunities, testing new ancillary products, and launching specific promotions to stimulate air travel. Therefore, we were able to open new destinations and increase our operations at this airport.

Additionally, we decreased scheduled capacity to protect our profitability. Likewise, we strengthened our relationships with Customers, updating our website and maintaining close communication through social media and Volaris email.

In December 2020, we closed an upsized primary follow-on equity offering of 134 million CPOs, in the form of ADSs, priced at 11.25 dollars per ADS in the United States of America and other countries outside of Mexico, pursuant to our Shelf Registration Statement filed with the SEC. In connection with the offering, the underwriters exercised their option to purchase up to 20.1 million additional CPOs in the form of ADSs, completing a total offering of 154.1 million CPOs in the form of ADSs; we obtained approximately $164.4 million dollars in net proceeds for corporate purposes.

Volaris closed the year 2020 with the strongest financial balance of the Mexican airlines, with cash and cash equivalents of $506 million dollars, mainly in U.S. dollars. The net debt to EBITDA leverage ratio closed the fourth quarter at 8.7 times, reflecting a healthy balance sheet in comparison with the industry standard in the 2020 scenario. Volaris financial debt is used solely to invest in the business' growth.

In 2020, when the COVID-19 pandemic began, we started operations in thirteen new routes, five domestic and eight international ones.

Work Flexibility and Home Office

During the beginning of the COVID-19 pandemic, we implemented the home office policy for all administrative Ambassadors, in order to preserve their health and safety. To make this new way of working more efficient, we employed digital tools, such as enabling digital platforms for all Ambassadors.

The beginning of remote work officially began on March 31st and, as operations started to reactivate, it was also necessary to implement several support areas so that certain Ambassadors returned in a tiered scheme and by groups to the corporate offices.

However, as a special case, people vulnerable because of chronic diseases or age, and those who were caring for senior citizens, children, or with particular situations had the flexibility to work remotely indefinitely.

Throughout the year and since the beginning of the pandemic, some members of the management team held monthly informative sessions to notify the Ambassadors about the Company's operating and financial status, the outlook for reactivation and the eventual return to our offices.

Finally, due to all the aforementioned initiatives, we managed to preserve the almost 5,000 jobs of the Company, contributing to the country's economic recovery, and creating value for our Ambassadors and their families.

Ultra-Low-Cost Model / Bus Switching Campaign

At Volaris, we maintain our focus on VFR (Customers Visiting Friends and Relatives), people who seek low prices, and on small and medium enterprise segments. These segments have shown the greatest demand for air travel in Mexico as the industry recovers from COVID-19.

As of December 31, 2020, Volaris was the national market leader in number of transported passengers.

In the current competitive environment, Volaris has taken advantage of market opportunities, consolidating our leadership in market share measured in number of passengers among Mexican airlines. During 2020, Volaris transported more than 14.7 million passengers. In addition, we achieved one of the fastest recoveries globally, in terms of available seat miles, as a result of our resilient ultra-low-cost business model, focused on the segments of Customers who visit friends and family and leisure travelers in Mexico and the cross-border markets of the United States of America.

We are aware that the airline industry is highly competitive. In 2020, it was highly impacted by the pandemic. The main competitive factors in the airline industry are fare pricing, total price, flight schedules, aircraft type, passenger amenities and related services, number of routes served from a city, Customer service, safety reputation, code-sharing relationships and frequent flier programs. Our current and potential competitors include traditional network airlines, low-cost carriers, regional airlines and new airlines. We usually compete in markets served by legacy carriers and other low-cost carriers, and, to a lesser extent, regional airlines. Some of our current or future competitors may have greater liquidity and access to capital and may serve more routes than Volaris.

As of December 2020, our domestic market share went up 9 percentage points to 40% and our international market share rose 6 percentage points to 14%, compared to the same period in 2019.

Our principal competitors for the domestic market are Grupo Aeroméxico, Interjet and VivaAerobus; the latter two are low-cost carriers in Mexico. In 2020, the Mexican low-cost carriers (including Volaris) combined had 71.5% of the domestic market based on passenger flight segments. In 2020, our domestic market share was 38.3%, which placed us as leaders, according to the AFAC. On June 30, 2020, Grupo Aeroméxico, our largest competitor by domestic and international market share in 2019, announced that it was filing for Chapter 11 bankruptcy protection in the United States of America. According to its public filings with the CNBV, Grupo Aeroméxico has maintained regular operations during the restructuring process but has received court approval to return at least 19 aircraft to lessors, which would reduce its fleet size by around 15%. On the other hand, Interjet, our second largest competitor by international market share in 2019, has been unable to resume international flights since it suspended routes in March 2020 and has not operated any domestic flights since December 2020.

Our major competitive advantages are our low base fares and our focus on VFR travelers, leisure travelers and cost-conscious businesspeople. These low base fares are possible due to our low CASM, which at Ps. $141.3 cents (U.S. $6.60 cents) was the lowest CASM in Latin America in 2020, compared to Avianca (U.S. $26.11 cents), Azul (U.S. $10.75 cents), Copa (U.S. $17.29 cents), Gol (U.S. $8.78 cents), Grupo Aeroméxico (U.S. $17.98 cents) and LATAM (U.S. $17.33 cents). Additionally, we have lower costs than our publicly traded market competitors in the United States of America, including Alaska Air (U.S. $14.33 cents), Frontier (U.S. $9.53 cents), Spirit (U.S. $8.36 cents), American (U.S. $19.39 cents), Delta (U.S. $22.01 cents), Jet Blue (U.S. $14.29 cents), Southwest Airlines (U.S. $12.44 cents) and United (U.S. $17.68 cents).

Furthermore, we face domestic competition from long-distance bus companies. Hence, we set some of our promotional fares at prices lower than bus fares for similar routes in order to stimulate demand for air travel among passengers who have been regular bus passengers in the past. We believe a small shift in bus passengers to air travel would dramatically increase the number of airline passengers and bring the air travel per capita figures in Mexico closer to those of other countries in the Americas.

"With Volaris, Fly Sure" Campaign

"I am extremely proud and grateful with the Volaris Family and all the Ambassadors who work daily so that more Customers travel safely with our biosecurity protocol. This standard has been recognized by several bodies, such as the World Travel and Tourism Council, SimpliFlying, the Government of Mexico City and the Government of Yucatán. With our campaign "With Volaris, Fly Sure" we have regained the trust of millions of passengers who travel with Volaris. We are very happy to welcome you back on our flights, making sure you travel well!"

Enrique J. Beltranena
President and Chief Executive Officer

Due to the unexpected arrival of the health crisis due to COVID-19, during the year, we adjusted our operations and developed measures to protect the health of all our Customers and Ambassadors. We performed based on our ultra-low-cost strategy and the support of a great team that worked passionately to continue creating value for Volaris, for our stakeholders and for Mexico.

Since the beginning of the COVID-19 pandemic, we strictly followed all the recommendations of the World Health Organization (WHO) to ensure safety at all our flights' stages.

We developed a biosecurity protocol to continue offering the best travel experiences safely throughout all the flight stages. This protocol is aligned with the recommendations issued by the International Air Transport Association (IATA), the European Aviation Safety Agency (EASA) and the World Health Organization (WHO).

As part of our biosecurity protocol, we implemented all the necessary security measures: strengthening touchless check-in –we ask all Customers to acquire their boarding pass and ancillary services electronically– taking temperature, mandatory use of face masks, applying antibacterial gel, sanitizing mats at the entrance of counters and aircraft , indications for social distancing, request of health form, safety kit such as masks, face masks and gloves for Ambassadors, continuous disinfection of our work areas and aircraft, as well as orderly boarding and disembarking processes.

We trained all Ambassadors in the protocol's security measures to handle any emergency.

Likewise, the air in the aircraft cabin is completely renewed every three minutes with HEPA filter technology, which capture up to 99.9% of viruses and bacteria, and each aircraft is thoroughly sanitized with industrial-grade disinfectants once a day, in addition to undergoing periodic cleaning and routine disinfection on each flight.

We participated in the launch of the health and safety standard "APEX (Airline Passenger Experience Association) Health Safety, powered by SimpliFlying" and due to the biosecurity protocol that we implemented, we obtained the Platinum level certification.

We obtained the Global Security Seal (Safe Travels Stamp) granted by the World Travel and Tourism Council (WTTC), thus contributing to the responsible and safe reactivation of tourism.

We were the first airline in Mexico to receive the Tourism Security Stamp from Mexico City due to the quality and safety of our operations.

We received the Certificate of Best Sanitary Practices from the state of Yucatan, which endorses the protocols and sanitary measures that we implemented and reinforces the strategic alliance between Yucatan and Volaris, reaffirming our commitment to reactivate tourism and the Mexican economy.

Furthermore, we implemented the "With Volaris, Fly Sure" marketing campaign, focused on communicating to Customers specific actions for their protection. The three pillars that respond to the new normal are:

- Security, through a reinforced protocol
- Flexibility, offering adjustments and changes at no additional charge
- Discounts and low fares in our routes

"At Volaris, we are prepared to offer our Customers what they need to get on the plane again. We are committed to providing them all the operating safety and sanitary security measures, recognized by national and international organizations, so that they travel peacefully and without setbacks, in the context in which we currently live. Today, more than ever, our main objective is to offer security and trust to our Customers and Ambassadors."

José Luis Suárez,
Senior Vice President and Chief Operating Officer

Customer Service and Solution

"Our priority is the health and safety of our Customers and Ambassadors; therefore, we strive to simplify their travel plans, so that, when operations are completely reactivated, we are able to provide the best attention, taking off together once more."

Enrique J. Beltranena
President and Chief Executive Officer

We are aware that the industry and times are constantly changing and that innovation is a key element to offer our Customers a distinguishing element at all stages of their travel. Consequently, the team responsible for digital products and technology did extensive research to identify best practices in online development and experience, even obtaining the advice from a team of technical experts from Google.

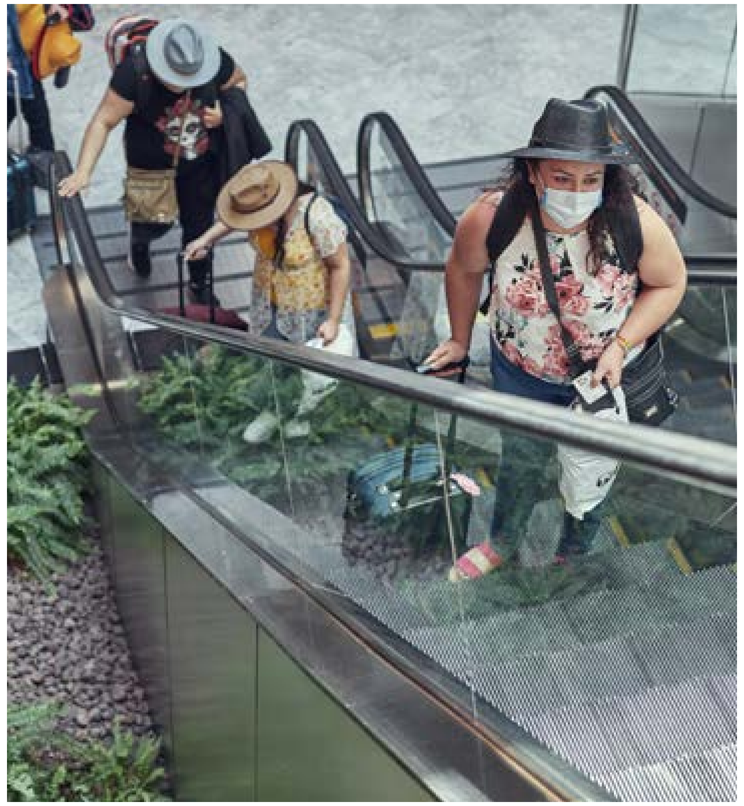
Thus, in 2020 we launched a new website to substantially improve the User Experience, making it simpler, more intuitive and Customer-friendly, facilitating flight searches, and self-service for processes like check-in, flight changes and ticket purchases.

Due to the sanitary crisis and subsequent closed borders, we were forced to cancel flights. To minimize the impact on our Customers and to meet their expectations, we implement the flight guarantee, which allows Customers to quickly and automatically select the option that best suits their needs. In case of cancellations, a notice is automatically sent via email to the affected Customer, and different alternatives are presented.

- Electronic credit. Offers the refund of the purchase plus an additional 25% in electronic credits to be redeemed later.
- Flight change at no charge.
- Full refund.

In addition, we continued improving the tools to provide solutions for our Customers with a professional and straightforward service. This year we strengthened our Contact Center to automate Customer service processes and provide faster solutions. Customers can select the Contact Center's channel of their choice.

- Social Media. Through our social networks –Facebook, Twitter or Instagram– Customers can solve general questions related to services, products, destinations and promotions with an estimated response time of four to six hours.
- Facebook Messenger and WhatsApp. We provide immediate personalized attention through the chatbot or an agent in just four hours for Customers who have any questions about their flight.



- Contact Form. Option for Customers who need to clarify or follow up any particular case.
- Call center. Channel for Customers who wish to buy a flight and cannot do so through any digital channels.

We use the Net Promoter Score (NPS) to measure loyalty, satisfaction and the probability that our Customers may recommend Volaris, enabling us to discover areas for improvement at the Customer contact points* in order to improve their experience. In 2020, we obtained a 30.5% rating vs 28.9% in 2019.

* Customer contact points are: 1. Purchase processes; 2. Documentation; 3. Boarding process; 4. Flight experience and 5. Baggage claim.

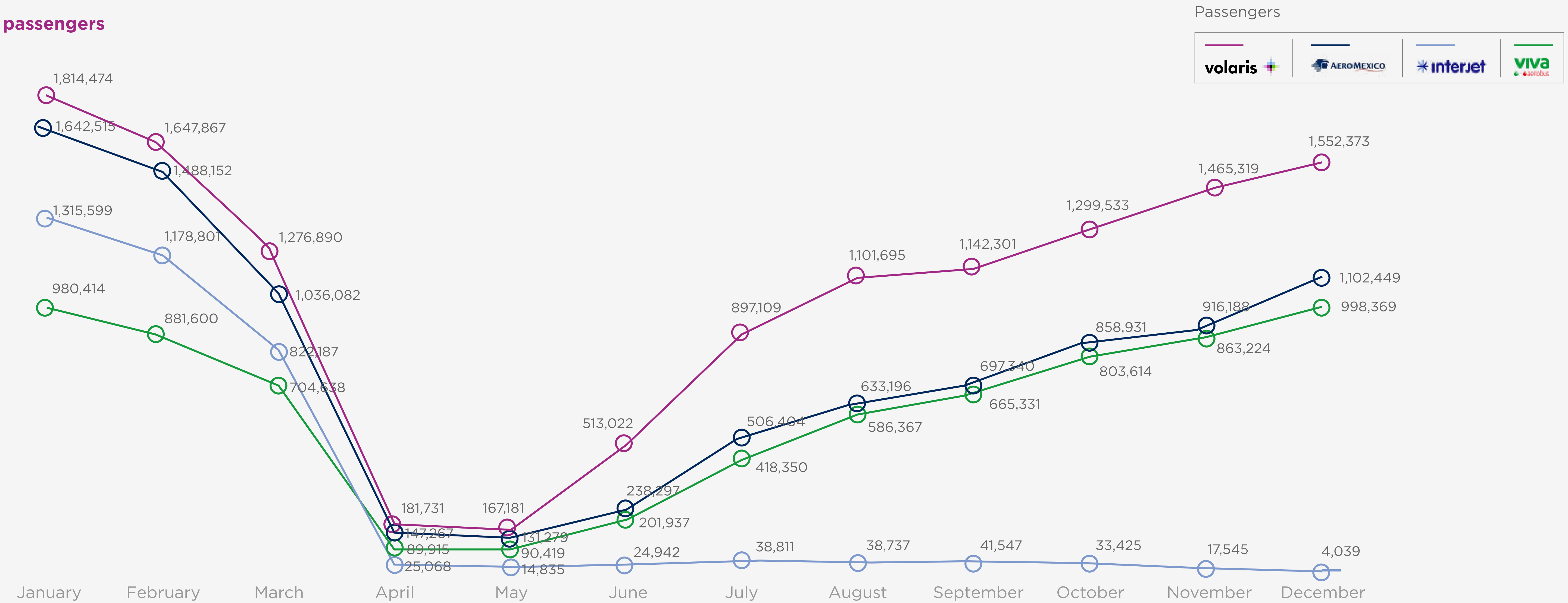
Capacity Recovery

During 2020, capacity in terms of passenger transportation of airlines worldwide significantly decreased in the second quarter of the year, due to the COVID-19 pandemic. The Mexican air transportation market was no exception. The four main commercial airlines in the country suffered a sharp contraction in the number of transported passengers in the months of April and May.

However, due to our ultra-low-cost business model and our performance during the sanitary crisis and confinement, at Volaris we were able to increase and recover passenger transport capacity as of June 2020.

For the fourth quarter of the year, the number of passengers we transported significantly surpassed the competition, as can be seen below.

2020 passengers



*Notes:
Figures obtained from the AFAC for Volaris (do not include passengers flying within Central America and from Central America to the United States of America) and competing airlines. We have made slight modifications to the data, which is presented for informational purposes only.

Avión Ayuda
volaris

Avión Ayuda Volaris Program

"Faced with the health emergency derived from COVID-19, at Volaris we activated our Avión Ayuda Volaris program. Through this program, we seek to create value for the communities where we operate; in coordination with partner institutions, in our airplanes we transport humanitarian aid, health personnel, volunteers, among others. We aim to facilitate care for people affected by the disease, as well as to ensure that the pandemic's first responders have the necessary resources to continue such amazing work."

Enrique Beltranena,
President and Chief Executive Officer

+45 tons of humanitarian aid transported through the *Avión Ayuda Volaris* program

42 strategic alliances with governmental institutions, private companies and NGOs

344 organs and tissues transported for transplant purposes since 2009

+500 migrants who were in Mexico and could not return to Costa Rica, their native country, due to the health contingency derived from COVID-19 and the closure of borders, returned home safely thanks to our *Reuniendo Familias* program, in coordination with the immigration and consular authorities of both countries.

"During 2020, the alliance of the Mexican Red Cross with Volaris was essential to provide an effective response to the health emergency caused by COVID-19. Volaris helped us transport more than 20 tons of humanitarian aid and volunteers to different states of Mexico. Undoubtedly, the collaboration between both organizations has allowed us to create more value for the communities we support."

Lic. Fernando Suinaga,
Mexican Red Cross National President

Our *Avión Ayuda Volaris* program is one of the initiatives that creates the greatest value for society in the communities where we operate. Through our operations and the largest route network in Mexico, we transport by air, safely and efficiently, humanitarian aid, organs and tissues for transplant purposes, medical personnel, volunteers, patients, and people who are in some vulnerability situation due to: natural disasters emergencies, humanitarian / migratory crises, health emergencies, emergencies and medical treatments, as well as to fulfill dreams.

The pillars that comprise the *Avión Ayuda Volaris* program are:

Pillar 1
Support in natural disaster emergencies / civil protection

Pillar 2
Organ and tissue transportation for transplant purposes

Pillar 3
Support in emergencies and medical treatments

Pillar 4
Support in health crises

Pillar 5
Dream fulfillment

Pillar 6
Reuniendo Familias program

During the COVID-19 pandemic, airlines worldwide played a very significant role in the timely and efficient air transportation of humanitarian aid. According to United Nations statements, border closures and flight cancellations affect the availability of basic products and medicines throughout countries. Hence, coordinated efforts between the public, private and civil society sectors for the transportation and distribution of these products are essential.

Commercial airlines have the greatest immediate capacity range. Global air connectivity allows humanitarian aid to quickly reach emergency locations. Similarly, after a health emergency, natural disaster or otherwise, airlines help reactivate the tourism industry in affected areas by transporting tourists from all over the world.

During 2020, we activated our *Avión Ayuda Volaris* program to transport volunteers, health personnel and humanitarian aid, such as biosecurity material, aimed at making sure that COVID-19 first responders had the necessary supplies to continue helping those in need.

Through 42 strategic partnerships created with governmental institutions, private companies and NGOs, we transported more than 45 tons of cargo for humanitarian purposes and granted more than 135 airplane tickets to more than 25 cities in the country.

2020 Strategic Partnerships

Governmental institutions

- Secretaría de Relaciones Exteriores de México
- Instituto Mexicano del Seguro Social (IMSS)
- Fundación IMSS
- Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado (ISSSTE)
- Centro Nacional de Trasplantes (CENATRA)
- Secretaría de Salud de Baja California
- Secretaría de Turismo del Estado de Yucatán
- Secretaría de Turismo del Estado de Quintana Roo
- Secretaría de Turismo del Estado de Baja California Sur
- Secretaría de Turismo del Estado de Oaxaca
- Secretaría de Turismo del Estado de Guerrero
- Gobierno Municipal de León, Guanajuato
- Gobierno Municipal de La Paz, BCS
- Gobierno Municipal de Los Cabos, BCS
- Gobierno Municipal de Mérida, Yucatán
- Gobierno del Municipio de Puerto Vallarta, Jalisco
- Consulates of Costa Rica and Mexico

Non-Governmental Organizations

- Cruz Roja Mexicana
- Fundación Mexicana para la Salud, A.C. (FUNSALUD)
- The Code- ECPAT
- Airlink
- CADENA A.C.
- FUCAM, A.C.
- Sinibí Jípe
- Arise MX
- Causa en común A.C.
- *Aviation Sans Frontières*
- ADRA Internacional
- World Vision Humanitarian Aid
- Desértica A.C.
- Fundación CIE (#TogetherWithTablets)
- Fundación ALMA
- Rescate Animal, A.C.
- Fundación Dr. Sonrisas
- Amigos de Sian Ka'an

Private Companies

- Grupo Herdez
- Bonafont
- Head & Shoulders
- AXA Seguros
- Universal NBC
- Cross Border Xpress (CBX)
- Airbus Foundation

Some of the initiatives we carried out during 2020 were:

- We transported more than 20 tons of humanitarian aid from the **Mexican Red Cross** to over 15 states in the country. Besides, we joined forces with the **Airbus Foundation and *Aviation Sans Frontières*** to transport, from Toulouse, France, more than 1.5 tons of medical supplies for the Mexican Red Cross.
- We supported the **IMSS** for the transportation of mechanical ventilators for patients with COVID-19 from Mexico City to Hermosillo, Sonora.
- We transported medical supplies for the ***Secretaría de Salud* in Baja California**, for the protection of the state's medical personnel.
- We joined efforts with the ***Secretaría de Salud* in Baja California** and the ***Secretaría de Economía Sustentable y Turismo*** to transport assisted ventilation equipment and medicines from Mexico City to Tijuana.
- We supported the **ISSSTE** by transporting 1.5 tons of medical supplies for hospitals in Monterrey.
- In collaboration with the ***Fundación Mexicana para la Salud*** (FUNSALUD), we transported intubation, bronchoscopy and protection coverings to the cities of Merida and Cancun for COVID-19 patients.
- We transported recycled plastic masks that **Bonafont** made in Guadalajara for their donation to public hospitals of the ***Secretaría de Salud*** in Baja California and Mexico City.
- We transported 3.5 tons of humanitarian aid, in coordination with **ARISE MX and AXA *Seguros***, for the ***IMSS-Bienestar*** clinics in the cities of Tijuana, Tuxtla Gutierrez, Tapachula, Monterrey and Oaxaca.
- Together with **Grupo Herdez** and the ***Secretaría de Turismo del Estado de Yucatán,*** we transported 3 tons of humanitarian aid for those affected by the hurricanes.
- In coordination with the organizations **CADENA and A.C. and Airlink,** we transported volunteers and humanitarian aid to attend to the sanitary crisis and to support communities affected by hurricanes DELTA, ETA, ZETA and Genevieve.
- In collaboration with the **FUCAM A.C.** association, we transported a patient and her doctor to undergo breast surgery.
- With the **World Vision Humanitarian Aid organization**, we transported more than a ton of health kits for those affected by the floods in Tabasco.

Moreover, through the coordinated efforts between the **National Transplant Center** and our successful protocol, we continued transporting organs and tissues for transplant purposes to different states of Mexico. In 2020, we transported 26 organs and tissues, a patient who received a cornea, and 12 doctors to deliver organs. For 11 years we have transported more than 344 organs and tissues that have saved the lives of hundreds of people in our country.

In addition, through our ***Reuniendo Familias* program** and in coordination with the immigration and consular authorities of both countries, we achieved that more than 500 migrants who were in Mexico and could not return to Costa Rica, their native country, due to the health contingency derived from COVID-19 and the closure of borders, returned home safely.

Initiatives for the Benefit of Communities

Rarámuri face masks initiative

One of the most significant consequences for the aeronautical industry caused by the COVID-19 pandemic was the lack of trust that Customers experienced in the face of possible infections, making it challenging to reactivate tourism. At Volaris, as a company committed to creating value for Mexico, we developed a project to restore trust and guarantee the security of the Customers' health, reactivate our operations and simultaneously, create economic value and provide empowerment to vulnerable groups of indigenous communities.

We took into account the recommendation issued by the World Health Organization, IATA and the Mexican health authorities regarding the use of face masks –mandatory since May– in airports and on-board aircraft as the main protective measure against the spread of COVID-19 in air travel.

Considering these factors, we partnered with the Sinibí Jípe association, which aims to create opportunities for the wellbeing and comprehensive development of the Rarámuri community women in the Sierra Tarahumara, who create clothing and crafts preserving traditional patterns and colors. Thus, we bought face masks handcrafted by these women, which impacted the airline's reactivation, improving, at the same time, the situation of the Rarámuri community.

"Working together with Volaris in 2020 has been one of the greatest challenges we have had at Sinibí Jípe. Volaris has a very creative team that put our inventiveness to the test and pushed us to overcome our barriers. From the bottom of our hearts, we thank them for considering us for this beautiful project."

Luisa Fernanda Martínez Ortega,
Sinibí Jípe Director

We gifted face masks made by Rarámuri women to our Customers when boarding their flight. Thus, we were able to protect our Customers' health, communicate a solidarity, care and empathy message with the community and create revenue for these women.

Achievements

1,500%
growth of Sinibí Jípe's exposure on social media

52% increase in interactions of Volaris biosecurity content; 17 more percentage points vs our competitors

200%
increase of average orders per month of Sinibí Jípe

We created jobs for more Rarámuri women; from 4 women working, now 20 produce face masks to meet demand

> *"This approach with Sinibí Jípe is very significant for Volaris, since it allows us to provide our Customers with a fundamental protective piece during the health contingency, as well as to collaborate with the development of a community facing exceptional challenges in our country."*
>
> **Holger Blankenstein,**
> Executive Vice President Airline Commercial and Operations

The campaign produced an advertising return on investment of **Ps. $849,762** for Sinibí Jípe

This partnership increased a positive attitude towards Volaris

Market share measured in on-board passengers increased **52%** in June

#TogetherWithTablets

The #TogetherWithTablets initiative was created by young Mexican students aiming to reunite patients hospitalized for COVID-19 with their families through video calls. Through tablet donations, patients can spend a nice time talking with their families, which improves their attitude and keeps them close to their loved ones.

We donated **50 tablets**, normally used by our pilots, to the #TogetherWithTablets initiative through the CIE Foundation, which contributed to reunite more than **1,250 families** separated by the COVID-19 pandemic at the Centro Banamex, INER and the Instituto Nacional de Ciencias Médicas y Nutrición Salvador Zubirán.

*"Volaris is proud of its mission to contribute to the economic development and wellbeing of the communities where it operates in Mexico. Since the health contingency began, we have created alliances with public institutions, NGOs, and private companies to transport humanitarian aid to more than 25 cities throughout the country. Today, we are extremely satisfied with this donation within the framework of our **Reuniendo Familias program**, a fundamental aspect of the Company's sustainability strategy."*

Enrique Beltranena,
President and Chief Executive Officer

3

Volaris **Performance**

Content

3.1. 2020 Financial and Operating Metrics Summary
3.2. 2020 Results
3.3. Corporate Affairs
3.4. Supply Chain
3.5. Environmental Protection and Climate Change Mitigation
3.6. Ambassadors' Relations, Practices and Wellbeing
3.7. Human Rights and Community Relations
3.8. Customer Wellfare, Privacy and Data Security

GRI 201-1

TR-AL-000.A, TR-AL-000.B, TR-AL-000.C, TR-AL-000.E

3.1. 2020 Financial and Operating **Metrics Summary**

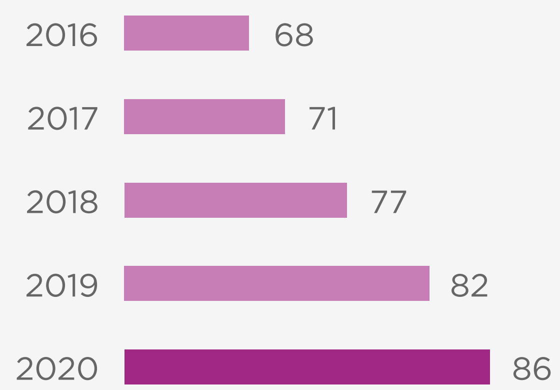
Audited* (In thousand of Mexican pesos, except otherwise indicated)	**2020** (U.S. dollars)*	**2020**	**2019**	**Variance** (%)
Total operating revenue (thousands)	1,110,828	22,159,591	34,752,672	(36.2%)
Total operating expenses (thousands)	1,273,927	25,413,187	30,397,249	(16.4%)
(Loss) operating income (thousands)	(163,099)	(3,253,596)	4,355,423	n/a
Depreciation and amortization	45,038	898,445	675,514	33.0%
Depreciation of assets by right of use	253,098	5,048,976	4,702,971	7.4%
Aircraft and engine rent expense	92,500	1,845,254	961,657	91.9%
Net (loss) income (thousands)	(215,242)	(4,293,791)	2,639,063	n/a
(Loss) earnings per share:				
Basic (pesos)	(0.21)	(4.20)	2.61	n/a
Diluted (pesos)	(0.21)	(4.20)	2.61	n/a
(Loss) earnings per ADS:				
Basic (pesos)	(2.11)	(42.03)	26.08	n/a
Diluted (pesos)	(2.11)	(42.03)	26.08	n/a
Weighted average shares outstanding:				
Basic	-	1,021,560,557	1,011,876,677	1.0%
Diluted	-	1,021,560,557	1,011,876,677	1.0%
Available seat miles (ASMs) (thousands) (1)	-	18,274,946	24,498,893	(25.4%)
Revenue passenger miles (RPMs) (millions) (1)	-	14,596,745	21,032,364	(30.6%)
Load factor (2)	-	79.9%	85.9%	(6.0) pp
Total operating revenue per ASM (TRASM) (cents) (1) (3)	6.2	123.5	142.2	(13.1%)
Passenger revenue per ASM (RASM) (cents) (1) (3)	3.5	70.4	94.4	(25.4%)
Operating expenses per ASM (CASM) (cents) (1) (3)	7.1	141.3	124.3	13.7%
CASM ex fuel (cents) (1)	5.1	102.7	76.6	34.1%
Booked passengers (thousands) (1)	-	14,712	21,975	(33.1%)
Departures (1)	-	97,819	138,084	(29.2%)
Block hours (1)	-	248,952	350,572	(29.0%)
Fuel gallons consumed (millions)	-	176.6	251.8	(29.8%)
Average economic fuel cost per gallon (3)	2.0	39.9	46.4	(14.0%)
Aircraft at end of period	-	86	82	4.9%
Average aircraft utilization (block hours)	-	11.30	12.94	(12.7%)
Average exchange rate	-	21.50	19.26	11.6%
End of period exchange rate	-	19.95	18.85	5.9%

*Peso amounts were converted to U.S. dollars at end-of-period exchange rate for convenience purposes only.
(1) Includes schedule and charter
(2) Includes schedule
(3) Excludes non-derivative financial instruments

GRI 201-1

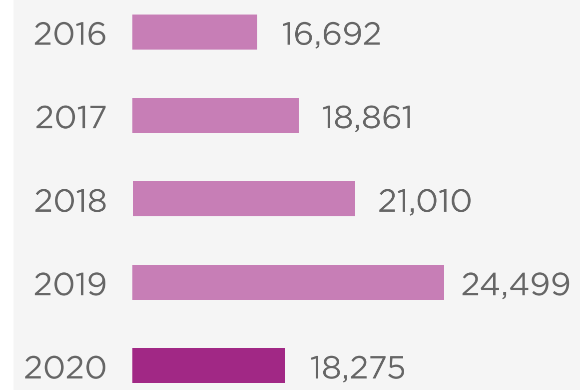
3.2. 2020 **Results**

Aircraft



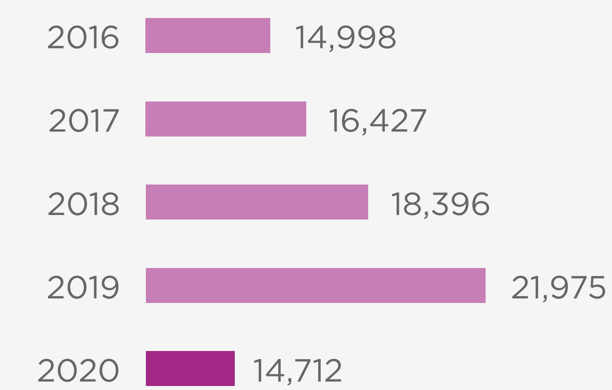
Available seat miles

(ASMs, millons)



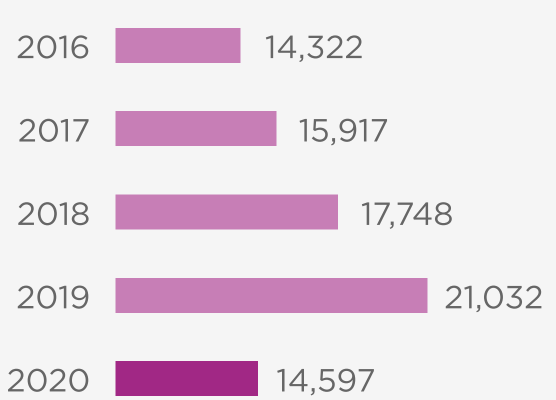
Booked passengers

(Thousands)



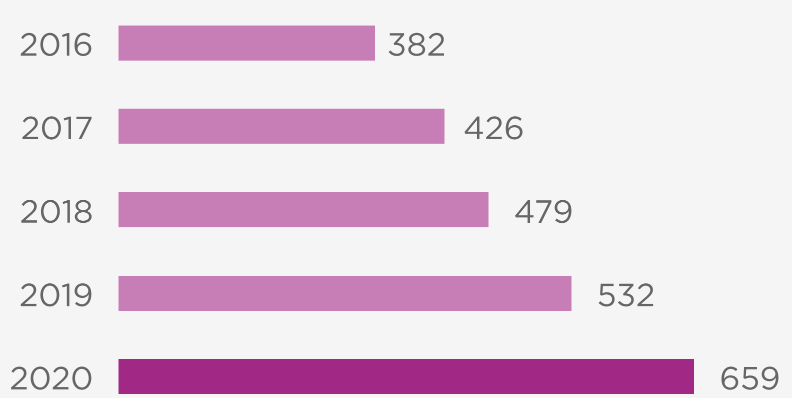
Revenue passenger miles

(RPMs, millons)



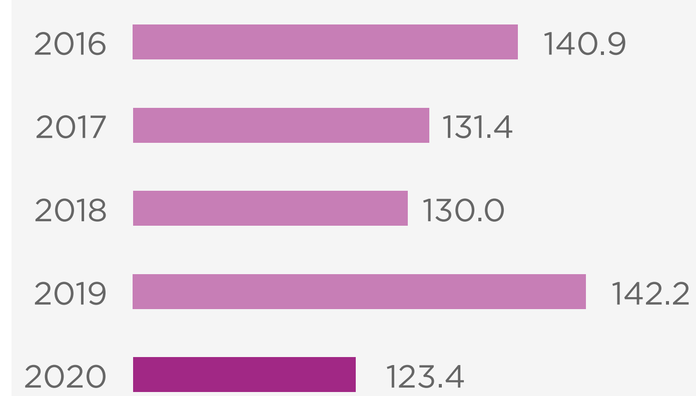
Total ancillary revenue per booked passenger

(MXN)



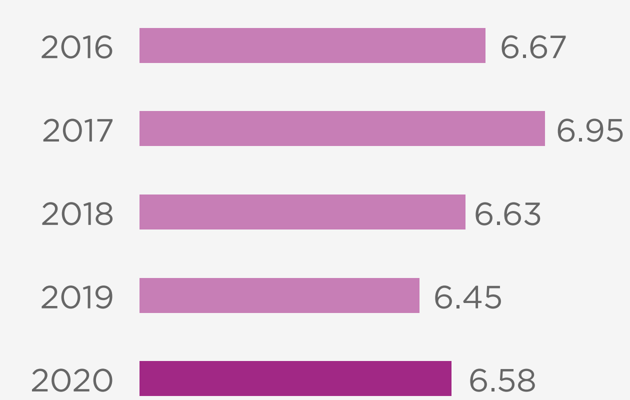
Total operating revenue per available seat mile

(TRASM, MXN cents)



Operating cost per available seat mile

(CASM*, U.S. cents)



*Peso amounts were converted to U.S. dollars at end of period exchange rate.

GRI 102-13

3.3. Corporate Affairs

Aviation is one of the most regulated sectors in the world. Airlines are constantly faced with a variety of standards and modifications set by government authorities or regulatory agencies to make the industry abide by global operational standards and best practices. In addition, the airline industry is part of a wide-ranging Value Chain, that creates benefits for the stakeholders involved.

Therefore, Volaris considers that political, geopolitical and social risks and opportunities are a priority, since the strict regulatory requirements may imply high adverse costs for the Company in the short, medium and long terms.

Volaris carries out its operations under a concession and permits granted by the Mexican state and other regulatory agencies in the destinations where we operate, so our influence on these stakeholders' decision-making is essential for the sustained profitability of the ultra-low-cost aviation industry and, specially, of Volaris in coming years.

Through the Volaris' Corporate Affairs Department, we develop and implement strategies to contribute to the decision-making processes of stakeholders, to manage the impact of political and social risks and opportunities, and to manage Volaris' corporate reputation. However, by adhering to anticorruption and transparency regulations, the Company does not make any type of economic or other contribution to political campaigns, political organizations, lobbying organizations, industry organizations for the purpose of intervening in public policy, or to any other organization of this nature.

We achieve all this through three pillars:

1. Helping to build public policy

Volaris is subject to regulations or changes in public policy in the countries where we operate. Hence, we strive to influence decision-making processes regarding regulations that directly or indirectly impact the industry in general, and Volaris in particular, by:

- **Developing strategic relationships:** we developed an agenda to approach and communicate with key players for Volaris, in order to represent the Company's interests in their decision-making process. This agenda considers the issues that interest the various stakeholders. The players that most influence the processes of Volaris Corporate Affairs are governments, society and its organizations (Ambassadors, Customers and communities); and the airline industry. Maintaining these relationships allows Volaris to be a company with a high capacity to influence the communities where it operates, thereby enabling us to successfully adapt to new regulations, at both local and federal levels.

- **Approaching key players:** approaching key players, such as regulators, public policy makers, and government authorities is a priority for the Company's future sustainability. This approach allows us to define and include in the public agenda the issues that are important for Volaris. Approach and negotiation activities with government agencies are carried out within the law and are regulated in our compliance policies, such as the Volaris Code of Ethics and the Anticorruption Compliance Policy and the Fraud Prevention and Control Policy, which include compliance with the Foreign Corrupt Practices Act (FCPA), through which we promote these relationships' transparency and honesty, as well as their execution with the best anticorruption practices.

2. Influencing decisions in the aviation industry

Volaris recognizes the importance of being part of the industry's decision-making process to provide continuity to the air transportation business, by representing the interests of all airline stakeholders. Consequently, **Volaris is a member of IATA (International Air Transport Association),** an international association that aims to represent, lead and serve the airline industry, through policy making on relevant issues to the sector. In addition, IATA promotes understanding of air transportation among decision makers, and awareness of the benefits that aviation brings to national and global economies. It also produces significant information for the industry and promotes best practices among its members worldwide. Volaris is a member of this association due to its leadership with stakeholders and its goals linked to Volaris' priorities, such as air transportation efficiency, the environment, security and protection of airline operations, involvement with government agencies, and other similar priorities.

3. Strengthening corporate reputation

The strengthening of Volaris' corporate reputation is based on our actions' transparency to approach and communicate with our stakeholders, aligning our Customers' interests and setting ourselves apart from our competitors. The importance of the proper implementation of corporate communication actions is that they allow Volaris to approach and influence stakeholders more effectively, since a good corporate reputation provides confidence and certainty to these groups. Besides, an effective brand-positioning strategy strengthens and contributes to the implementation of the Company's long-term vision.

Moreover, a good reputation contributes to a more effective mitigation of the impact from the crises the Company may face in the short, medium and long term.

In 2020, the most challenging year for the airline industry due to the COVID-19 pandemic, we positioned ourselves as one of the airlines with the highest recovery in terms of passenger transport worldwide. One of the actions that we carried out to achieve this and to contribute to the recovery of the domestic tourism and aviation sectors, was maintaining a constant approach, communication and coordination with government authorities, regulators and industry members. Through this approach strategy, we developed the pertinent actions to mitigate negative impacts related to the pandemic effects. Some of these actions were:

- Collaboration with government authorities for the creation and certification of our biosecurity protocols (Tourist Safety stamp of Mexico City, Best Sanitary Practices Certificate from the Government of Yucatan).
- Collaboration with government authorities and industry regulators to provide them with information and updates on the industry's condition in the context of the COVID-19 pandemic for decision-making.
- Collaboration with government authorities for the development of contingency plans in government offices, in order to speed up the preparation of procedures.
- We worked together with consumer protection authorities to ensure the best travel experiences for our Customers in the context of the COVID-19 pandemic and the new normal.
- We actively collaborated with the airline industry to work with government authorities and our suppliers in support and remediation plans for the Mexican airline industry due to the effects of the pandemic.
- Communication and coordination with local governments to contribute to tourism, through a collaboration tour with governors of Mexico's different states and discounts on plane tickets to stimulate the demand for travel in the country. With this initiative, we supported different stakeholders in the industry value chain, such as government authorities, state governments, hotels, restaurant owners, tourism operators, among others.
- Together with industry organizations, we worked with the Mexican congress to inform law makers about the situation in the airline industry and tourism in the context of the COVID-19 pandemic.
- We collaborated with immigration authorities and consulates to support the transportation of migrants affected by the border closure in the context of the COVID-19 pandemic in different destinations where we operate.
- We supported several federal and local government authorities, NGOs and other private companies to transport humanitarian aid to more than 25 states of Mexico, through our *Avión Ayuda Volaris* program.

In addition, we collaborated with the industry and government authorities in the project to redefine Mexican airspace, as well as in the airport infrastructure needs in Mexico.

GRI 102-9

3.4. Supply Chain

At Volaris, we are committed to the sustainable reactivation of the airline industry, creating value for all stakeholders. This is why we establish sound relationships with the suppliers that comprise the Company's value chain, mutually committing to act according to ethical principles, within the legal framework and according to the business' sustainable development."

Mauricio Horcasitas
Acquisitions Director

The 2020 pandemic tested our resilience and adaptability in all operations. One of our greatest challenges was responding to new requests and government changes in a timely manner; as well as ensuring our permanence in the market and increasing sales, guaranteeing that all our Customers travel safely. Hence, it is essential not only to strengthen commercial relationships with suppliers, but to include them in our culture and our commitment to Customers.

1,907 suppliers in 2020.

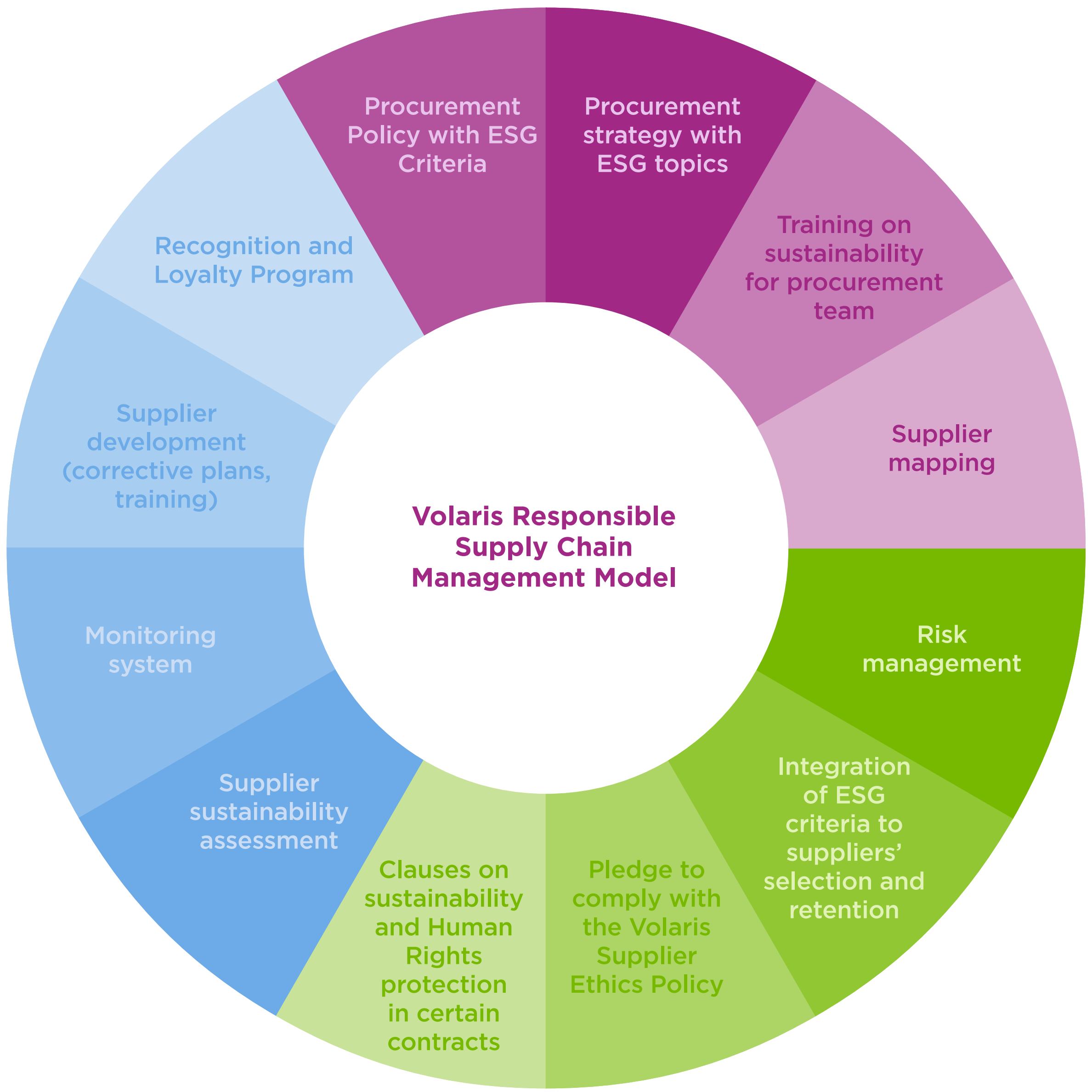
Responsible Supply Chain Management Program

We strive to be a trustworthy customer and to build solid and lasting relationships with our supply chain, promoting their business development and ensuring the supply of the goods and services we need as an ultra-low-cost airline to satisfy our stakeholders' demands. We seek to transcend commercial relationships with our suppliers, creating relationships of trust, transparency and respect that allow us both to grow and strengthen economic, ethical, social and environmental aspects, in order to comply with the law and create value for society and the communities where we operate.

In 2019, we detected the importance of having a **Responsible Supply Chain Management Program** and, as part of our 2020 Sustainability Strategy, we committed to implement this Program.

Therefore, we developed the Responsible Supply Chain Management Model, including all the aspects that are part of our virtuous circle, together with our suppliers, to strengthen our sustainable commitment.

The Model's main goal is to strengthen relationships and raise awareness among our suppliers on the importance of assuming a real commitment regarding ESG issues (environmental, social and governance) to create competitive value to support society.

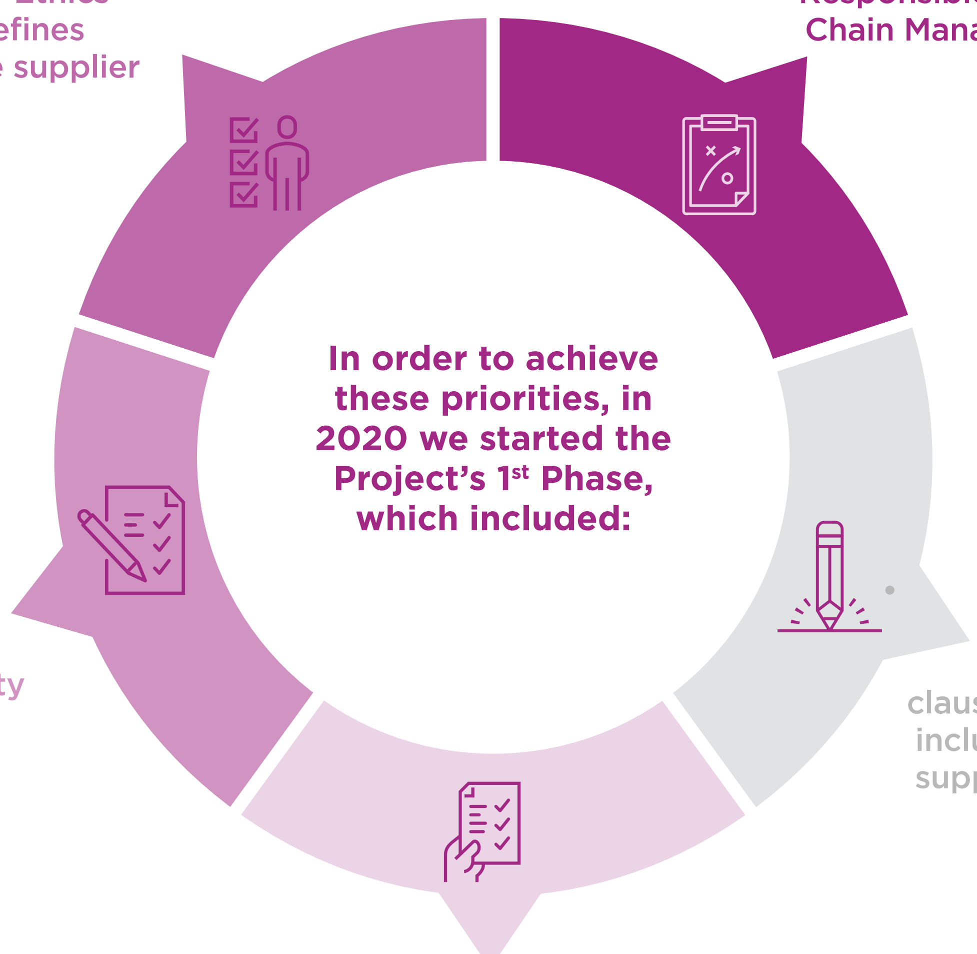


Our procurement strategy has five priorities:

1. Reduce cost and optimize resources, as well as maintain the highest operational efficiency standards.
2. Manage responsible the supply chain.
3. Adopt the best transparency mechanisms in all procurement operations.
4. Develop a resilient team and supply chain.
5. Implement the Responsible Supply Chain Management Program based on international standards and indicators.

We developed the Volaris Supplier Ethics Policy, which defines ESG criteria the supplier must observe.

We created the Responsible Supply Chain Management Model.



We established sustainability clauses that will be included in certain supplier contracts.

We defined sustainability criteria which will be included in the Procurement Policy.

We developed the sustainability assessment for suppliers.

Carry out a complete supplier mapping, as well as a risk management exercise to channel the Model's efforts according to their risk rating.

Apply the Procurement Policy with ESG criteria.

Train our Volaris procurement team on the importance of sustainability throughout the supply chain.

Include sustainability clauses in certain contracts and purchase orders.

Apply sustainability assessment to selected suppliers, according to the risk management exercise.

3.5. Environmental Protection and **Climate Change Mitigation**

As Mexico's largest airline in transported passengers, Volaris understands its great responsibility when conducting operations. In addition, due to the great challenges we have faced due to the COVID-19 pandemic, we are more committed than ever to the sustainable reactivation of the airline industry. Therefore, we ratify our commitment to protect the environment and mitigate climate change by implementing more and better strategies and goals to offset our operations' environmental footprint and meet our commitment to become the "greenest airline in Mexico."

A few years ago, the aviation sector agreed to establish strategies to reduce CO_2 emissions for the coming years and thus, contribute to the industry's sustainable growth and development. In 2016, the United Nations International Civil Aviation Organization (ICAO) established the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) to enable the industry's shared objective on carbon-neutral growth. Similarly, the IATA set a target to reduce net CO_2 emissions in half by 2050, using 2005 emissions as the baseline.

GRI 301, 302, 304, 305, 306, 307: 103-1, 103-2, 103-3

#cielitolimpio Comprehensive Environmental Protection Policy

Mexico was one of the countries that committed to implementing measures that mitigate greenhouse gas emissions during the COP21 in Paris, France. Therefore, regulations were established in the country for this purpose, such as the General Law on Climate Change, which came into effect in 2012 and establishes the creation of several public policy instruments. Among these instruments is the National Emissions Registry (RENE), which compiles information on emissions from the country's different productive sectors, and through which companies exceeding 25,000 t CO_2e (tons of CO_2 equivalent) must report their direct and indirect greenhouse gas emissions.

The Planet Care Focus, which is one of the pillars of our Corporate Sustainability Program, establishes the actions that we plan to implement to comply with domestic and international environmental agreements, mitigate the effects of climate change, and to contribute to the Sustainable Development Goals. By meeting these goals, we will be able to reduce the negative impact on the environment created by the aviation industry, thereby guaranteeing the benefits of air transportation for future generations.

We are committed to promoting a culture where quality, operational safety, emergency response, aviation security, occupational health and safety and environmental protection are essential operating priorities.

GRI 302: 103-1, 103-2, 103-3
GRI 302-1, 302-3, 302-4, 302-5, 305-5, 305-4, 305-5
TR-AL-110a.2, TR-AL-110a.3

Efficient fuel consumption management (Fuel Saving Program)

Volaris closely monitors fuel consumption, not only because of its economic impact, but also because it is through efficient fuel consumption that CO_2 emissions can be reduced.

In accordance with the goals for environmental protection issued by ICAO, our sustainability strategy considers that six out of ten aircraft will be eco-efficient by 2023. Moreover, this strategy places us as one one of the five airlines with the youngest fleet in North America, due to the changes in the technology of our aircraft.

Through efficient fuel consumption management with the Fuel Saving Program, the Company has reduced emissions (gCO_2/RPK) by **12.5%**, compared to 2015, which is equivalent to **35.8** million gallons of fuel saved and a reduction of 247,278 tons of CO_2 emissions. These savings are equivalent to over 69 thousand passenger vehicles driving during a year, more than 880 hectares of preserved forest and more than 351 million pounds of charcoal burned.*

We invest in technology to ensure efficient fuel consumption.

Fleet renewal and investment in the best technology

We have one of the youngest and most efficient fleets in the American continent; 86 aircraft with an average age of 5.3 years. In addition, **we invest in environmental efficiency state-of-the-art technology.** Each aircraft has 188 seats on average and 79% are fitted with sharklets.

In accordance with our ultra-low-cost strategy and our commitment to become **the greenest airline in Mexico,** we have steadily increased the number of Airbus A320neo Family aircraft. In 2020, we acquired **seven** to our fleet.

Volaris was the first NEO aircraft operator in North America.

*Equivalences obtained from: https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator

Airbus A320neo Aircraft

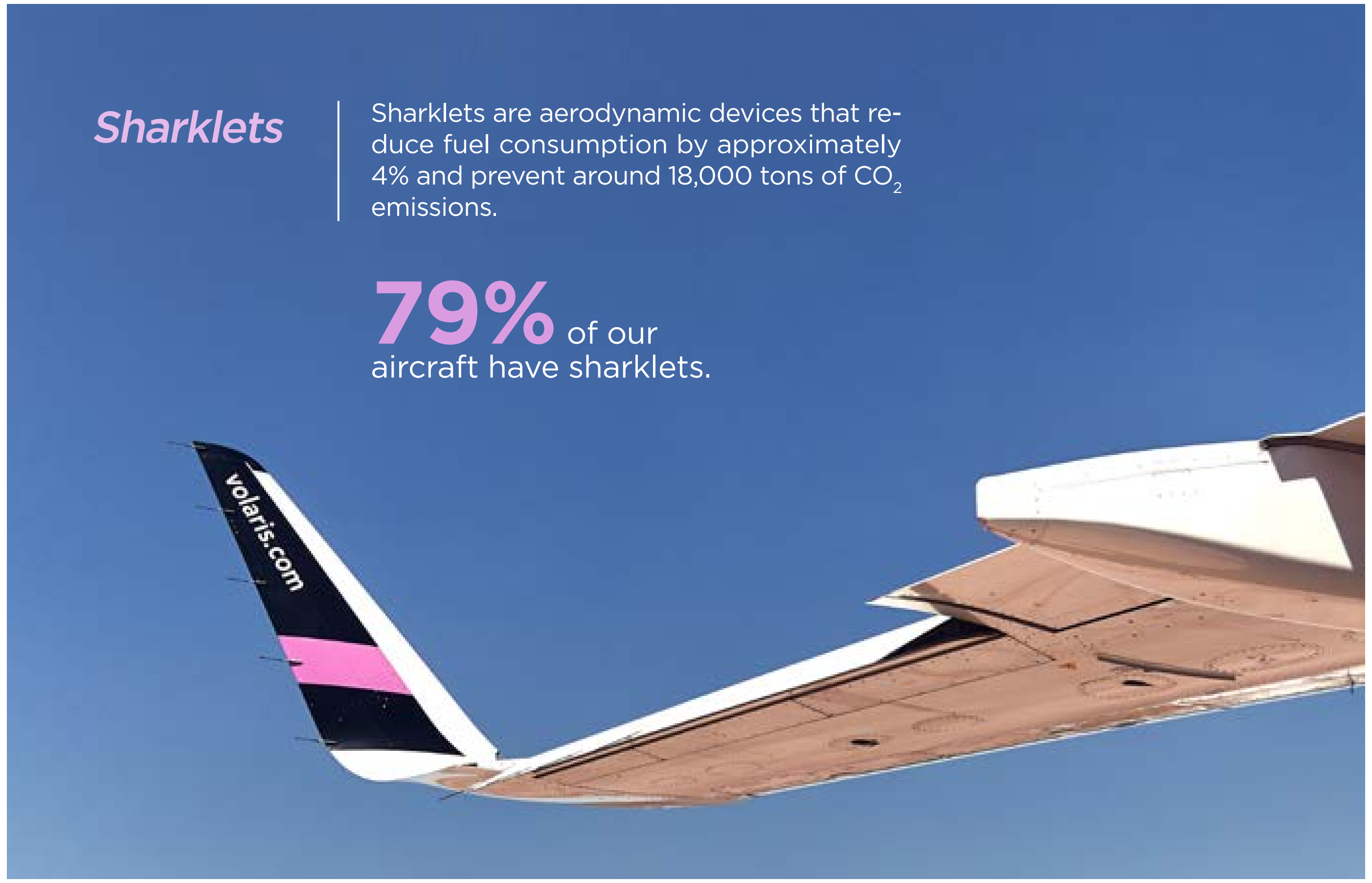
We increased the number of Airbus NEO aircraft, which have eco-efficient engines and sharklets. They reduce annual fuel consumption by over 15%, as well as CO_2 emissions by 5,000 tons and NOx gases by 50% per aircraft. Furthermore, they decrease sound footprint by 75%, compared with previous units.

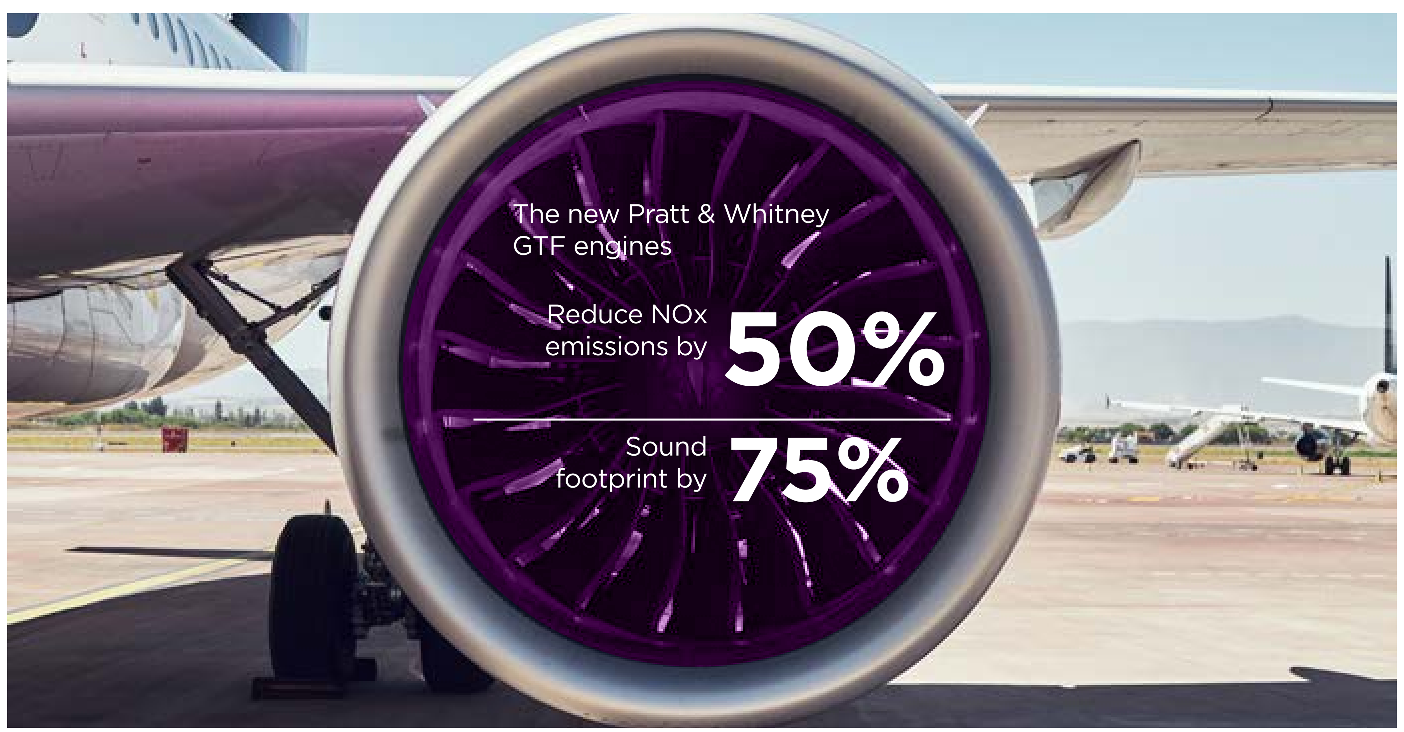
Pratt & Whitney GTF engines

During 2020, we closed a purchase contract with Pratt & Whitney for 171 Geared Turbofan (GTF) engines for the Airbus A320neo Family aircraft that we will receive between 2023 and 2028. With this acquisition, we will further reduce fuel consumption, CO_2 and NOx emissions, as well as the sound footprint. We will also increase the range of each aircraft to approximately six hours.

With this purchase, we are among the three most cost-efficient airlines worldwide.

GTF Microsite: https://pwgtf.com/
PW1100G-JM Brochure: https://pwgtf.com/wp-content/uploads/2018/07/PW_GTF_PW1100G_JM.pdf
P&W's GTF Website: https://www.pw.utc.com/products-and-services/products/commercial-engines/Pratt-and-Whitney-GTF-Engine/





Achievements and Goals

NEO fleet

2019:
28% of our fleet was NEO

2020:
35% of our fleet is NEO

2023:
58% of our fleet will be NEO

Fuel savings

2019:
-11.6% fuel consumption (gal/ASM) in 2019 vs 2015
33 million gallons of fuel saved in 2019 vs 2015

2020:
-16.9% fuel consumption (gal/ASM) in 2020 vs 2015
35.8 million gallons of fuel saved in 2020 vs 2015

2026:
-22% fuel consumption (gal/ASM) in 2026 vs 2015
126 million gallons of fuel saved in 2026 vs 2015

CO_2 emissions

2019:
-13.5% gCO_2/RPK emissions in 2019 vs 2015*
Reduction of **383,280** tons of CO_2 emissions in 2019 vs 2015*

2020:
-12.5% gCO_2/RPK emissions in 2020 vs 2015*
Reduction of **247,278** tons of CO_2 emissions in 2020 vs 2015*

2026:
-23% gCO_2/RPK emissions in 2026 vs 2015*
Reduction of **1,333,400** tons of CO_2 emissions in 2026 vs 2015*

*We use 2015 as a baseline, since this year we began to replace our fleet with the Airbus A320neo and A321neo Family aircraft.

"Consistent with the goals set by the organizations of the airline industry for climate change mitigation, at Volaris, we are more committed than ever to defining ambitious goals for the reduction of CO_2 emissions and the adoption of best practices to reduce the environmental footprint of our operations."

José Luis Suárez,
Senior Vice President and Chief Operating Officer

Other fuel-saving techniques

Furthermore, we apply several fuel saving techniques, such as:

Reduced use of Auxiliary Power Unit (APU)

In 2020, we used aircraft APU for 43.4 minutes per operation, -11.8% compared to 49.24 minutes per operation in 2019, saving the burning of 718,500 gallons of fuel.

Route optimization

In 2020, through smart models such as Storkjet's Fuel Pro, which allow us to monitor each consumption parameter, and other systems that allow us to plot more optimal routes, we reduced navigation miles by 1.2% per flight on Volaris' most important routes; with these shorter routes we saved 1.76 million gallons of fuel.

Additional fuel reduction

In 2020, through more efficient flight plans and with a holistic measure of the necessary fuel, flight dispatchers and pilots at Volaris reduced the unnecessary fuel load by 400 kg per flight, which saved us transporting 39 thousand deadweight tons, while maintaining the same safety standards, that would have represented a fuel consumption of 718,500 gallons during the year.

In the coming years, Volaris plans to increase its investment in order to implement models that analyze human behavior and other systems that provide real-time recommendations to optimize navigation.

Optimization also occurs in air navigation, as Volaris has managed to reduce our routes' navigation miles by **2.5%** in 2020, equivalent to **18 nautical miles** on each flight.

Onboard weight reduction initiatives

We seek to reduce the weight onboard the aircraft, aiming to make operations even more efficient and reducing the environmental footprint.

Thus, during 2020, we restructured the management and offer of onboard services: we reduced the products with the least sales, we modified the onboard trolleys to reduce their weight and we acquired new, lighter ones. Likewise, our aircraft have no entertainment systems or kitchens.

We acquired **140** new onboard lightweight trolleys, which reduced greenhouse gas emissions. In 2020, **we saved 1,048,181 ton CO_2** vs 766,520 ton CO_2 in 2019.

Also, in order to reduce onboard weight even further, we signed a contract with premium seat manufacturer Recaro to supply the seats for 80 new aircraft on order and scheduled for delivery between September 2023 and 2028. These seats weigh **30% less**, which will result in fuel savings of nearly **32,000 gallons** per year.

#cielitolimpio Carbon Emissions Offset Program

Volaris is the first Mexican airline to create a partnership with the Mexican Carbon Platform (MéxiCO$_2$), which is certified by the United Nations, for the purchase of carbon credits.

We invite all of our Customers to purchase the #CielitoLimpio ancillary product and offset part of the environmental footprint caused by their flights. Customers interested in contributing to the environment can buy the #CielitoLimpio product when purchasing their ticket on the website www.volaris.com or in the Volaris app. This contribution is completely voluntary and the footprint can be offset by contributing 22 pesos on short routes, 32 on intermediate routes and 42 on longer ones.

The environmental projects that we support through the procurement of carbon credits create employment and technology implementation in areas with low economic development, contribute to the inclusion of vulnerable groups and promote a culture of environmental protection in the communities where they are developed. In addition, they ensure the viability of the aeronautical industry and the Volaris business in the future.

One of these is the project of biogas recovery, burning and use in Leon, Guanajuato. This project promotes the city's sustainable development by generating electricity with renewable fuel, while minimizing the harmful effects of waste. Additionally, it avoids the emission of 100,000 tons of CO$_2$ per year, which is equivalent to the environmental impact of 20,000 cars and the electricity used by 3,000 households.

In 2020, we purchased 807 certified carbon credits (tCO$_2$), thus offsetting 100% of 26 flights for the Mexico-Guadalajara route, and neutralizing the carbon footprint of 2,989 Customers.

#cielitolimpio

Since 2015, we have purchased **33,274 certified carbon credits** (TCO$_2$), offsetting **100% of 797 round trip** on the Mexico-Guadalajara route, neutralizing the carbon footprint of **123,189 Customers.**

We use an internal tool to calculate the number of compensated flights and the carbon footprint of "x" number of Customers who flew the route during the year, considering the tons of CO$_2$ per Customer to fly the route, the total number of flights on the route during the year, the total of Customers who flew on the route during the year and the total of certified carbon credits purchased during the year.

For more information about how to offset the carbon footprint of flights, visit: **https://cms.volaris.com/es/informacion-util/servicios-opcionales/cielito-limpio/**

GRI 301, 304, 306: 103-1, 103-2, 103-3
GRI 301-2, 306-4

Environmental initiatives and Efforts Directed to Biodiversity

The #CielitoLimpio Comprehensive Environmental Protection Policy is cross-sectional in many areas of the Company.

At Volaris, we are committed to contributing to the planet's protection by reducing waste generation and ensuring its proper management. Some of the initiatives that we have implemented in the Company to fulfill this commitment are:

1. Saving paper through mobile check in, our Paperless Policy, as well as efforts to reduce the use of paper and plastics in our marketing campaigns
2. Paper recycling
3. Waste management in our corporate offices
4. Onboard service
5. Reduction in electricity consumption
6. Strategic partnerships for the environment

1. Paper saving

Mobile Check-in

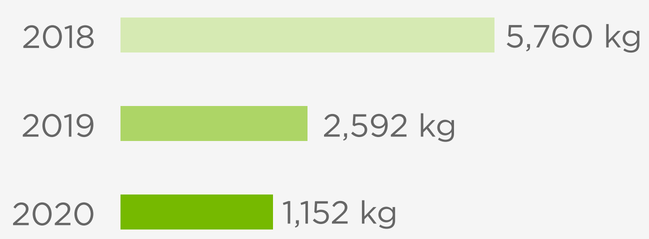
Aiming to reduce waste in our operations, we carry out campaigns encouraging Customers to use mobile check-in every time they fly with us. With this initiative, in addition to making the registration process more efficient, we reduce paper consumption, since our Customers do not print their boarding passes.

During 2020, **38%** of our Customers check-in via a mobile device, equal to **25.96 ton** of paper saved.

Paperless Policy

In 2019, the Paperless Policy was implemented in our corporate offices with the goal of reducing paper and printing consumption. This policy establishes that only Ambassadors that need to print obligatorily, due to their functions, will have printing permits. Thereby, we seek to reduce paper consumption in the office, ink use and energy of printers, as well as to contribute to the environment's protection.

a. Paper consumption in corporate offices



*During 2020, paper consumption decreased not only due to the initiatives implemented, but also because of the reduction in operations as a result of confinement caused by the pandemic.

b. Marketing and market development

95% of the contracts for the Company's marketing strategy are digital services like screens, among others, in order avoid printing material for advertising campaigns. In addition, we seek that all advertising materials –banners, flyers, tents, inflatables, posters, among others– are increasingly environmentally friendly. We migrated to electronic media and used recyclable materials in physical advertising.

In addition, starting in April 2020, we changed our onboard magazine to digital format in order to comply with our biosecurity protocols and contribute to the environment's protection. With this initiative, we saved **103.68 tons of paper.**

+144 tons saved trees

2,460 saved trees

+3.8 million liters of water saved

2. Paper recycling

Every month, we collect confidential and/or sensitive paper from different offices to be weighed and destroyed safely, for which we have a supplier. The supplier collects this paper and takes care of its proper destruction.

During 2020, we ensured proper destruction and recycling of:

2,600 kg of paper

=

44.2 saved trees

+68 thousand liters of water saved

3. Waste management

At our headquarters, we have waste separation cans for proper waste management. During 2020, we promoted changing their identifiers, so that the Ambassadors could separate their waste correctly. Likewise, we carried out internal communication campaigns to raise awareness among administrative staff about the correct waste separation processes.

We have the **2021 objective** of executing the waste separation and recycling management program, where we will seek a supplier to collect waste and ensure its recycling. Thus, we will begin training the cleaning staff, who will have an important role in the proper handling of waste to deliver it to the supplier. Proper waste management and cleaning will consist of:

- Removing caps and labels from PET (plastics) and wash them, so they are completely clean.
- Removing corks from cans, crush them and wash them, so they are completely clean.
- Paper that does not have confidential Company information will be stacked and delivered to the supplier.
- Cardboard will be cleaned, stacked and delivered to the supplier.

2021 additional goals:

- The supplier will provide training for Ambassadors, which will include how to recycle at home and thus, increase this initiative's scope.
- Regular training for Volaris cleaning and maintenance staff on waste management.
- Performing an activity where the money collected from recycling waste is donated for environmental activities, such as reforestation or social projects that create value for the community.

By 2022, we will seek to expand this program to offices located in the International Airport of Mexico City, Tijuana, Cancun, Monterrey and Culiacan.

4. Onboard service

We strive to operate with products that are increasingly friendly to the environment in our onboard services. Consequently, we changed **100%** of the coffee cup lids and forks that we use in onboard service from plastic to biodegradable materials, and currently all our coffee mixers are made of wood, reducing plastic waste.

2021 goal: changing **100%** of plastic cups to biodegradable materials.

5. Reduction in electricity consumption

Due to the COVID-19 pandemic, most of the year our Ambassadors worked from home to protect their health. As a result, in 2020 there was a significant reduction in electricity consumption in our corporate offices.

352,422 kWh
Electricity consumption in corporate offices;
37% reduction vs 2019.

Through our relationships with airport suppliers and a joint investment of **$5** million dollars in **land energy generators.**

6. Strategic partnerships for the environment

For several years, we have worked with associations that perform actions toward biodiversity. Specifically, we work with the organization Amigos de *Sian Ka'an* to strengthen the biodiversity project in the Sian Ka'an Biosphere Reserve in Quintana Roo, through the donation of plane tickets.

Despite the fact that in 2020 we were unable to carry out voluntary work activities with Amigos de *Sian Ka'an* due to the COVID-19 pandemic, we maintained this alliance and will seek to reactivate it during 2021, in order to create environmental and social value in the communities where we operate.

amigos de Sian Ka'an
ACCIONES POR LA NATURALEZA

7 plane tickets donated to Amigos de Sian Ka'an, which were used for meetings, researchers' transport and fieldwork related with this project.

GRI 305, 307: 103-1, 103-2, 103-3
GRI 305-1, 305-2, 305-4, 305-5
TR-AL-110a.1

Regulatory Compliance

Emission reporting

Greenhouse gas emissions (GHG) are the aviation sector's main environmental impact; therefore, we focus our efforts on mitigating the environmental footprint.

A few years ago, the aviation sector agreed to establish strategies to reduce CO_2 emissions for the coming years and thus, contribute to the industry's sustainable growth and development.

In 2016, the International Civil Aviation Organization (ICAO) established the Carbon Offset and Reduction Plan for International Aviation (CORSIA), with the aim of achieving carbon neutral growth in international aviation emissions from 2020 (scope 1). Likewise, IATA established three objectives to reduce carbon emissions: 1) improve fuel use efficiency by 1.5% on an annual average, from 2009 to 2020. 2) stabilize emissions with neutral growth from 2020, and 3) reduce net CO_2 emissions in half by 2050, using 2005 emissions as a base.

In 2020, we successfully completed the first international emissions verification under CORSIA. We present the 2019 international emissions report to the Federal Civil Aviation Agency (AFAC). In the coming years, with the recovery of the industry, we will be attentive to the emission requirements to be offset under the CORSIA scheme.

The impact on the air sector due to the COVID-19 pandemic led to a significant reduction in emissions,thus, the industry requested ICAO to modify the 2019-2020 baseline established for CORSIA and consider only the year 2019, in order to mitigate the economic impact.

Likewise, to comply with the General Law on Climate Change, of Mexico, we report national emissions (scope 1) resulting from our operation and emissions from other sources (scope 2) through the National Emissions Registry (RENE), which gathers information on GHG emissions from several productive sectors in Mexico.

Along with the aeronautic sector, we have developed strategies to reduce CO_2 emissions and we report them under CORSIA and RENE guidelines.

12.5% reduction in gCO_2/RPK emissions vs 2015, which is equivalent to **35.8** million gallons of fuel saved and a reduction of **247,278** tons of CO_2 emissions. These savings are equivalent to more than 69 thousand passenger vehicles circulating during a year, more than 880 hectares of preserved forest and more than 351 million pounds of charcoal burned.*

Volaris México Y4

National emissions (RENE) 2019[5]

Scope 1	Scope 2
1,718,212.10 ton CO_2	335.09 ton CO_2

International emissions (CORSIA) 2020
Scope 1
377,750 ton CO_2

Volaris Costa Rica Q6

National emissions 2020
Scope 1
9 ton CO_2

International emissions 2020
Scope 1
20,666 ton CO_2

[5] In 2020, we presented the National Emissions Registry Report (RENE) before the Environment and Natural Resources Ministry (SEMARNAT), in which we reported our operations' results for 2019.
* Equivalences obtained from: https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator

GRI 306-3, 306-5

Hazardous waste management

Besides the RENE emissions report, we disclose hazardous waste management in our operations. In 2019, we ensured the proper disposal of 40 tons of hazardous waste –that had been created from aircraft maintenance and medical service activities– with Ministry of Environment and Natural Resources' (SEMARNAT) authorized suppliers.[6] Of these, 34 tons were incinerated, 4 tons were co-processed and 2 tons were confined.

We obtained the 2019 Tijuana and Mexico Annual Operation Certificate for Hazardous Waste, as they are categorized as a large generators of hazardous waste.

SISTEMA DE GESTIÓN INTEGRADO
NORMEX
CALIDAD Y AMBIENTAL
NMX-CC-9001-IMNC-2015/ISO 9001:2015
NMX-SAA-14001-IMNC-2015/ISO 14001:2015
REGISTRO: 003/SI

Working Group Green Team – ISO 9001 and 14001 Certifications

In 2014, we obtained the ISO 9001 and 14001 Certifications for the first time for some of our operational areas thanks to the creation of the Working Group Green Team. This team is responsible for monitoring and supervising the maintenance and improvement of all systems certified under ISO 9001 and 14001, and for promoting a culture of quality and environmental care.

This multidisciplinary group is coordinated by the Operations Engineering area and integrated by the areas of Dispatch, Crisis Management, Fuel, Industrial Safety, Corporate Affairs, Flight Operations, Cargo Operations, Flight Operations Engineering, Procedures and Standards Engineering, Real Estate Planning and Crew Control.

We continuously maintain and improve the Integrated Aviation Management System (IAMS). Therefore, in 2020, we renewed our ISO 9001/14001 certifications (which are valid until December 2023), and:

- We contributed to comply with applicable regulations, standards (IOSA/ISO) and those established by Volaris in manuals and complementary documents.
- We showed our Volaris culture where quality and continuous improvement is a priority in our operations.
- We showed our environmental protection culture by managing our waste and emissions.

[6] In 2020, we presented the National Emissions Registry Report (RENE) before the Environment and Natural Resources Ministry (SEMARNAT), in which we reported our operations' results for 2019.

ISO 9001/14001 Certifications Scope

Due to the excellent management of the cargo operations, crew planning and operations engineering processes, in 2020 we renewed the scope of the ISO9001/14001 certifications, after being evaluated for the third time by the surveillance audit in charge of the Mexican Society of Standardization and Certification (NORMEX).

- We renewed the certification of the Integrated Management System according to ISO 9001:2015 for the processes of the Operations Control Center (OCC) and the Crisis Management Department, as well as the administrative procedures of the flight attendant organization and the fuel saving program.
- We complied with the ISO 14001:2015 standard in the processes of the fuel saving program and administrative activities at Volaris corporate offices.
- We maintained the certification's scope in the processes of Cargo Operations, Crew Planning and Operations Engineering processes, in compliance with the ISO 9001:2015 standard.

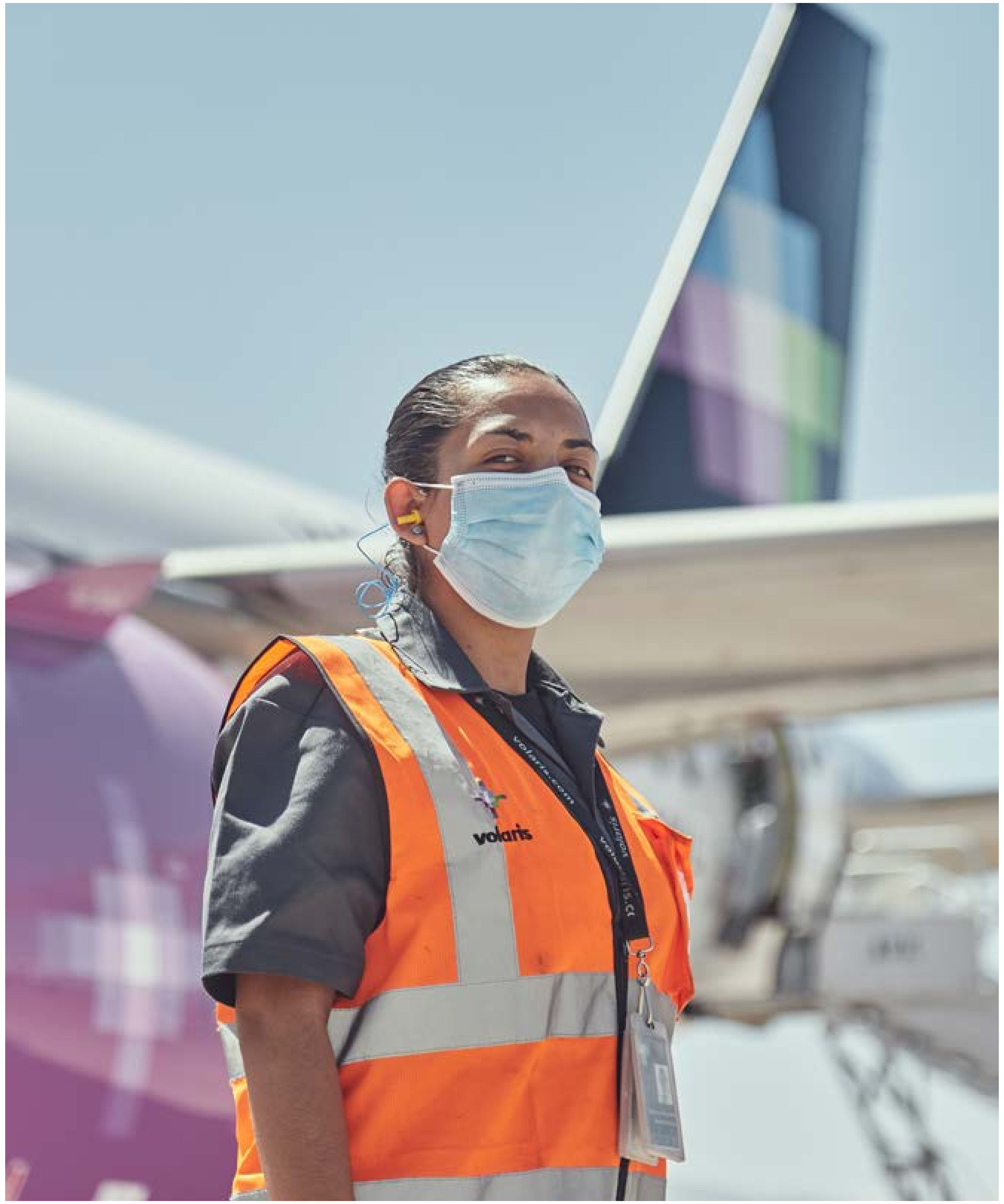
Comprehensive Policy

As an air transportation carrier, Volaris senior management maintains its commitment with all Customers and stakeholders to comply with all applicable regulations to the aviation industry, as well as standards adopted and/or established by the Company, which are an essential priority to guarantee: quality, operational safety, aviation security, Ambassador health promotion, and the prevention of environmental pollution.

Volaris is responsible for achieving a culture where quality, operational safety, emergency response, aviation safety, occupational health and safety and environmental protection are fundamental operational priorities; as well for as providing the necessary resources to achieve compliance with this policy and promote continuous improvement.

At Volaris, we accept errors as a human condition, but under no circumstances we accept negligence. Consequently, we have an immunity policy in place described in our Operational Safety Manual.

The regulatory policy for the Working Group Green Team is the IAMS (Integrated Aviation Management System) or Comprehensive Policy.



3.6. Ambassadors' Relations, **Practices and Wellbeing**

Equal Opportunities and Non-Discrimination

At Volaris, we are aware that inclusion and diversity in the aviation industry are key factors for the sector's recovery and sustainable development. Therefore, we continued to implement initiatives and made efforts in support of equal opportunities and non-discrimination, promoting inclusive and violence-free workspaces, where the professional and professional growth of all Ambassadors is ensured.

26% of women in management positions

87% of women in operative positions

1 female pilot for every 2 aircraft

[7] Source: https://airlines.iata.org/analysis/diversity-crucial-to-the-industry-restart

Women on Boards 2020 and Women Corporate Directors recognized us as one of the Mexican publicly traded companies with the highest percentage of independent female directors on the Board of Directors.

We have mechanisms to ensure equal opportunities and prevent any type of discrimination in all our processes and operations, such as:

- Person-centered Organizational Culture
- Code of Ethics and Whistle Blowing Line to report non-compliances
- Diversity and Equal Opportunities Policy
- Compensation Policy to ensure equitable compensation between women and men
- Maternity, Paternity and Use of Breastfeeding Rooms Policy and agreements with daycare centers

"During these 15 years, at Volaris I have seen a remarkable amount of support for women in all areas. I am very proud to witness how more and more women are working in places where they were not before. In hindsight, it is impressive how things have changed in favor of our development. When I started my professional career, there were very few women in key positions, now this is more common and fills me with pride and happiness."

Marta Maldonado,
Captain

Compensation for Volaris Ambassadors

Compensation at Volaris is primarily aimed at creating value for its shareholders, its Customers and Ambassadors. Hence, we have a General Compensation Policy closely linked and aligned with the Volaris' strategy, mission, vision and behaviors.

This Policy establishes the guidelines to define and develop the compensation strategy at the Company's different levels, providing, initially, equitable compensation, without any type of discrimination, according to the obligations, responsibilities, complexity and contribution of each position to the organization's results. Subsequently, it ensures a competitive compensation through participation in several salary surveys, with the aim of comparing our total compensation levels against the market and, thus, making sure we implement the best practices that create value for our Ambassadors and our shareholders.

The General Compensation Policy and related policies are reviewed by the Compensation and Nominations Committee, as well as by the Audit and Corporate Practices Committee and ultimately approved by the Board of Directors, based on their recommendation.

Total compensation as a concept includes not only salary compensation, but also benefits, provisions and emotional salary, the latter understood as the growth, development, working environment and conditions and, overall, the Ambassador's experience at Volaris, which together constitute the strongest bond between the Ambassador and the Company.

Our salary and benefits plan is competitive and exceeds the minimum required by law. The position with the lowest compensation in Volaris is 165% above the minimum salary and the ratio of total monthly compensation of women vs men is as follows[8]:

Level	Women's average base salary	Men's average base salary	Ratio
Executive level	244,439	246,416	0.99
Management level	102,450	111,014	0.92
Non-management level	33,427	33,975	0.98
Pilots	51,336	63,336	0.81
Flight Attendants	16,705	16,914	0.99
Maintenance	18,143	20,578	0.88
Airports	8,470	8,479	1.00

*Figures in Mexican pesos.
*Only the base salary is considered, benefits and variable compensation are not included.

Due in part to these efforts, we have been able to attract and retain the best talent and reduce our turnover rates significantly.

In addition, we strive for the Volaris Family's work compensation to allow our Ambassadors to improve their quality of life, produce social mobility and ensure their wellbeing and that of their families.

Ps. **$3,453** billion invested in salaries and benefits for Ambassadors in 2020.

Salaries and benefits:

- Major medical expense insurance for Ambassadors and immediate family*
- Life insurance for natural or accidental death
- Long-term and performance bonus
- Short-term incentive plan
- Vacation payment
- Electronic food coupons for unionized Ambassadors
- Vehicle allocation plan for vice presidents and directors
- Preventive medical check-up plan
- Retention and attraction bonus
- More vacation days than those established by Law
- More Christmas bonus than that established by Law
- Training programs
- Development and growth programs for Ambassadors
- December Overnight Program for Crew Members[9]
- Maternity and paternity leave,[10] use of breastfeeding rooms, special breastfeeding hours and agreements with daycare centers
- Administrative or unionized passes[11]
- Home office and flexible schedule scheme for administrative Ambassadors

"During 2020, we preserved the almost 5,000 jobs created by Volaris in order to contribute to the recovery of our business and tourism. This allows us to have the necessary human resources for our accelerated growth plans. Thank you to the entire Volaris Family for their continued support and commitment during these difficult times."

Martín González,
Human Resources Director

[8] This information corresponds to operations in Mexico, which is equivalent to 97% of Ambassadors who are part of the group of companies that comprise Volaris.
[9] On December 24 and 31, crew members have the right to travel with a companion on the designated flight where they will spend the night
[10] In 2020, 84 women and 42 men used this benefit; 72 women and 42 men returned to their jobs at the end of their leave and 58 women and 41 men were still in their jobs after one year.
[11] Airline tickets that do not have a temporality restriction or taxes payment.
*All Ambassadors have the right to insurance for the holder, spouse and children under 25 years of age. Traffic agents A and B only have insurance for the holder.

GRI 102-41
TR-AL-310a.1

Freedom of Association and Collective Bargaining

At Volaris, we respect the right to freedom of association and collective bargaining, so we continuously work with union representation to improve Ambassadors' wellbeing.

Ambassadors' union is the Union of Workers in the Aeronautical Industry, Similar and Related of the Mexican Republic (STIAS).

2020 Unionized Ambassadors

3,937 Unionized Ambassadors	76%	
353 Maintenance personnel	89 Land operators	907 Pilots
764 Airport personnel	1,824 Flight Attendants	

In 2020, we coordinated efforts with the STIAS to continue operating during the COVID-19 pandemic, since air transportation is considered an essential activity, prioritizing Ambassadors' life and health.

Specifically, our achievements in labor matters were:

- Maintain employment and preserve jobs.
- Reactivate crew operations by returning to operations in a new normal.
- Execute leave agreements with reduced salary for up to 90 days.
- Reactivate the 5x2 workdays in the maintenance area for returning to operations in a new normal.

  5x2 workdays refer to 2 days of rest for every 5 worked in a week.
- Suspend the collection of union dues for a period of 12 months to support our Ambassadors economy.
- Provide the STIAS with all the documentation and facilities required by Law to execute the legitimation of the collective bargaining agreement, in March 2021.

"

I am sincerely grateful with the union representing our Ambassadors, for its support and willingness to collaborate in the business' reactivation during these uncertain times we experienced derived from the COVID-19 pandemic. The wellbeing of the Volaris Family is invaluable. Together, we will continue to make flying accessible for everyone and to offer the best travel experiences."

Enrique J. Beltranena,
President and Chief Executive Officer

Regarding the actions we carried out due to the COVID-19 pandemic, we informed and coordinated with the STIAS the Ambassador division so they could return to the working centers. Likewise, together with the medical service and the Volaris industrial security area, we sought to prevent disease infections among our Ambassadors. The most important actions were:

- We have the Federal Government approval for the self-assessment of the health security protocol in all our working centers.
- Training and activation of the biosecurity protocol in all our flights and operations to ensure a safe flight; no Ambassador or Customer has been infected during our service.
- Periodic sanitation program in all working centers.
- Management and delivery of personal protective equipment (face masks, safety glasses and gloves), according to each job position.
- Facilities' adjustments (signs, social distancing markings, allocation of entrances and exits, as well as distribution of spaces).
- Participation in daily meetings with the management team.
- We made available to the Ambassadors gel alcohol (70°) and cleaning products for the working areas at different points of the facilities.
- Design and implementation of the COVID-19 online course, which was taught through the Volaris Corporate University, with the aim of complying with the biosecurity protocol and, through which, we imparted the actions to prevent and avoid COVID-19 infection chains. We used the courses' content from the IMSS educational platform (CLIMSS). 4,873 Ambassadors participated in the course lasting approximately one hour.
- Implementation of a sanitary filter for the identification of possible cases and their timely isolation.
- Direct communication with Ambassadors who reported COVID-19 symptoms, or who were positive for the disease, providing timely follow-up to each case.
- Preparation of the new normal manual, which specifies the rules, healthy coexistence guidelines, as well as infographics allusive to COVID-19, according to each position.

Talent Attraction, Development and Retention

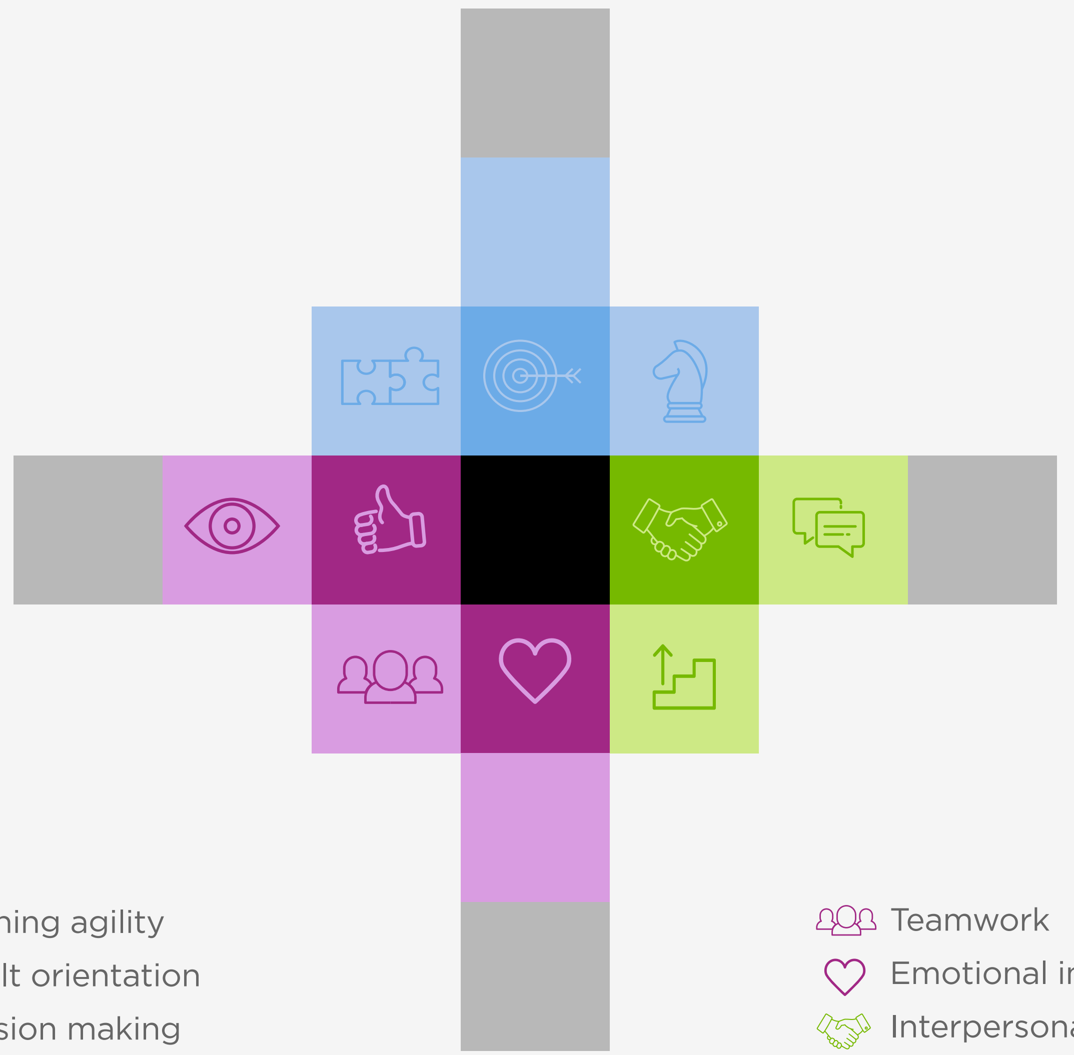
"2020 was a very challenging year for everyone, especially for an industry like ours that was strongly affected worldwide. The key was to be agile, proactive and focus our efforts on supporting and being close to our Ambassadors. With no incremental cost, the best talent and great leadership, we were able to quickly create and implement valuable initiatives to maintain our Ambassadors' professional development, increasing the time invested in development and leadership by 169% vs 2019."

Stephanie Amor
Talent Management and Leadership Development Manager

Volaris Competency Model and Talent Cycle

Volaris Competency Model

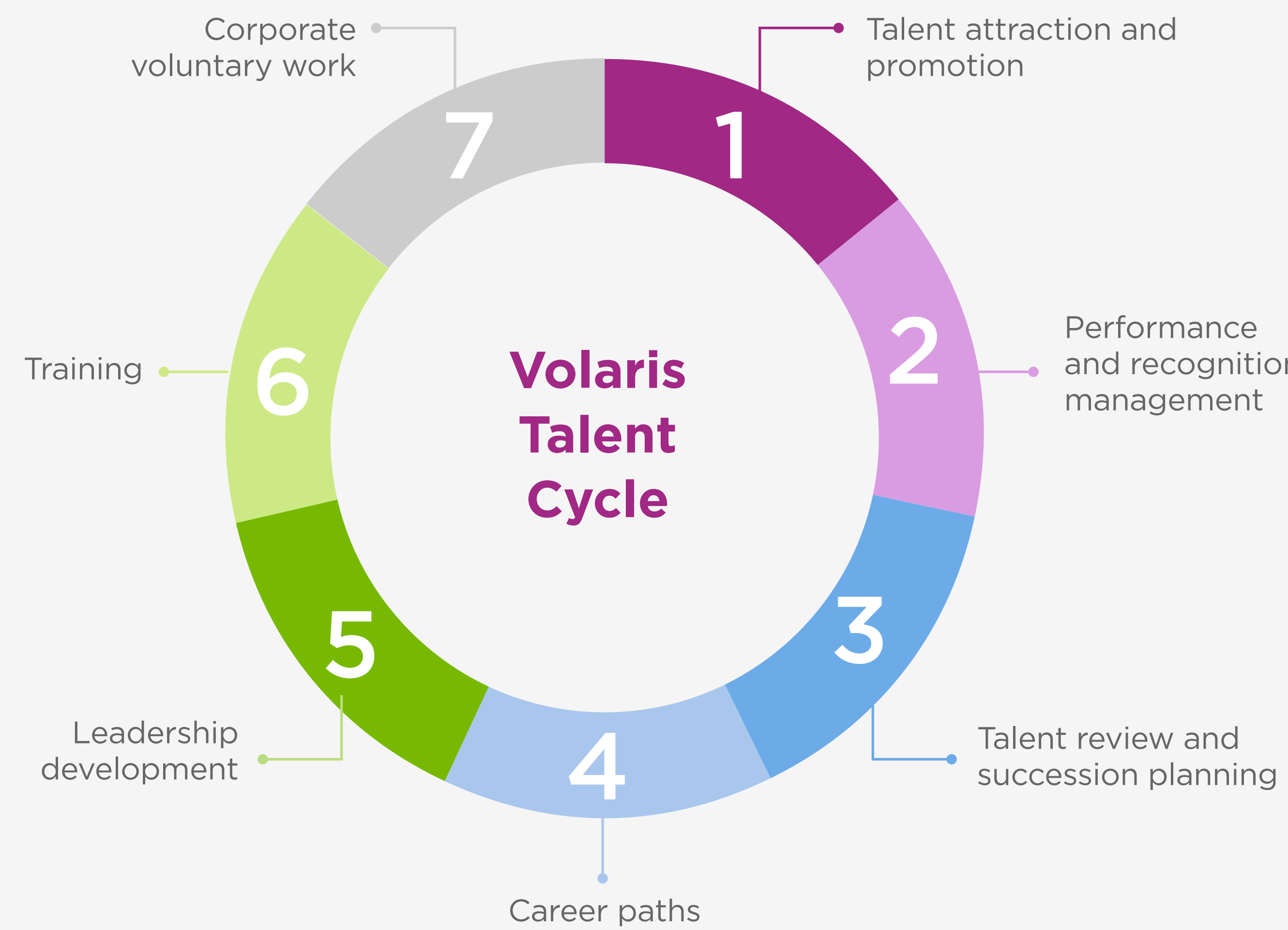
The **Volaris Competency Model** is a set of daily behaviors that Volaris expects from all Ambassadors. This Model was developed based on Volaris' profile and needs to achieve success and ensure the leadership development of Ambassadors. Together, the Model serves as a framework for standardizing the goals of the **Volaris Talent Cycle.**



- Learning agility
- Result orientation
- Decision making
- Business vision
- Resilience
- Teamwork
- Emotional intelligence
- Interpersonal skills
- Assertive communication
- Growth and development

Volaris Talent Cycle

On the other hand, the **Volaris Talent Cycle** is the set of development stages that Ambassadors must go through during their time in the Company; and includes 7 phases:

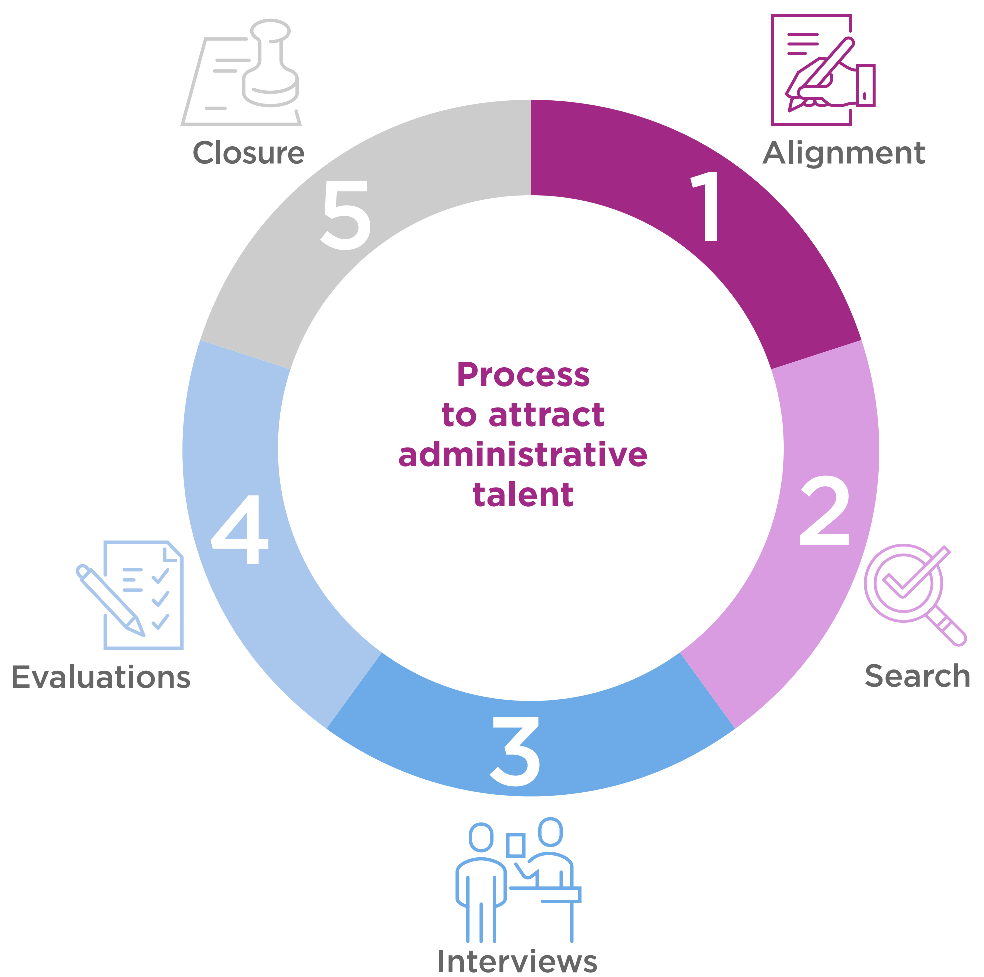


Each of the seven phases that make up this Cycle have different processes, initiatives and programs, which are explained throughout this Report.

Talent Attraction and Promotion

Talent Cycle

We strive to attract and retain the most competent and professional Ambassadors, with the precise abilities and skill set for the position; thus, we provide the best travel experiences and increase the Company's profitability.



Young Talent Attraction

At Volaris, we are committed with the professional development of our Ambassadors, creating unique and challenging career experiences. Through the **Development Galaxy program**, we attract and develop future Volaris leaders. Through this program we offer students, recent graduates or professionals with a few years of experience, the opportunity to work on high-impact projects for the Company and, thus, provide them with the tools and platforms to develop and boost their career and consolidate their professional and personal success. The programs we continued during 2020 were:

Novas. Program for college students
Through this program, which lasts one to two years, we attract and develop college students in administrative and operating areas (Aeronautical Engineering). In addition, they have the opportunity to participate in the talent seedbed for future vacancies.

26 interns
+ 30% VS 2019
12 women
14 men

***Satellites* trainee program**
Designed to attract and develop Volaris future leaders. It involves three rotations in different areas according to unique profiles and career interests, in which they can meet and learn from Volaris leaders, challenging their capabilities, unlocking their full potential and accelerating their professional development.

We closed the 2nd generation of trainees; two out of the three were hired.

Despite the complex year in the industry globally, we retained 9 trainees.

Internal Opportunities System (SOI)

Through this program we aim to offer the best internal development that encourages productivity, improves the quality of the service that we provide our Customers, and favors the creation of excellent travel experiences. The SOI program allows Ambassadors to apply for open positions, thus increasing their growth and development opportunities.

During 2020,

92 promotions
45 women
47 men

2020 New hires

538 positions filled
234 women
304 men

307 Crew members
139 women
168 men

119 Airport personnel
48 women
71 men

112 Administrative positions
47 women
65 men

Performance Management and Recognition

> *"The definition and measurement of business goals, aligned with Volaris' strategy and sustainability, allows us, as Ambassadors, to challenge ourselves and improve our performance, while growing and progressing professionally."*
>
> **Lucrecia Monsalvo.**
> Senior Manager Compensations and Organizational Effectiveness

We are convinced that, in order to provide the best travel experiences, we must have the best talent, which includes aligning our short, medium and long-term objectives with the Company's business and sustainability strategy. Therefore, we have a performance review process that measures and assesses essential components to ensure that the Volaris Family is in the best conditions to meet their goals.

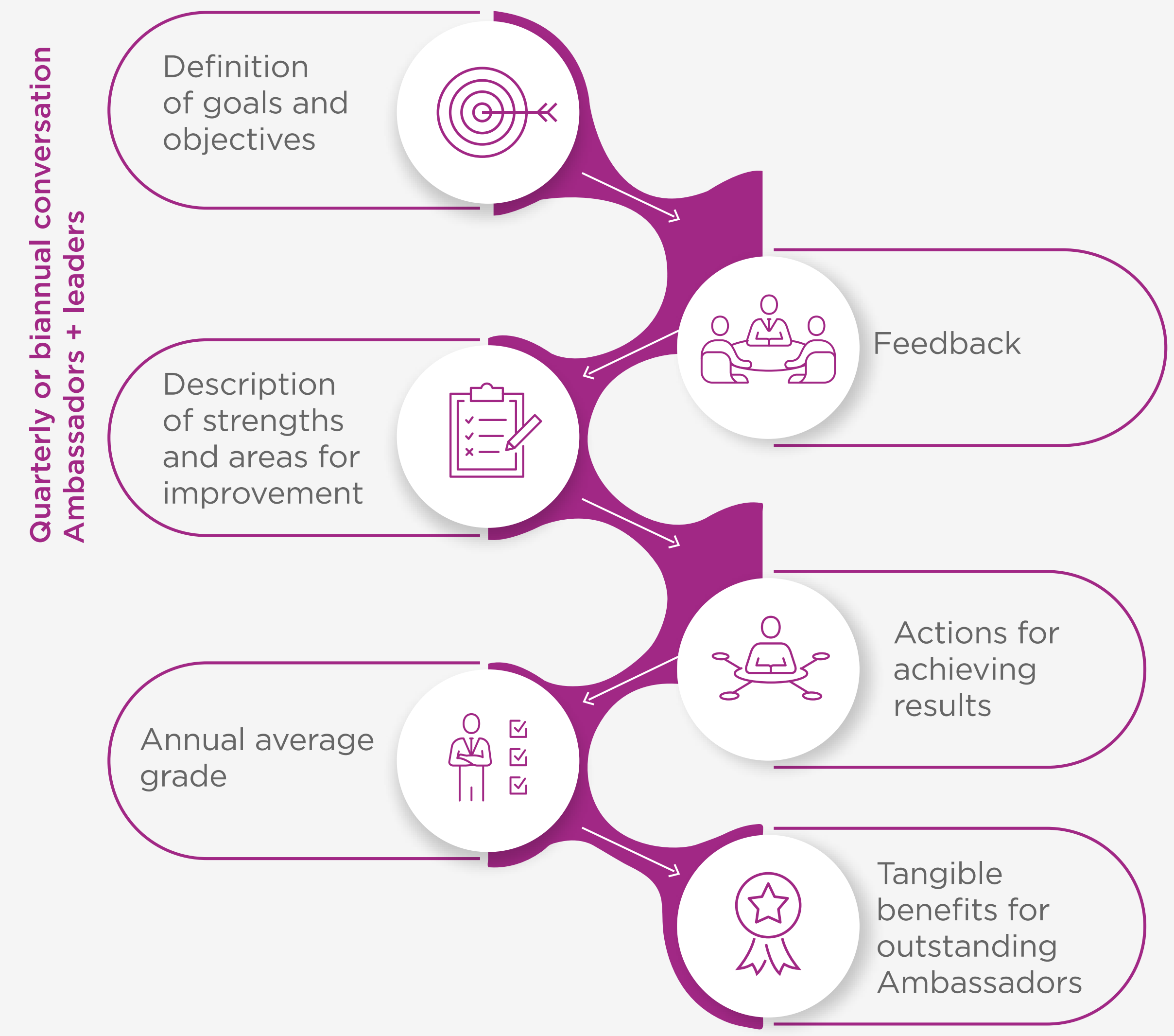
Performance management components

In 2020, 95% of the eligible administrative Ambassadors set up goals and completed performance reviews with their leaders, allowed us to stay focused on the Company's strategic objectives.

Our review process measures and analyzes performance consistently and transparently, which helps us identify and recognize those Ambassadors with exemplary achievements.

Every quarter, all Ambassador and their leaders hold a conversation and define their objectives and goals. During such meetings, Ambassadors receive feedback on their performance, strengths and achievements, areas for improvement, and if necessary, both parties discuss actions to help achieve better results.

Performance management process



In addition, every two years we carry out a 360° performance assessment, which includes the perception of the area leader, direct reports, peers and internal Customers. This assessment makes it possible to identify strengths and improvement areas to create individual development plans. In 2021, we will carry out the assessment from leaders to the senior management.

Performance

Alignment with the strategy
We are all going in the same direction.

Measuring improvement
We evaluate, compare and improve.

Clear objectives
I am clear on what to focus on and how this contributes to Volaris' success.

Development on the way
We enjoy the journey and learn and grow along the way.

Impeccable execution
I ensure the quality and warmth of my activities. I always stick to the Talent Cycle

Unbiased assessments
We follow the same evaluation standards; we have performance measurements that allow us to be consistent and transparent.

Productivity and efficiency
We achieve results by finding more efficient ways to reach them.

Success and sustainability
We guarantee the present and future success of Volaris by achieving results.

At Volaris, we use People Analytics* for the following practices:
- Measure Ambassadors' performance.
- Strategic planning of our workforce
- Identification of workforce skills gaps
- Identification of notice risks to improve retention
- Organizational Effectiveness Analysis

* People Analytics is a data-based research method whose aim is to study all the processes, functions, challenges and opportunities of the people who are part of a company.

Recognition Programs

At Volaris, we promote a culture of recognition because we believe that the great actions performed daily in our different working centers should not go unnoticed. Recognizing them increases worker satisfaction and motivates the implementation of best practices.

With this aim and to guarantee our Ambassadors' progress and comprehensive growth, we have developed a series of tools that ensure the recognition and satisfaction of the Volaris Family, depending on their performance and contribution to Volaris.

In 2020,

1,007 recognized Ambassadors — 43% women, 57% men

234 Ambassadors
Ambassador of the Month, for meeting operating metrics.

102 Ambassadors . *ULTRA OPS AWARDS* "Recognition of service and performance in dispatch, operational logistics and Operations Control Center"

671 Ambassadors in the corporate recognition programs

RECOGNITION
"Because our Culture lives through your actions."

SERVICE STARS
"Creating extraordinary stories together."

TRANSCENDING
"The sum of our efforts makes us fly higher."

Golden Planes
We created a remote awards gala to recognize those Ambassadors who showed the greatest commitment, resilience and who gave the extra mile to maintain the ongoing pace of operations during the pandemic.

180 recognized Ambassadors — 51% women, 49% men

Talent Review and Succession Planning

Talent Cycle 1 2 3 4 5 6 7

We seek the development and retention of our key Ambassadors to have the most prepared talent in the short, medium and long-term, thus ensuring the achievement of Volaris' objectives and sustainability through organic growth.

We believe in the development and growth of our internal talent to give continuity to the mapping and succession benches. Therefore, we carry out the talent review exercise, where Ambassadors are classified into different groups. Through this process we are able to identify specific development and improvement actions for each group and we ensure proper accompaniment and growth for our future leaders, as well as protecting key talent. In this review, we identify:

- Talent category for each Ambassador
- Development needs
- Key Ambassadors to be considered in succession benches for critical positions

Our talent review process takes place every two years. During 2020, we continued consolidating individual development plans derived from Talent Review, considering internal and external development efforts such as: coaching, mentoring, shadowing, functional / technical and soft skills training.

Career Paths

Talent Cycle 1 2 3 4 5 6 7

This program is focused on operating Ambassadors to show them the different alternatives they have for growth during their professional career at Volaris.

Your career, your development
This program offers the necessary information and tools to guide our Ambassadors in defining the professional goals they wish to achieve.

- **6** areas of the Operating Vice Presidency
- **+225** operating positions considered
- **+1,156** connections within area and among unions
- **+4,300** Ambassadors benefitted with the platform

Talent Cycle

Leadership Development

We continued internally with our development strategies and strive to protect key talent, in spite of the challenges brought by the pandemic.

At Volaris, we believe in developing our talent, ensuring that we have leaders prepared to face daily challenges, ensuring business continuity. In 2020, due to the challenges brought by the COVID-19 pandemic, the performance of our leading Ambassadors was essential to guide the work of the rest of their teams. Therefore, during the year, we carried out a wide array of programs to accompany our leaders in this process.

Since we were one of the industries most affected by COVID-19, we focused on creating development and accompaniment initiatives with no costs to raise awareness about the role and impact of Ambassadors and provide management tools for the new reality, as well as to continue achieving goals and having humane leaders who protect their teams.

Accompaniment Program for New Leaders. We are aware that transitions are key moments in the people's development and in the Company success. This program focuses on accompanying and developing new leaders –whether they just joined or had a another position within Volaris– to ensure that the learning curve for the new position is reduced and that the team dynamics are adequate.

In 2020,

44 Ambassadors participated

43% women
57% men

29% Operative

71% Administrative

Individual Leader Accompaniment and Development Programs. Aimed at those leaders with over six months in their position, focusing efforts through individual sessions of leadership development, coaching, team coaching, shadowing and mentoring, among others.

In 2020,

172 Ambassadors participated

35% women
65% men

43% Operative

57% Administrative

Leadership Webinars. Due to the extraordinary circumstances we faced during the year, we developed and implemented two webinars for all leaders, striving to raise awareness about the role and impact that each one has on their teams and at Volaris, as well as to provide them with management tools for the new reality of the job.

"Effective remote and humane leadership" Webinar

246 leaders and higher positions participated

738 hours

36% women
64% men

"Personal Leadership" webinar

102 leaders and higher positions participated

153 hours

55% women
45% men

Connection Fridays. We implemented this program that offers a personal connection space with a humane and completely confidential approach for Ambassadors. Through individual sessions and with an internal coach, we provide advice and tools to support them in several situations they may be experiencing and, thus, are able to calibrate their route in personal and professional matters.

In 2020,

116 Ambassadors participated

56% women
44% men

+89 individual coaching hours

"The COVID-19 pandemic allowed us to reassess our Ambassadors' priorities and needs. Our efforts to create wellbeing for the Volaris Family, such as accompaniment initiatives, talks on physical and mental health, as well as humanized and remote leadership tools, among others, allowed us to create value for our teams. 2020 taught us that, to restore our flight, we must protect and prioritize our Ambassadors."

Juliana Angarita,
Organizational Development Director

Leadership Academy for Administrative Personnel

To supplement our leaders' development, by early 2021, we aim to launch the app of the Leadership Academy for Administrators. It will be distributed through the web and app, since they are more practical and accessible means for our Ambassadors.

This app seeks to develop Ambassadors through our three training pillars: Culture, Leadership and Ways of Working, in order to provide them with the necessary tools for their ongoing training. The three training pillars are focused on:

- **Culture:** strengthening of our values among Ambassadors, so that they continue to be living agents of our culture.
- **Leadership:** development of our leadership competencies, in order to strengthen the Volaris profile of our leaders and individual contributors.
- **Ways of Working:** tools and ways of working that make us unique at Volaris.

The Leadership Academy will be focused on developing Ambassadors' competencies and abilities based on the 70, 20, 10 methodology, which centers on having different types of activities that help develop each competence in a comprehensive manner; i.e.:

- **70:** activities that produce experiences, evoking learning in practice.
- **20:** feedback activities, that is, learning through others.
- **10:** individual study activities, providing the necessary concepts and information for the development of each competence.

To reach most of the Volaris Family and provide specific tools for the development needs of each population, we will have two administrative Academies, one for Ambassadors who occupy leadership positions and other aimed at individual contributors, with an administrative profile.

The Leadership Academy app will work by sending an email to Ambassadors once a month, which will include the activity plan to complete, since there are activities and one-hour live sessions within the app to reinforce the monthly topics. In other words, each month a Leadership competence is reinforced and information on Ways of Working and/or Culture is shared.

Academy Division (Engagement):

- **Leaders:** the competencies that must be completed in the Academy are included into their KPI's, which are obtained from the 360° assessment, i.e., they are asked to carry out the abilities identified as areas for improvement and they encouraged to complete the other modules.
- **Individual contributors:** by completing the different modules that are in the Academy, they obtain badges, which they can exchange for a wide array of courses at the end of the year.

Leadership Academy Components:

App and website: here are all the activities to complete every month under the 70, 20, 10 methodology regarding each of our training pillars.

Leadership Thursdays: 60-90 minutes live sessions which reinforce monthly topics; thus, we have a hybrid system where users can complete the activities in the app when they can (24/7), as well as sessions where they may ask and delve into key themes with experts.

The Academy responds: communication channel for Ambassadors to answer questions related to Leadership, Culture and Ways of Working.

We have the goal of launching the Flight Attendant and Pilot Academy, and to relaunch it in airports during 2021.

Training

Aviation is one of the most specialized industries. Therefore, it is necessary to constantly train and update our Ambassadors so they perform their functions with the best preparation, professionalism, innovation and alignment with the sector's best practices.

We strive to constantly improve the skills, knowledge and competencies of the Volaris Family to ensure our business' sustainability in the future.

The training courses we offer involve a variety of topics and are taught in face-to-face modalities and on E-learning platforms. The training is divided into four areas:

Volaris Corporate University. Virtual space with access to mandatory online courses to certifications and comply with audits.

Regulated technical training. Specialized mandatory courses for technical areas Ambassadors; regulated by the aeronautical authorities.

Non-regulated technical training. Specialized courses for technical areas Ambassadors that aim to reinforce skills.

Leadership Academy. Leadership training program for Ambassadors in charge of a team.

2020 Regulated technical training

Regulated courses	Pilots	Flight Attendants	Maintenance	Dispatch	TOTAL
Courses offered (face-to-face / remote)	171 (62/109)	125 (40/85)	101 (55/46)	56 (12/44)	453 (169/284)
Training hours (face-to-face / remote)	2,537 (832/1,705)	4,250 (1,776/2,474)	2,555 (859/1,696)	1,214 (394/820)	10,556 (3,861/6,695)
Participants (face-to-face / remote)	2,053 (655/1,398)	2,118 (609/1,509)	1,052 (596/456)	772 (204/568)	5,995 (2,064/3,931)
Men	1,936	542	1,034	657	4,169
Women	117	1,576	18	115	1,826

2020 Non-regulated technical training

Non-regulated courses	Pilots	Flight Attendants	Maintenance	Airports and Dispatch	TOTAL
Courses offered	57	5	44	874	980
Training hours	275	190	1,192	10,233	11,890
Participants	644	121	389	7,148	8,302
Men	622	23	379	5,181	6,205
Women	22	98	10	1,967	2,097

* Some Ambassadors take more than one course during the year.

2020 Volaris Virtual Corporate University

	Trained Ambassadors	% that completed the course	Women	Men	Training hours
2020 Mandatory courses					
PCV 2019: Key Control Policies	716	94%	291	425	477
SMS: Safety Management System (Type A, B, C*)	4,400	100%	1,979	2,421	3,300
SMS: Safety Management System (Type D external*)	2,031	99%	995	1,036	1,523
COEV: Volaris Code of Ethics	4,760	100%	2,192	2,568	2,777
ECPAT: End Child Prostitution, Child Pornography and Trafficking of Children for Sexual Purposes	3,637	98%	1,901	1,736	2,728
FCPA: Foreign Corrupt Practices Act	612	98%	230	382	408
PDP: Personal Data Protection	4,724	98%	2,171	2,553	3,149
Total	**20,880**		**9,759**	**11,121**	**14,362**
Non-mandatory courses					
2020Information security: Operative	4,127	94%	1,889	2,238	2,064
COVID-19, implications and hygiene measures	4,873	98%	2,233	2,640	2,843
Emergency brigades	250	93%	82	168	238
Teams	241	65%	99	142	145
Total	**9,491**		**4,303**	**5,188**	**5,288**

*The SMS course is targeted at four populations: A: Vice Presidents and Operational Directors; B: specialists and operational analysts; C: Pilots and Flight attendants; and D: suppliers.

Courses offered in the Leadership Academy in 2020

Course	Population	Participants	Courses	Hours	Women	Men
Leadership Academy Airport managers	Airports	80	16	194	43	37
Leadership Academy Leads and Volaris Coordinators	Airports	67	12	72	39	28
Leadership Academy Leads Outsourcing	Airports	87	12	93	59	28
Leadership Course to be Promoted to Captain	Copilots	29	1	464	2	27
Training capsules for OCC	OCC	62	4	12	5	57
Total		**325**	**45**	**835**	**148**	**177**

* Some Ambassadors take more than one course during the year.

	Regulated technical training (mandatory)	Non-regulated technical training (non-mandatory)	Organizational Development Training mandatory	Organizational Development Training non-mandatory
Courses	453	980	7	49
Training hours	10,556	11,890	14,362	6,123
Participants	5,996 W: 1,826 30.5% M: 4,169 69.5%	8,302 W: 2,097 25.25% M: 6,205 74.75%	20,880 W: 9,759 46.73% M: 11,121 53.27%	9,816 W: 4,451 45.35% M: 5,365 54.65%

+5 hours on average of mandatory training per Ambassador

4 hours on average of non-mandatory training per Ambassador

Investment per Ambassador in mandatory training:
PS. $19,550

Investment per Ambassador in non-mandatory training:
PS. $222

42,931
trainning hours

Talent Cycle

Corporate Voluntary Work

The strategy of our #VoluntariosVolaris program is to reinforce the sense of belonging and pride in the Volaris Family, in addition to benefiting the communities where we operate.

The #VoluntariosVolaris strategy is based on the achievement of four specific objectives aligned with the Company's contribution to the United Nations Sustainable Development Goals. Therefore, we focus our efforts on specific actions that positively impact the communities where we operate.

Initiative from before the COVID-19 pandemic.

1. Offset the environmental footprint from our operation.
Through several initiatives, such as reforestations, beach cleaning and partnerships with associations like *Amigos de Sian Ka'an,* we support the improvement of ecosystems.

2. Support the wellbeing of children with chronic and degenerative illnesses.
We make the most of our infrastructure to promote health and help the most vulnerable population. Our volunteers participate in recreational activities with the children, visit hospitals to play and donate toys on special occasions, and support their families by providing food and support while they wait at the clinics.

3. Contribute to the education of members from the foundations with which we collaborate.
Our volunteer Ambassadors impart courses, conferences and workshops for our allies. In addition, pilots and flight attendants give talks to high school students on how to achieve a successful career in aviation. Currently, we are developing a strategy to provide a series of trainings and educational courses for girls and boys in vulnerable situations, young people with low access to education and professionals ready to graduate. Likewise, we seek that our leaders can participate in mentoring sessions with owners of small tourism businesses in the country's southern region to help them acquire new technical and professional skills that will be useful in their business.

4. Contribute to gender equality.
In 2021, through strategic alliances with NGOs that work for gender equality, non-discrimination and the eradication of violence against women, we will support women in vulnerable situations, in order to contribute to reducing inequalities and driving the SDG 5.

During 2020, we focused on creating partnerships with new foundations and strengthening our existing ties in order to diversify the support we provide and thus, reach a greater number of populations and increase the activities we carry out, contributing to the wellbeing of more and more people.

Due to the pandemic situation we experienced in 2020, voluntary work activities were affected. However, we were able to get **47 Volaris volunteers** to dedicate their time and resources to four initiatives:

- 3 volunteers helped fulfill the dream of the boy Anderson Daniel Ortega Lima to see an airplane and live the pre-flight experience of a pilot.
- 10 volunteers were part of the Dream Train for children of the Marina Guirola orphanage in Guatemala.
- 19 volunteers helped fulfill dreams in Mexico through flights, together with Dr. Sonrisas.
- 15 volunteers delivered 700 toys to 700 girls and boys from the *Instituto Nacional de Pediatría* as part of a campaign with *Dr. Sonrisas*, in which we organized a toy drive within Volaris.

Plans for 2021:
- Developing strategic alliances for 2021 in order to diversify support and meet the 2021 Goals.

During 2020, the total monetary value that Volaris spent on philanthropic contributions by category was as follows:

Monetary donations: **Ps. $95,200.00**
Time; Ambassadors volunteering work during paid working hours: **Ps. $21,808.00**
In-kind donations: **Ps. $1,903,323.28**

Occupational Health and Safety

At Volaris, we have an occupational health management system aimed at maintaining safe workspaces so all Ambassadors can enjoy physical and mental wellbeing.

The health management system includes programs such as health campaigns and fairs, vaccination, cancer prevention, health and safety training –especially for pilots and flight attendants, who have the greatest health risks due to their activities–, hygiene advice, medical evaluations to the personnel of the operational area and accident investigation (along with the industrial safety area).

This year, due to the COVID-19 pandemic, we were unable to carry out most of the face-to-face health programs. Hence, we focused on providing training and support specifically for this disease, through the identification and follow-up of cases, as well as training in preventive measures, spread containment and support to vulnerable groups

We provided support for 883 confirmed COVID-19 cases, 750 suspected and 904 suspicious or confirmed contact cases.

1,200 COVID-19 tests applied

2,790 vaccines against Influenza applied

147 work risks identified

1,422 Ambassadors seen for several illnesses

Industrial Safety and Civil Protection

We strive to guarantee safe working spaces and ensure our Ambassadors' wellbeing, as well as to comply with official occupational health and safety regulations and laws. We have 45 safety and hygiene brigades, responsible for making periodic visits to our facilities and verify compliance with all applicable standards. In addition, we collaborate with the National Coordination for Civil Protection and with aeronautical authorities to create synergies in these topics.

During the year, we carried out the following safety actions:

503 monthly fire extinguisher assessments

127 quarterly reviews to electricity installations

85 biannual smoke detector assessments

Due to the COVID-19 pandemic, we imparted the first virtual course to the emergency brigade nationwide, training 263 brigade members in first aid, firefighting, evacuation, search, and rescue. In addition, we programed two live events, one on first aid at home to support Ambassadors in the new home office modality and a discussion about myths and realities about COVID-19.

To commemorate the September 19th earthquake, we held a live event alluding to the self-protection that Ambassadors should have in their homes, reaching more than 250 of their families.

Work Accidents and Risks

At Volaris, we monitor all operations and workspaces to avoid possible incidents, accidents and raise awareness among our Ambassadors regarding their work areas.

In 2020, we had no deaths from work accidents nor any serious work accidents.

Work incident investigation process

1. Accident investigation. The accident / incident investigation form is used to gather information to identify any event and determine corrective measures.
2. Measures to be implemented. Once the investigation is completed, the corresponding area is informed and preventive measures are implemented.

Monitoring process for work accidents

1. Inspection and monitoring of occupational accidents by Human Resources.
2. Accident mitigation efforts through the completion and delivery of the ST-7 form to the IMSS.
3. Accident assessment when the information is received and channeled to the occupational health and industrial safety departments for follow-up purposes.

Regulatory Compliance

At Volaris, we abide by the Mexican Official Standards of the STPS to determine the necessary safety, health and work environment conditions for our Ambassadors, as well as the mechanisms that offer an immediate response when a risk is detected.

NOM-030-STPS-2009, Preventive Services of Health and Safety at Work. By complying with the requirements from this standard, we identify dangerous physical conditions that constitute risks; physical, chemical, and biological agents capable of altering the environmental conditions of the workplace and causing harm to Ambassadors' health; latent risks and regulatory requirements in these matters.

NOM-035-STPS-2018, Psychosocial Risk Factors in the Workplace. This standard, which came into effect in 2019, establishes the elements to identify, analyze and prevent psychosocial risk factors, which are defined as those that can cause non-organic anxiety disorders of the sleep-wake cycle and serious and adaptive stress. In order to comply with its requirements, during 2002:

- We identified **70 Ambassadors** who experienced traumas and channeled them for further medical treatment.édico.
- We identified psychosocial risk factors and evaluated the environment of the entire Company based on five categories defined by the standard: work environment, factors specific to the activity, leadership and relationships at work, working time management and organizational environment. The result of this assessment was low risk; however, we will develop and implement action plans for each category.

GRI 410, 412: 103-, 103-2, 103-3
GRI 410-1, 412-1, 412-2, 412-3

3.7. Human Rights and **Community Relations**

Human Rights Protection Program

“For Volaris, the alliance with The Code-ECPAT is fundamental in the context for the protection of the rights of girls, boys and adolescents in Mexico. Together with this organization we strive to have a positive impact on the industry in order to maintain a responsible VFR market with society and within the legal framework, which allows the consolidation of sustainable and viable tourism in the long term, always from an ethical and social perspective, focused on the communities where we operate.”

Enrique J. Beltranena,
President and Chief Executive Officer

The Code-ECPAT

2020 was not an easy year due the health crisis caused by COVID-19, particularly for girls, boys and teenagers. According to numerous international reports, the pandemic made this group more vulnerable than before to human rights abuses, especially due to violence at home.

We continued our efforts in alliance with The Code-ECPAT International[12] and the membership as **Top Member for the 7th consecutive year,** in order to prevent prostitution, pornography and trafficking of girls, boys and adolescents for sexual purposes in the context of travel and tourism.

In 2020, we aimed to reinforce Ambassador training on the implementation of the protocol that we have developed with The Code-ECPAT and the National Migration Institute to detect possible cases of rights' violations of our underage Customers. In addition, we seek to strengthen their accountability regarding the protection of children and adolescents who travel with Volaris, following international recommendations, such as those of the United Nations Children's Fund (UNICEF).

Furthermore, we encouraged our Ambassadors' commitment to apply the ECPAT Code through a recognition program. This program involves recognizing the Ambassadors who have activated the protocol and who have collaborated with the authorities, so that possible cases of minor trafficking on our flights can be discovered.

In spite of the adverse conditions due to the COVID-19 pandemic, we trained through remote courses **438 new Ambassadors**. Additionally, we reinforced training for **3,637 Ambassadors**, through E-learning courses.

We acknowledge our responsibility to contribute to the development of an ethical market, within the legal framework, as well as a sustainable tourism. Hence, we are committed to establishing a zero-tolerance policy in the Volaris value chain against commercial sexual exploitation of girls, boys and adolescents in travel and tourism.

We included the ECPAT clause in rate agreements executed with YaVas hotels; we achieved approximately 95 agreements.

The ECPAT clause that we include in hotel rate agreements, contracts for tourist services' provision and land transportation of YaVas establishes that the supplier or commercial partner must comply with the guidelines of The Code and promote a responsible tourism. If YaVas becomes aware of possible practices of rights' violation of girls, boys and adolescents by the provider, the agreement may be terminated.

At Volaris, we activate this protocol during flight operations in the event that a situation is detected that violates or could violate the rights of girls, boys and adolescents.

In 2021, we will include this clause in agreements and contracts with other business partners in the Volaris tourism sector, in order to expand our contribution to the development of sustainable tourism.

Volaris is the first airline in Mexico and in Latin America, and the second worldwide, to implement The Code.

National Immigration Institute

In coordination with the National Immigration Institute of Mexico, we implemented a protocol for the Identity Validation of Unaccompanied Minors, to preserve their safety when travelling unaccompanied, especially in the context of the migratory phenomenon experienced in Mexico and in other countries throughout the region.

[12] EECPAT: End Child Prostitution, Child Pornography and Trafficking of Children for Sexual Purposes.

3.8. Customer Welfare, **Privacy and Data Security**

GRI 419: 103-1, 103-2, 103-3
TR-AL-540a.1, TR-AL-540a.2

At Volaris, we are aware that the most important issue for our Customers is their safety. Therefore, one of our priorities is to maintain an optimal safety standard in all stages of our operations, in order to continue generating value for our passengers. We have two pillars to guarantee their safety: Aviation Security and Safety (operational safety).

Aviation Security

Aviation Security guarantees the transportation of our Customers free of any illicit interference.

During 2020, we faced the challenge of establishing **remote training protocols** and submitting them for approval to the different authorities in Mexico, the United States of America and Central America. We were able to develop protocols for remote instruction endorsed by the authorities and begin training under this modality.

We constantly train all Ambassadors and personnel who provides us with services on security measures, such as:

- Terrorism and illegal interference of bomb threats
- Kidnapping threats
- Contingencies or emergencies

We also address topics such as:

- Domestic and international Human Rights
- Customer treatment
- Baggage and Customer check
- Security events report and confidentiality of sensitive security information

We trained **6,734** persons on operational security topics

4,288 Ambassadors

2,446 suppliers

In response to the sanitary crisis, we standardized aviation security processes to allow the interaction of security personnel with Customers and Ambassadors in a more efficient way, always complying with our biosecurity protocol.

We were recognized for the **14th** consecutive year as an Addiction-Free Company.

Safety (operational safety)

Safety (operational safety) guarantees the safety of our Customers in all operations, including methods that allow us to identify, anticipate and mitigate the causes of aviation accidents.

At Volaris, we strive to provide our Customers with welfare and safety at all stages of the flight. We have a Safety Management System (SMS), which complies with the SMS regulatory framework from the ICAO, IATA and national and international regulations, through which we identify hazards and safety risks to prevent and mitigate their occurrence. We have defined several safety performance indicators. These are periodically reviewed, both at the corporate and local levels, by the Operational Safety Review Board and the Volaris Operational Safety Committee. The indicators are classified into high impact indicators and low impact ones, so we can assess efficiently if our goals meet the operational safety standards. In addition, we continuously follow-up on their performance to identify any safety risks and guarantee their mitigation.

As a result of the rigorous protocols defined in the Operational Safety Management System, we mitigated **100%** of the operational safety risks identified that affect the aviation industry.

In 2020, our operational safety department mainly focused on the prevention and mitigation of different risks identified from the situations of the COVID-19 pandemic, such as reduced operations, as well as their reactivation. We continued with thorough follow-up and monitoring to unstable approaches, events that could induce loss of control in-flight and runway excursions, as well as human errors and injuries in the cabin.

In 2020, the harmonized accident rate (per million sectors) was zero.

Mitigation actions for the main risks identified by the SMS

The performance of operational safety at Volaris is defined in terms of achieving the safety goals associated with its Safety Performance Indicators. These indicators are reviewed periodically, both at a corporate and local level by the Safety Review Board (SRB) and Volaris Safety Committee. In 2020, Volaris, through its internal Safety Department, focused mainly in proactively and predictively preventing and monitoring the following cases:

- Unstable approaches,
  Loss of control in flight (LOC-I)
- Runway safety (RS) –including runway excursion, hard landing and undershoot–
- Controlled Flight into Terrain (CFIT)

Other in-flight areas not necessarily confined to the cockpit were also considered, such as:

- Accidental deployment of evacuation slides (typically caused by human error)
- Cabin injuries (turbulence is regarded as the leading cause of injuries onboard aircraft in non-fatal accidents)

Volaris has defined a series of safety high-consequence indicators and low-consequence indicators, which are an effective method for evaluating if safety objectives and goals reflect the standards defined by the Company. Monitoring these indicators allows us to focus our attention on the performance of the Company's safety in terms of identifying and mitigating risks, in addition to ensuring regulatory compliance and the highest industry standards in terms of operational safety.

Each indicator is monitored monthly, it is established based on the measured performance as an average of the last 36 months and a realistic and challenging goal is defined. Through this target, it is possible to measure any standard deviation indices in order to adopt relevant countermeasures depending on the appropriate alert level (there are 3 alert levels, depending on the deviation).

Key management tools for risk mitigation

- **Flight Data Analysis:** Volaris has a Flight Data Analysis program (FDA), that allows us to compare actual flight parameters against standard operating procedures (SOPs). This critical safety program is a key element of our SMS and is crucial for identifying where safety may have been breached or for improvement. It therefore provides very useful information to mitigate risk and prevent future case recurrences.

- **Operational Safety Line Operation Audits (LOSA):** this program involves a structured system that allows auditing nontechnical skills during routine flight deck responsibilities. When threats and human errors are detected, these are then recorded and used for implementing countermeasures to minimize risks in the future.

- **Operational safety culture survey:** Volaris has implemented operational safety culture surveys in line with the objectives, procedures and policies of the Operational Safety Management System, through which it is possible to measure the operational safety culture through of the Ambassadors' perception in the following areas:
  - General perception of operational safety in the Company
  - Involvement of the areas with operational safety
  - Distribution of operational safety information
  - Ambassadors' initiative on operational safety
  - Trainings and procedures
  - Reporting culture of deficiencies and hazards
  - Action against incidents and accidents

  The Safety Culture Survey consists of 25 questions with a 5-point scale of agreement and disagreement. Complete disagreement is coded with number 1, while the rest of the options remain correlative until the number 5, which marks absolute agreement with a phrase. Based on the above, a weighting of the results is carried out at a general level to obtain the conclusions at the Company level and later they are analyzed at the local level to identify areas for improvement and implement corrective actions.

- **SMS Report and Audit Control:** the Aviation Quality Database (AQD), currently named Rolls-Royce SMS solution, is a comprehensive and integrated tool that supports the need for operational safety reporting and quality assurance.

  It allows users to report any situation where safety margins have or could be breached, as well as serving as a platform to record internal and external quality / safety audits. Through this database, corrective and preventive actions can be taken to further mitigate risk.

We comply with all regulation and have adopted several certifications that meet the highest operational safety standards, under Article 17 of the Civil Aviation Law, which states that airlines must implement the necessary measures to ensure maximum safety of their operations, and therefore, their Customers and crews. These are:

- **Mexican Official Standard NOM-064-SCT3-2012,** which established the specifications that the Operational Safety Management System must meet (since2015).
- **Policy Letter CP AV-01/20,** which establishes the guidelines to be followed by concessionaires, permit holders and air and airport operators, to reactivate their operations derived from the health contingency caused by COVID-19 (2020)
- **Volaris Mexico IOSA Certification.** In 2021 we will renew the IOSA Certification, which is IATA system that assesses operational management, control systems and the Operational Safety Management System of airline carriers.
- **Volaris Costa Rica IOSA Certification.** In 2021, we will renew this Certification to ratify that our operational safety standards are among the highest in the industry.
- **SMS Certification.** In 2020, Volaris renewed its Safety Management System certification, which guarantees the implementation of reactive, proactive and predictive methods of hazard identification to avoid aviation accidents. This certification requires the approval of the AFAC (Federal Civil Aviation Agency) in Mexico.
- **WEFA. Wireless Extension for Aircraft Condition Monitoring System.** In 2020, Volaris increased its 3G wireless flight data transmission technology to 53 aircraft. With this, we ensure a more efficient performance monitoring of pilots, which makes the predictive hazard identification system of the Safety Management System more effective and efficient.

We are part of the Flight Safety Foundation, an association that seeks the participation of several businesses in the industry in order to anticipate, analyze and identify operational safety problems to implement the best practices.

GRI 419: 103-1, 103-2, 103-3

Personal Data Privacy

At Volaris, we strive to provide the best travel experience in every way, so it is essential to protect the Customers' rights, including their right to privacy and protection of their personal data. Thus, we are able to maintain their trust and loyalty, increase our good reputation and avoid any sanction that could affect Volaris.

We have security measures in place to safeguard our Customers' information and to comply with existing national regulations. Currently, we adhere to the Federal Law on Protection of Personal Data Held by Private Parties (LFPDP) of Mexico, the General Data Protection Regulation (GDPR) of the European Union and the California Consumer Privacy Law (CCPA), that became effective in July 2011, May 2018, and January 2020, respectively. The LFPDP, the GDPR and the CCPA enforce security and privacy requirements for personal data abroad. Additionally, we have several corporate policies, such as:

- General Policy for the Protection of Personal Data
- Attention to Holders' Rights Policy
- Policies of Blocking and Cancellation of Personal Data
- Personal Data Violation Policies
- Information Classification Policy

During 2020, we carried out numerous actions to consolidate and strengthen the personal data protection processes. Some are:

- Identify, analyze and prioritize risks based on emerging threats in home office schemes, including an analysis of third parties that provide services to Volaris.
- Establish strategies to strengthen existing controls or implement additional controls that mitigate the identified risks of personal data.
- Strengthen internal processes regarding personal data to standardize activities that involve the processing of personal data to achieve an adequate level of protection with those in charge of personal data.
- Increase awareness and training campaigns on the protection of personal data and cybersecurity with Company's Ambassadors and managers.

During 2020, we had no cases related to losses, leaks or violations of the privacy of Customers' personal data.

- Strengthen technological security controls to protect personal data from threats.
- Update our privacy notices.
- Improve our internal policies for the protection of personal data to strengthen action rules for those in charge of personal data.

We constantly review all updates of the applicable official provisions on the matter. Additionally, we carry out numerous analyzes of our tools and technological advances, in order to reinforce and modernize our internal processes and policies. This allows us to effectively respond to requests from Customers regarding their rights of access, rectification, cancellation and opposition, applicable by the regulation.

Furthermore, annually we train all Ambassadors on information security, cybersecurity and personal data protection issues, we publish cybersecurity and information protection communications, we impart specialized talks to the personal data protection department and we carry out internal simulations of phishing at least twice a year, to strengthen preventive controls to protect identities and detect cyber-attacks.

CONTROLADORA VUELA COMPAÑÍA DE AVIACIÓN, S.A.B. DE C.V. AND SUBSIDIARIES (d.b.a. VOLARIS)

Consolidated financial **statements**

Years ended december 31, 2020, 2019 and 2018
with independent auditor's report

4

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Report of **Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of Controladora Vuela Compañía de Aviación, S.A.B. de C.V.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Controladora Vuela Compañía de Aviación, S.A.B. de C.V. and subsidiaries (the Company) as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2020 and 2019, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 29, 2021 expressed an unqualified opinión thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinión on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico according to the "Codigo de Etica Profesional del Instituto Mexicano de Contadores Publicos" ("IMCP Code"), and the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Lease return condition provision

Description of the Matter

As described in Note 1 p) to the consolidated financial statements, the Company's lease agreements require that the underlying aircraft and engines be returned to lessors either in a specific condition or to make a payment in lieu of performance of the maintenance and repair activities necessary to meet these conditions.

The Company performed an assessment of the return condition provision for leased aircraft and engines, which required management to estimate the cost of those maintenance obligations to be included in connection with aircraft and engines lease return.

The Company accounts for the lease return condition provision in accordance with IFRS 16 because the maintenance event is performed at the end of the lease and as a result it does not benefit the Company. The amounts accrued are considered variable payments under IFRS 16 and recognized in profit or loss based on the aircraft utilization over the period starting upon the completion of the major maintenance event occurring prior to aircraft and engines lease return.

The maintenance provision covers the cost to fulfill return condition that must be satisfied at the expiration of the related leases primarily related to airframe, engine overhaul and limited life parts using certain assumptions including the projected usage of the aircraft and the expected costs of maintenance tasks to be performed at the return of the lease. The maintenance return condition provision for aircraft and engines also considers deposits paid to the lessor considered as supplemental rental. At December 31, 2020, the Company's provision for return condition of leased aircraft and engines amounted Ps.2,504,484.

Auditing management's lease return condition provision was complex as it is based on management's judgement in estimating the amount and timing of the costs and the discount rate to be used, therefore we have determined this to be a critical audit matter.

How We Addressed the Matter in Our Audit

We obtained an understanding and evaluated the design and operating effectiveness of the Company's internal controls over the return condition provision for leased aircraft and engines. We tested controls over management´s review of the return cost, the discount rate calculation, timing of recognition, the significant assumptions and the data inputs used in the calculation.

To test the provision for return condition, our procedures included, among others, reviewing the accuracy and completeness of the lease agreements and underlying data, assessing the methodology applied in the calculation of the provision and testing the period in which the event or condition that triggers the payments occurs and critical assumptions, as the projected costs of maintenance for which we compared to historical trends and actual costs incurred in connection with aircraft returned to the lessor or maintenance costs paid at lease return as specified in the lease agreements.

Additionally, we involved our valuation specialists to assist in the evaluation of the discount rate used by the Company.

Impairment of long-lived assets

Description of the Matter

As discussed in Note 2iv to the consolidated financial statements, the Company assesses at each reporting date whether there is objective evidence that a long-lived asset or its cash-generating unit (CGU) may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's or CGU's recoverable amount. The Company records impairment charges when events and circumstances indicate that the assets may be impaired or when the carrying amount of a long-lived asset or related cash generating unit exceeds its recoverable amount, which is the higher of (i) its fair value less cost to sell and (ii) its value in use. In 2020 the Company performed a quantitative impairment test and estimated the recoverable amount of the CGU by calculating the CGU value in use. As a result of this analysis, the Company determined the recoverable amount was in excess of the CGU book value and, therefore, no impairment was recorded.

Auditing management's long-lived asset impairment test was complex and highly judgmental due to the significant estimation required to determine the value in use. In particular, the value in use estimate was sensitive to significant assumptions, such as changes in the discount rate and revenue growth rate, which are affected by expectations about the impact on future market and economic conditions on the Company, therefore we have determined this to be a critical audit matter.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's impairment review process, including controls over management's review of the significant assumptions described above.

To test the impairment analysis our audit procedures included, evaluating the Company's methodology, assumptions and completeness and accuracy of the data used. We compared the discount rate and revenue growth rate significant assumptions used to current industry and economic trends. We also involved our valuation specialists to assist in the evaluation of the Company's methodology, significant assumptions including the discount rate and performed sensitivity analysis to evaluate the effect in the recoverable amount of the CGU that would result from changes in the underlying assumptions.

Aircraft maintenance deposits paid to lessors

Description of the Matter

Certain of the Company's lease agreements require the payment of maintenance deposits to lessors during the lease term for the underlying aircraft and engines leased. The Company has booked aircraft maintenance deposits to lessors of Ps.7,920,934 as of December 31, 2020. Related disclosure is included in Note 11 of the consolidated financial statements.

Most of the Company's lease agreements require the Company to pay maintenance deposits to aircraft and engines lessors to be held as collateral in advance of the Company's performance of the related major maintenance activities. These lease agreements provide that maintenance deposits are reimbursable to the Company upon completion of the maintenance event in an amount equal to the lesser of (i) the amount of the maintenance deposits held by the lessor associated with the specific maintenance event, or (ii) the qualifying costs of the specific maintenance event. The Company considers as supplemental rental those maintenance deposits paid for which a maintenance event is not expected to be performed during the term of the aircraft lease, then such deposits are considered as not recoverable by the Company since will be kept by the lessor to cover future maintenance costs.

Maintenance deposits are recorded as recoverable to the extent qualifying maintenance costs are expected to be incurred during the lease term. Any excess is recognized as additional lease expense in the consolidated statements of operations as supplemental rental.

Auditing management's aircraft and engines maintenance deposits was complex as it is based on significant management's judgements and assumptions; for example, in estimating the recoverability of these deposits, the estimated time between the maintenance events, the costs of future maintenance and the number of flight hours the aircraft is estimated to be flown before it is returned to the lessor, among others, therefore we have determined this to be a critical audit matter.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the process of aircraft and engines maintenance deposits, including controls over management's review of the significant assumptions described above and the data inputs used by management in the determination of the recoverability of maintenance deposits for aircraft and engines.

To test the recoverability of the maintenance deposits, we performed audit procedures that included, among others, inspecting the lease agreements and testing the analysis of the estimates prepared by management to determine the recoverability of the maintenance deposits. We tested the recognition of the unrecoverable amounts as part of supplemental rental by assessing the estimation of the major maintenance costs expected to be incurred by comparing them to historical amounts and/or costs of aircraft and engines maintenance specified in agreements with vendors; we also evaluated the usage projections applied to determine the timing of the maintenance by comparing them with the Company's scheduled flight plans and the term of the lease agreement.

Mancera, S.C.
A member practice of
Ernst & Young Global Limited

We have served as the Company's auditor since 2005.
Mexico City, Mexico
April 29, 2021

CONTROLADORA VUELA COMPAÑÍA DE AVIACIÓN,
S.A.B. DE C.V. AND SUBSIDIARIES
(d.b.a. VOLARIS)

Consolidated Statements **of Financial Position**

(In thousands of Mexican pesos)

	(Thousands of U.S. dollars*) 2020	At December 31, 2020	2019
Assets			
Current assets:			
Cash and cash equivalents (Note 6)	US$ 506,468	Ps. 10,103,385	Ps. 7,979,972
Accounts receivable:			
Related parties (Note 7)	3,641	72,629	23,442
Other accounts receivable, net (Note 8)	28,104	560,640	923,000
Recoverable value added tax and others	46,242	922,458	938,532
Recoverable income tax	23,643	471,652	435,360
Inventories (Note 9)	13,984	278,959	301,908
Prepaid expenses and other current assets (Note 10)	42,631	850,425	781,131
Financial instruments (Notes 3 and 5)	10	206	133,567
Guarantee deposits (Note 11)	57,245	1,141,956	600,327
Total current assets	721,968	14,402,310	12,117,239
Non-current assets:			
Rotable spare parts, furniture and equipment, net (Note 12)	364,994	7,281,157	7,385,334
Right-of-use assets (Note 14)	1,720,223	34,316,217	34,128,766
Intangible assets, net (Note 13)	9,603	191,562	167,397
Financial instruments (Notes 3 and 5)	16	326	2,695
Deferred income taxes (Note 19)	156,830	3,128,555	1,542,536
Guarantee deposits (Note 11)	422,320	8,424,738	7,644,421
Other assets	5,975	119,202	165,546
Other long-term assets	16,294	325,046	141,193
Total non-current assets	2,696,255	53,786,803	51,177,888
Total assets	US$ 3,418,223	Ps. 68,189,113	Ps. 63,295,127

	(Thousands of U.S. dollars*) 2020	At December 31, 2020	2019
Liabilities and equity			
Current liabilities:			
Unearned transportation revenue (Note 1d)	US$ 293,298	Ps. 5,850,917	Ps. 3,679,926
Suppliers	112,275	2,239,736	1,597,099
Related parties (Note 7)	6,266	124,993	58,554
Accrued liabilities (Note 15a)	118,118	2,356,287	2,531,861
Lease liabilities (Note 14)	325,038	6,484,092	4,720,505
Other taxes and fees payable (Note 1q)	112,096	2,236,161	2,102,455
Income taxes payable	201	4,005	140,609
Financial instruments (Notes 3 and 5)	484	9,657	–
Financial debt (Note 5)	78,144	1,558,884	2,086,017
Other liabilities (Note 15c)	5,074	101,218	407,190
Total current liabilities	1,050,994	20,965,950	17,324,216
Non-current liabilities:			
Financial debt (Note 5)	190,276	3,795,749	2,889,952
Accrued liabilities (Note 15b)	3,343	66,698	90,796
Lease liabilities (Note 14)	1,887,163	37,646,450	35,796,540
Other liabilities (Note 15c)	133,727	2,667,683	1,469,595
Employee benefits (Note 16)	2,538	50,627	38,206
Deferred income taxes (Note 19)	10,014	199,771	156,139
Total non-current liabilities	2,227,061	44,426,978	40,441,228
Total liabilities	3,278,055	65,392,928	57,765,444
Equity (Note 18):			
Capital stock	171,761	3,426,406	2,973,559
Treasury shares	(11,216)	(223,744)	(169,714)
Contributions for future capital increases	–	1	1
Legal reserve	14,596	291,178	291,178
Additional paid-in capital	236,618	4,720,221	1,880,007
Retained (losses) earnings	(193,265)	(3,855,379)	438,412
Accumulated other comprehensive (loss) income	(78,326)	(1,562,498)	116,240
Total equity	140,168	2,796,185	5,529,683
Total liabilities and equity	US$ 3,418,223	Ps. 68,189,113	Ps. 63,295,127

* Convenience translation to U.S. dollars (Ps.19.9487) – Note 1y.
The accompanying notes are an integral part of these consolidated financial statements.

CONTROLADORA VUELA COMPAÑÍA DE AVIACIÓN, S.A.B. DE C.V. AND SUBSIDIARIES (d.b.a. VOLARIS)

Consolidated Statements of Operations

(In thousands of Mexican pesos, except for earnings per share expressed in Mexican pesos)

	(Thousands of U.S. dollars*, except for earnings per share) 2020	For the years ended December 31, 2020	2019	2018
Operating revenues (Notes 1d and 24):				
Passenger revenues:				
Fare revenues	US$ 645,314	Ps. 12,873,174	Ps. 23,129,991	Ps. 18,487,858
Other passenger revenues	431,777	8,613,398	10,569,208	7,892,497
	1,077,091	21,486,572	33,699,199	26,380,355
Non- passenger revenues				
Other non-passenger revenues (Note 1d)	44,231	882,360	897,586	697,357
Cargo	10,120	201,881	228,836	227,438
Non-derivatives financial instruments	(20,614)	(411,222)	(72,949)	-
	1,110,828	22,159,591	34,752,672	27,305,150
Other operating income (Note 20)	(36,611)	(730,333)	(327,208)	(621,973)
Fuel expense, net	332,895	6,640,820	11,626,069	10,134,982
Landing, take-off and navigation expenses	205,069	4,090,864	5,108,489	4,573,319
Depreciation of right of use assets (Note 14)	253,098	5,048,976	4,702,971	4,043,691
Salaries and benefits	173,113	3,453,382	3,600,762	3,125,393
Maintenance expenses	58,536	1,167,720	1,488,431	1,497,989
Sales, marketing and distribution expenses	92,278	1,840,819	1,447,637	1,501,203
Aircraft and engine variable lease expenses	92,500	1,845,254	961,657	956,010
Other operating expenses (Note 20)	58,011	1,157,240	1,112,927	1,059,098
Depreciation and amortization (Notes 12 and 13)	45,038	898,445	675,514	500,641
Operating (loss) income	(163,099)	(3,253,596)	4,355,423	534,797
Finance income (Note 21)	5,089	101,511	207,799	152,603
Finance cost (Note 21)	(151,313)	(3,018,484)	(2,269,829)	(1,876,312)
Foreign exchange gain (loss), net	23,591	470,594	1,440,501	(103,790)
(Loss) income before income tax	(285,732)	(5,699,975)	3,733,894	(1,292,702)
Income tax benefit (expense) (Note 19)	70,490	1,406,184	(1,094,831)	349,820
Net (loss) income	US$ (215,242)	Ps. (4,293,791)	Ps. 2,639,063	Ps. (942,882)
(Loss) earnings per share basic:	US$ (0.211)	Ps. (4.203)	Ps. 2.608	Ps. (0.932)
(Loss) earnings per share diluted:	US$ (0.211)	Ps. (4.203)	Ps. 2.608	Ps. (0.932)

* Convenience translation to U.S. dollars (Ps.19.9487) - Note 1y.
The accompanying notes are an integral part of these consolidated financial statements.

CONTROLADORA VUELA COMPAÑÍA DE AVIACIÓN,
S.A.B. DE C.V. AND SUBSIDIARIES
(d.b.a. VOLARIS)

Consolidated Statements of Comprehensive Income

(In thousands of Mexican pesos)

		(Thousands of U.S. dollars*) 2020		For the years ended December 31, 2020		2019		2018
Net (loss) income for the year	US$	(215,242)	Ps.	(4,293,791)	Ps.	2,639,063	Ps.	(942,882)
Other comprehensive (loss) income:								
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods:								
Net (loss) gain on cash flow hedges (Note 22)		(87,609)		(1,747,686)		263,495		(283,691)
Income tax effect (Note 19)		2,348		46,835		(74,820)		85,107
Exchange differences on translation of foreign operations		1,202		23,970		8,045		22,156
Other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods:								
Remeasurement (loss) gain of employee benefits (Note 16)		(133)		(2,651)		(10,192)		5,989
Income tax effect (Note 19)		40		794		3,058		(1,797)
Other comprehensive (loss) income for the year, net of tax	US$	(84,152)	Ps.	(1,678,738)	Ps.	189,586	Ps.	(172,236)
Total comprehensive (loss) income for the year, net of tax	US$	(299,394)	Ps.	(5,972,529)	Ps.	2,828,649	Ps.	(1,115,118)

* Convenience translation to U.S. dollars (Ps.19.9487) – Note 1y.

The accompanying notes are an integral part of these consolidated financial statements.

CONTROLADORA VUELA COMPAÑÍA DE AVIACIÓN, S.A.B. DE C.V. AND SUBSIDIARIES (d.b.a. VOLARIS)

Consolidated Statements **of Changes in Equity**

For the years ended December 31, 2020, 2019 and 2018
(In thousands of Mexican pesos)

	Capital stock	Treasury Shares	Contributions for future capital increases	Legal reserve	Additional paid-in capital	Retained (losses) earnings	Other comprehensive (loss) income	Total equity
Balance as of December 31, 2017	Ps. 2,973,559	Ps. (85,034)	Ps. 1	Ps. 291,178	Ps. 1,804,528	Ps. (1,257,769)	Ps. 98,890	Ps. 3,825,353
Treasury shares	–	(57,320)	–	–	41,590	–	–	(15,730)
Exercise of stock options (Note 17)	–	10,648	–	–	–	–	–	10,648
Long-term incentive plan cost (Note 17)	–	9,045	–	–	(9,045)	–	–	–
Net loss for the period	–	–	–	–	–	(682,500)	–	(682,500)
IFRS 16 adoption	–	–	–	–	–	(260,382)	–	(260,382)
Other comprehensive loss items	–	–	–	–		–	(172,236)	(172,236)
Total comprehensive loss	–	–	–	–	–	(942,882)	(172,236)	(1,115,118)
Balance as of December 31, 2018	2,973,559	(122,661)	1	291,178	1,837,073	(2,200,651)	(73,346)	2,705,153
Treasury shares	–	(75,375)	–	–	56,483	–	–	(18,892)
Exercise of stock options (Note 17)	–	14,773	–	–	–	–	–	14,773
Long-term incentive plan cost (Note 17)	–	13,549	–	–	(13,549)	–	–	–
Net income for the period	–	–	–	–	–	2,639,063	–	2,639,063
Other comprehensive income items	–	–	–	–	–	–	189,586	189,586
Total comprehensive income	–	–	–	–	–	2,639,063	189,586	2,828,649
Balance as of December 31, 2019	2,973,559	(169,714)	1	291,178	1,880,007	438,412	116,240	5,529,683
Capital stock increase (Note 18)	452,847	–	–	–	2,819,985	–	–	3,272,832
Treasury shares	–	(94,564)	–	–	60,763	–	–	(33,801)
Long-term incentive plan cost (Note 17)	–	40,534	–	–	(40,534)	–	–	–
Net loss for the period	–	–	–	–	–	(4,293,791)	–	(4,293,791)
Other comprehensive income loss items	–	–	–	–	–	–	(1,678,738)	(1,678,738)
Total comprehensive loss	–	–	–	–	–	(4,293,791)	(1,678,738)	(5,972,529)
Balance as of December 31, 2020	Ps. 3,426,406	Ps. (223,744)	Ps. 1	Ps. 291,178	Ps. 4,720,221	Ps. (3,855,379)	Ps. (1,562,498)	Ps. 2,796,185
	US$ 171,761	US$ (11,216)	US$ –	US$ 14,596	US$ 236,618	US$ (193,265)	US$ (78,326)	US$ 140,168

Convenience translation to U.S. dollars 19.9487) – Note 1y.
The accompanying notes are an integral part of these consolidated financial statements.

CONTROLADORA VUELA COMPAÑÍA DE AVIACIÓN, S.A.B. DE C.V. AND SUBSIDIARIES (d.b.a. VOLARIS)

Consolidated Statements of Cash Flows

(In thousands of Mexican pesos)

	(Thousands of U.S. dollars*) 2020	For the years ended December 31, 2020	2019	2018
Operating activities				
(Loss) income before income tax	US$ (285,732)	Ps. (5,699,975)	Ps. 3,733,894	Ps. (1,292,702)
Non-cash adjustment to reconcile (loss) income before income tax to net cash flows from operating activities:				
Depreciation and amortization (including right-of-use-assets) (Notes 12, 13 and 14)	298,136	5,947,421	5,378,485	4,544,332
Allowance for credit losses (Note 8)	685	13,664	40,393	10,621
Finance income (Note 21)	(5,089)	(101,511)	(207,799)	(152,603)
Finance cost (Note 21)	128,406	2,561,526	2,265,242	1,876,312
Net foreign exchange differences	(28,753)	(573,591)	(1,722,985)	171,874
Financial instruments (Notes 3 and 4)	65,496	1,306,557	67,629	(455,009)
Amortized Cost (CEBUR)	347	6,930	3,306	-
Net gain on disposal of rotable spare parts, furniture and equipment and gain on sale of aircraft (Note 20)	(35,487)	(707,918)	(275,805)	(606,812)
Employee benefits (Note 16)	555	11,079	10,086	6,401
Aircraft and engine lease extension benefit and other benefits from service agreements	(533)	(10,633)	(10,634)	(12,693)
Management incentive and long-term incentive plans	2,445	48,772	32,257	12,919
Cash flows from operating activities before changes in working capital	140,476	2,802,321	9,314,069	4,102,640
Changes in operating assets and liabilities:				
Related parties	864	17,252	25,603	(31,422)
Other accounts receivable	39,754	793,045	(367,603)	1,711
Recoverable and prepaid taxes	(1,103)	(22,010)	(425,410)	19,168
Inventories	1,150	22,949	(4,637)	(2,421)
Prepaid expenses	3,670	73,220	(369,860)	(6,001)
Other assets	2,843	56,717	(10,789)	(11,228)
Guarantee deposits	(70,036)	(1,397,131)	(1,168,537)	232,019
Suppliers	44,726	892,232	518,189	14,022
Accrued liabilities	(28,131)	(561,229)	352,475	540,471
Other taxes and fees payable	8,260	164,777	119,700	558,174
Unearned transportation revenue	108,829	2,170,991	1,241,410	145,207
Financial instruments	(63,759)	(1,271,904)	(18,943)	807,644
Other liabilities	38,661	771,229	191,099	(38,875)
	226,204	4,512,459	9,396,766	6,331,109
Interest received	5,089	101,511	207,799	152,602
Income tax paid	(12,759)	(254,525)	(94,922)	(207,004)
Net cash flows provided by operating activities	218,534	4,359,445	9,509,643	6,276,707
Investing activities				
Acquisitions of rotable spare parts, furniture and equipment (Note 12)	(169,263)	(3,376,576)	(3,483,368)	(2,743,155)
Acquisitions of intangible assets (Note 13)	(6,252)	(124,724)	(77,325)	(71,007)
Pre-delivery payments reimbursements	85,737	1,710,338	704,852	668,365
Proceeds from disposals of rotable spare parts, furniture and equipment	86,382	1,723,205	976,500	756,402
Net cash flows used in investing activities	(3,396)	(67,757)	(1,879,341)	(1,389,395)
Financing activities				
Net proceeds from public offering (Note 18)	164,062	3,272,832	-	-
Proceeds from exercised stock options (Note 17)	-	-	14,773	10,648
Treasury shares purchase	(4,740)	(94,564)	(75,375)	(57,320)
Interest paid	(14,007)	(279,423)	(217,018)	(175,170)
Other finance interest paid	(612)	(12,214)	(60,824)	(28,567)
Payments of principal portion of lease liabilities (Note 14)	(306,314)	(6,110,569)	(6,499,802)	(5,710,907)
Payments of financial debt	(107,285)	(2,140,194)	(1,181,726)	(1,193,589)
Proceeds from financial debt	116,464	2,323,292	2,781,132	1,208,846
Net cash flows used in financing activities	(152,432)	(3,040,840)	(5,238,840)	(5,946,059)
Increase (decrease) in cash and cash equivalents	62,706	1,250,848	2,391,462	(1,058,747)
Net foreign exchange differences on cash balance	43,737	872,565	(274,432)	(29,190)
Cash and cash equivalents at beginning of year	400,025	7,979,972	5,862,942	6,950,879
Cash and cash equivalents at end of year	US$ 506,468	Ps. 10,103,385	Ps. 7,979,972	Ps. 5,862,942

* Convenience translation to U.S. dollars (19.9487) - Note 1y.
The accompanying notes are an integral part of these consolidated financial statements.

(In thousands of Mexican pesos and thousands of U.S. dollars, except when indicated otherwise)

1. Description of the business and summary of significant accounting policies

Controladora Vuela Compañía de Aviación, S.A.B. de C.V. ("Controladora" or the "Company") was incorporated in Mexico in accordance with Mexican Corporate laws on October 27, 2005.

Controladora is domiciled in Mexico City at Av. Antonio Dovali Jaime No. 70, 13th Floor, Tower B, Colonia Zedec Santa Fe, Mexico City.

The Company, through its subsidiary Concesionaria Vuela Compañía de Aviación, S.A.P.I. de C.V. ("Concesionaria"), has a concession to provide air transportation services for passengers, cargo and mail throughout Mexico and abroad.

Concesionaria's concession was granted by the Mexican federal government through the Mexican Communications and Transportation Ministry (*Secretaría de Comunicaciones y Transportes*) on May 9, 2005 initially for a period of five years and was extended on February 17, 2010 for an additional period of ten years. On February 24, 2020, Concesionaria's concession was extended for a 20-year term starting on May 9, 2020.

Concesionaria made its first commercial flight as a low-cost airline on March 13, 2006. The Company operates under the trade name of "Volaris". On June 11, 2013, Controladora Vuela Compañía de Aviación, S.A.P.I. de C.V. changed its corporate name to Controladora Vuela Compañía de Aviación, S.A.B. de C.V.

On September 23, 2013, the Company completed its dual listing Initial Public Offering ("IPO") on the New York Stock Exchange ("NYSE") and on the Mexican Stock Exchange (*Bolsa Mexicana de Valores*, or "BMV"), and on September 18, 2013 its shares started trading under the ticker symbol "VLRS" and "VOLAR", respectively.

On November 16, 2015, certain shareholders of the Company completed a secondary follow-on equity offering on the NYSE.

On November 10, 2016, the Company, through its subsidiary Vuela Aviación, S.A. ("Volaris Costa Rica"), obtained from the Costa Rican civil aviation authorities an air operator certificate to provide air transportation services for passengers, cargo and mail, in scheduled and non-scheduled flights for an initial period of five years. On December 1, 2016, Volaris Costa Rica started operations.

The accompanying consolidated financial statements and notes were approved by the Company´s Board of Directors and by the Shareholders on April 26, 2021. These consolidated financial statements were also approved for issuance in the Company´s annual report on Form 20-F by the Company´s President and Chief Executive Officer, Enrique Beltranena, and the Senior Vice-president and Chief Financial Officer, Jaime E. Pous, on April 29, 2021 and subsequent events were considered through that date (Note 25).

a) Relevant events

Upsized Offering of ADSs

On December 11, 2020, Controladora Vuela Compañía de Aviación, S.A.B. de C.V announced the closing of an upsized primary follow-on equity offering in which the Company offered 134,000,000 of its Ordinary Participation Certificates (Certificados de Participación Ordinarios), or CPOs, in the form of American Depositary Shares, or ADSs, at a price to the public of USD11.25 per ADS in the United States and other countries outside of Mexico, pursuant to the Company's shelf registration statement filed with the Securities and Exchange Commission (the "SEC"). In connection with the offering, the underwriters exercised their option to purchase up to 20,100,000 additional CPOs in the form of ADSs. Each ADS represents 10 CPOs and each CPO represents a financial interest in one Series A share of common stock of the Company (Note 18).

Covid-19 commentary

The ongoing outbreak of COVID-19 was first reported on December 31, 2019 in Wuhan, Hubei Province, China. From Wuhan, the disease spread rapidly to other parts of China as well as other countries, including Mexico and the United States.

The first case of COVID-19 in Mexico was confirmed on February 28, 2020. In the following weeks, the Mexican government took various measures in order to prepare the country for a mass contagion, including declaring a national health emergency, asking the public to stay home, closing schools and imposing restrictions on non-essential activities in the public, private and social sectors. As a result of the national health emergency and health security measures imposed by the Mexican government in the spring of 2020, the Company´s capacity as measured by available seat miles ("ASMs") was reduced. In April and May of

2020, the Company´s capacity as measured by ASMs was reduced by up to 80% and 90%, respectively, and remained reduced from June to November of 2020. Additionally, the Company suspended service on certain routes. Costa Rica, Guatemala and El Salvador imposed operational and migratory restrictions that made it impossible to operate international passenger flights to those countries. A gradual opening of the economy and easing of lockdown measures in Mexico and the other countries in which the Company operates led to a recovery in the ASMs and route operation during the second half of the year, with the Company´s capacity returning to over 100% of 2019 levels for the month of December.

The Company has taken actions to preserve liquidity and sustain its operations during the period, establishing vendor and supplier's payment deferral, reducing management's compensations and other salaries and deferring capital expenditures and certain other measures.

Liquidity and cash

The Company implemented a strict liquidity preservation program, which resulted in approximately U.S. $200 million of savings as of December 31, 2020 through items such as cost reductions and deferral agreements with suppliers. In addition, the Company negotiated cost reductions with more than 360 suppliers and cut non-essential expenses. The Company also implemented online training and leave of absence programs in order to reduce costs. As of December 31, 2020, our cash and cash equivalents were Ps.10,103,385.

Fleet plan

The new contractual fleet plan with Airbus allows to the Company to maintain a "cautiously" sized fleet, that will remain at approximately 85 aircraft, net of new deliveries and redeliveries, until 2023.

Customers and employees

Additionally, the Company launched a new biosecurity and cleaning protocol and are communicating proactively with all staff, especially with crews and airport staff, regarding health and COVID-19 developments.

Commercial and network growth opportunities.

The Company is closely monitoring capacity reductions from competitors for possible opportunities, testing new ancillary products and running targeted promotions to test potential stimulation of air travel.

The Company remained focused on price sensitive visiting friends and relatives, leisure and small and medium sized enterprises segments, which continued to show the strongest demand for air travel in Mexico as the market recovers from COVID-19. As of December 31, 2020, Volaris was positioned as the domestic market leader in 2020.

In addition, the Company considered the impact of Covid-19 in preparing their financial statements.

Since the Company business and the airline industry have experienced material adverse impacts due to the COVID-19 pandemic, the Company 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.

Issuance asset backed trust notes

On June 20, 2019, the Company, through its subsidiary Concesionaria, issued 15,000,000 asset backed trust notes (certificados bursátiles fiduciarios; the " Trust Notes "), under the ticker symbol VOLARCB 19 for the amount of Ps.1.5 billion Mexican pesos by CIBanco, S.A., Institución de Banca Multiple, acting as Trustee under the Irrevocable Trust number CIB/3249 created by Concesionaria in the first issuance under a program approved by the Mexican National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores) for an amount of up to Ps.3.0 billion Mexican pesos. The Trust Notes are backed by future receivables under agreements entered into with credit card processors with respect to funds received from the sale of airplane tickets and ancillaries denominated in Mexican pesos, through credit cards VISA and Mastercard, via the Company's website, mobile app and travel agencies. The Trust Notes were listed on the Mexican Stock Exchange, have a maturity of five years and will pay an interest rate of TIIE 28 plus 175 basis points (Note 5b).

Shares conversion

On February 16, 2018, one of the Company´s shareholders concluded the conversion of 45,968,598 Series B Shares for the equivalent number of Series A Shares. This conversion has no impact either on the total number of outstanding shares nor on the earnings-per-share calculation.

b) Basis of preparation

Statement of compliance

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries at December 31, 2020 and 2019 and for each of the three years ended December 31, 2020, and were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the *International Accounting Standards Board* ("IASB").

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The presentation currency of the Company's consolidated financial statements is the Mexican peso, which is used also for compliance with its legal and tax obligations. All values in the consolidated financial statements are rounded to the nearest thousand (Ps.000), except when otherwise indicated.

The Company has consistently applied its accounting policies to all periods presented in these consolidated financial statements and provide comparative information in respect of the previous period.

Basis of measurement and presentation

The accompanying consolidated financial statements have been prepared under the historical-cost convention, except for derivative financial instruments that are measured at fair value and investments in marketable securities measured at fair value through profit and loss ("FVTPL").

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts reported in the accompanying consolidated financial statements and notes. Actual results could differ from those estimates.

c) Basis of consolidation

The accompanying consolidated financial statements comprise the financial statements of the Company and its subsidiaries. At December 31, 2020 and 2019, for accounting purposes the companies included in the consolidated financial statements are as follows:

Name	Principal Activities	Country	% Equity interest	
			2020	2019
Concesionaria	Air transportation services for passengers, cargo and mail throughout Mexico and abroad	Mexico	100%	100%
Vuela Aviación, S.A.	Air transportation services for passengers, cargo and mail in Costa Rica and abroad	Costa Rica	100%	100%
Vuela, S.A. ("Vuela")*	Air transportation services for passengers, cargo and mail in Guatemala and abroad	Guatemala	100%	100%
Vuela El Salvador, S.A. de C.V.*	Air transportation services for passengers, cargo and mail in El Salvador and abroad	El Salvador	100%	100%
Comercializadora Volaris, S.A. de C.V.	Merchandising of services	Mexico	100%	100%
Servicios Earhart, S.A.*	Recruitment and payroll	Guatemala	100%	100%
Servicios Corporativos Volaris, S.A. de C.V. ("Servicios Corporativos")	Recruitment and payroll	Mexico	100%	100%
Servicios Administrativos Volaris, S.A. de C.V. ("Servicios Administrativos")	Recruitment and payroll	Mexico	100%	100%
Comercializadora V Frecuenta, S.A. de C.V. ("Loyalty Program") **	Loyalty Program	Mexico	100%	100%
Viajes Vuela, S.A. de C.V. ("Viajes Vuela")	Travel agency	Mexico	100%	100%
Deutsche Bank México, S.A., Trust 1710	Pre-delivery payments financing (Note 5)	Mexico	100%	100%
Deutsche Bank México, S.A., Trust 1711	Pre-delivery payments financing (Note 5)	Mexico	100%	100%
Irrevocable Administrative Trust number F/307750 "Administrative Trust"	Share administration trust (Note 17)	Mexico	100%	100%
Irrevocable Administrative Trust number F/745291 "Administrative Trust"	Share administration trust (Note 17)	Mexico	100%	100%
Irrevocable Administrative Trust number CIB/3081 "Administrative Trust"	Share administration trust (Note 17)	Mexico	100%	100%
Irrevocable Administrative Trust number CIB/3249 "Administrative Trust"	Asset backed securities trustor & administrator (Note 5)	Mexico	100%	100%

*The Companies have not started operations yet in Guatemala and El Salvador.
**The Company has not started operations yet

The financial statements of the subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies.

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Company has:

(i) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee).
(ii) Exposure, or rights, to variable returns from its involvement with the investee.
(iii) The ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(i) The contractual arrangement with the other vote holders of the investee.
(ii) Rights arising from other contractual arrangements.
(iii) The Company's voting rights and potential voting rights.

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Company gains control until the date the Company ceases to control the subsidiary.

All intercompany balances, transactions, unrealized gains and losses resulting from intercompany transactions are eliminated in full on consolidation.

On consolidation, the assets and liabilities of foreign operations are translated into Mexican pesos at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in other comprehensive income ("OCI"). On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognized in profit or loss.

d) Revenue recognition

Passenger revenues

Revenues from the air transportation of passengers are recognized at the earlier of when the service is provided or when the non-refundable ticket expires at the date of the scheduled travel.

Ticket sales for future flights are initially recognized as contract liabilities under the caption "unearned transportation revenue" and, once the transportation service is provided by the Company or when the non-refundable ticket expires at the date of the scheduled travel, the earned revenue is recognized as passenger ticket revenues and the unearned transportation revenue is reduced by the same amount. All the Company's tickets are non-refundable and are subject to change upon a payment of a fee. Additionally, the Company does not operate a frequent flier program.

The most significant passenger revenue includes revenues generated from: (i) fare revenue and (ii) other passenger revenues. Other passenger 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 and charters. They are recognized as revenue when the obligation of passenger transportation service is provided by the Company or when the non-refundable ticket expires at the date of the scheduled travel.

The Company also classifies as other passenger revenue "V Club" and other similar services, which are recognized as revenue over time when the service is provided, as a modification of the tickets sold to V Club members.

Tickets sold by other airlines where the Company provides the transportation are recognized as passenger revenue when the service is provided.

The Company sells certain tickets with connecting flights with one or more segments operated by its other airline partner. For segments operated by its other airline partners, the Company has determined that it is acting as an agent on behalf of the other airlines as they are responsible for their portion of the contract (i.e. transportation of the passenger). The Company, as the agent, recognizes revenue within Other operating revenue at the time of the travel for the net amount retained by the Company for any segments flown by other airlines.

Non-passenger revenues

The most significant non-passenger revenues include revenues generated from: (i) revenues from other non-passenger services described below and (ii) cargo services.

Revenues from other non-passenger services mainly include but are not limited to commissions charged to third parties for the sale of hotel reservations, trip insurance, rental cars and advertising spaces to third parties. They are recognized as revenue at the time the service is provided.

The Company also evaluated the principal versus agent considerations as it relates to certain non-air travel services arrangements with third party providers. No changes were identified under this analysis as the Company is agent for those services provided by third parties.

Code-share agreement

On January 16, 2018, the Company and Frontier Airlines (herein after Frontier) entered into a code-share operations agreement, which started operations in September 2018.

Through this alliance, the Company´s customers gain access to additional cities in the U.S. beyond the current available destinations as the Company's customers are able to buy a ticket throughout any of Frontier's actual destinations; and Frontier customers gain first-time access to new destinations in Mexico through Volaris presence in Mexican airports. Tickets from Frontier can be purchased directly from the Volaris' website.

Other considerations analyzed as part of revenue from contracts with customers

All revenues offered by the Company including sales of tickets for future flights, other passenger related services and non-passenger revenue must be paid through a full cash settlement. The payment of the transaction price is equal to the cash settlement from the client at the sales time (using different payment options like credit or debit cards, paying through a third party or directly at the counter in cash). There is little or no judgment to determine the point in time of the revenue recognition, and the amount of it. Even if mainly all the sales of services are initially recognized as contract liabilities, there is no financing component in these transactions.

The cost to obtain a contract is represented by the commissions paid to the travel agencies and the bank commissions charged by the financial institutions for processing electronic transactions (Note 10). The Company does not incur any additional costs to obtain and fulfill a contract that is eligible for capitalization.

Trade receivables are mainly with financial institutions due to transactions with credit and debit cards, and therefore they are non-interest bearing and are mainly on terms of 24 to 48 hours. The Company has the right of collection at the beginning of the contracts and there are no discounts, payment incentives, bonuses, or other variable considerations subsequent to the purchase that could modify the amount of the transaction price.

The Company´s tickets are non-refundable. However, if the Company cancels a flight for causes attributable to the airline, including as a result of the COVID-19 pandemic, then the passenger is entitled to either move their flight at no cost, receive a refund or a voucher. No revenue is recognized until either the voucher is redeemed, and the associate flight occurs, or the voucher expires. When vouchers issued exceed the amount of the original amount paid by the passenger the excess is recorded as reduction of the operating revenues. All of the Company´s revenues related to future services are rendered through an approximate period of 12 months.

As of December 31, 2020, the Company recorded an amount of Ps.1,720,939 related to vouchers to be redeemed by passengers, which were presented as part of the unearned transportation revenues.

Breakdown of revenues:

As of December 31, 2020, 2019 and 2018, the revenues from customers of contracts is described as follows:

Revenue recognition as of December 31, 2020	At the flight time Domestic	At the flight time International	At the sale Domestic	At the sale International	Total Revenues
Passenger Revenues					
Fare Revenues	Ps. 8,455,647	Ps. 4,417,527	Ps. –	Ps. –	Ps. 12,873,174
Other Passenger Revenues	6,920,141	1,536,206	124,450	32,601	8,613,398
	15,375,788	5,953,733	124,450	32,601	21,486,572
Non-Passenger Revenues					
Other Non-Passenger revenues	875,610	6,750	–	–	882,360
Cargo	196,349	5,532	–	–	201,881
Total	Ps. 16,447,747	Ps. 5,966,015	Ps. 124,450	Ps. 32,601	Ps. 22,570,813
Non-derivative financial instruments					(411,222)
					Ps. 22,159,591

Revenue recognition as of December 31, 2019	At the flight time Domestic	At the flight time International	At the sale Domestic	At the sale International	Total Revenues
Passenger Revenues					
Fare Revenues	Ps. 15,833,878	Ps. 7,296,113	Ps. –	Ps. –	Ps. 23,129,991
Other Passenger Revenues	7,531,725	2,865,555	119,466	52,462	10,569,208
	23,365,603	10,161,668	119,466	52,462	33,699,199
Non-Passenger Revenues					
Other Non-Passenger revenues	888,353	9,233	–	–	897,586
Cargo	221,375	7,461	–	–	228,836
Total	Ps. 24,475,331	Ps. 10,178,362	Ps. 119,466	Ps. 52,462	Ps. 34,825,621
Non-derivative financial instruments					(72,949)
					Ps. 34,752,672

Revenue recognition as of December 31, 2018	At the flight time Domestic	At the flight time International	At the sale Domestic	At the sale International	Total Revenues
Passenger Revenues					
Fare Revenues	Ps. 12,336,095	Ps. 6,151,763	Ps. –	Ps. –	Ps. 18,487,858
Other Passenger Revenues	5,182,572	2,598,375	68,264	43,286	7,892,497
	17,518,667	8,750,138	68,264	43,286	26,380,355
Non-Passenger Revenues					
Other Non-Passenger revenues	685,219	12,138	–	–	697,357
Cargo	221,324	6,114	–	–	227,438
Total	Ps. 18,425,210	Ps. 8,768,390	Ps. 68,264	Ps. 43,286	Ps. 27,305,150

Transactions from unearned transportation revenues.

	2020	2019
January 1,	Ps. 3,679,926	Ps. 2,438,516
Deferred	23,657,563	34,940,609
Recognized in revenue during the year	(21,486,572)	(33,699,199)
December 31,	Ps. 5,850,917	Ps. 3,679,926

The performance obligations related to contract liability are recognized over the following 12 months and are related to the scheduled flights and other passenger services purchased by the client in advance.

e) Cash and cash equivalents

Cash and cash equivalents are represented by bank deposits and highly liquid investments with maturities of 90 days or less at the original purchase date. For the purposes of the consolidated statements of cash flows, cash and cash equivalents consist of cash and short-term investments as defined above.

The Company has agreements with financial institutions that process customer credit card transactions for the sale of air travel and other services. These credit card processing agreements doesn't have significant cash reserve requirements.

f) Financial instruments -initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset for one entity and a financial liability or equity instrument for another entity.

i) Financial assets

Initial recognition

Classification of financial assets and initial recognition

The Company determines the classification and measurement of financial assets, in accordance with the categories in IFRS 9, which are based on both: the characteristics of the contractual cash flows of these assets and the business model objective for holding them.

Financial assets include those carried at FVTPL, whose objective to hold them is for trading purposes (short-term investments), or at amortized cost, for accounts receivables held to collect the contractual cash flows, which are characterized by solely payments of principal and interest ("SPPI"). Derivative financial instruments are also considered financial assets when these represent contractual rights to receive cash or another financial asset. All the Company's financial assets are initially recognized at fair value, including derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their initial classification, as is described below:

1. Financial assets at FVTPL which include financial assets held for trading.
2. Financial assets at amortized cost, whose characteristics meet the SPPI criterion and were originated to be held to collect principal and interest in accordance with the Company's business model.
3. Financial assets at fair value through OCI with recycling of cumulative gains and losses.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

a) The rights to receive cash flows from the asset have expired;
b) The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (i) the Company has transferred substantially all the risks and rewards of the asset, or (ii) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset; or

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

ii) Impairment of financial assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events has occurred since the initial recognition of an asset (an incurred 'loss event'), that has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in receivable, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Further disclosures related to impairment of financial assets are also provided in Note 8.

For trade receivables, the Company applies a simplified approach in calculating expected credit losses (ECLs). Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date.

Based on this evaluation, allowances are taken into account for the expected losses of these receivables. For the years ended December 31, 2020 y 2019 the Company recorded expected credit losses on accounts receivable of Ps.13,664 and Ps.40,393, respectively (Note 8).

iii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, accounts payables to suppliers, unearned transportation revenue, other accounts payable and financial instruments.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

Financial liabilities at amortized cost

Accounts payable, are subsequently measured at amortized cost and do not bear interest or result in gains and losses due to their short-term nature.

Loans and borrowings are the category most relevant to the Company. After initial recognition at fair value (consideration received), interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on issuance and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the consolidated statements of operations. This amortized cost category generally applies to interest-bearing loans and borrowings (Note 5).

Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities under the fair value option, which are classified as held for trading, if they are acquired for the purpose of selling them in the near future. This category includes derivative financial instruments that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. During the years ended December 31, 2020 and 2019 the Company has not designated any financial liability as at FVTPL.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability.

The difference in the respective carrying amounts is recognized in the consolidated statements of operations.

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount is reported in the consolidated statement of financial position if there is:

(i) A currently enforceable legal right to offset the recognized amounts, and
(ii) An intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

g) Other accounts receivable

Other accounts receivables are due primarily from major credit card processors associated with the sales of tickets and are stated at cost less allowances made for credit losses, which approximates fair value given their short-term nature.

h) Inventories

Inventories consist primarily of flight equipment expendable parts, materials and supplies, and are initially recorded at acquisition cost. Inventories are carried at the lower of cost and their net realization value. The cost is determined on the basis of the method of specific identification and expensed when used in operations.

i) Intangible assets

Cost related to the purchase or development of computer software that is separable from an item of related hardware is capitalized separately measured at cost and amortized over the period in which it will generate benefits not exceeding five years on a straight-line basis. The Company annually reviews the estimated useful lives and salvage values of intangible assets and any changes are accounted for prospectively.

The Company records impairment charges on intangible assets used in operations when events and circumstances indicate that the assets or related cash generating unit may be impaired and the carrying amount of a long-lived asset or cash generating unit exceeds its recoverable amount, which is the higher of (i) its fair value less cost to sell, and (ii) its value in use.

The value in use calculation is based on a discounted cash flow model, using our projections of operating results for the near future. The recoverable amount of long-lived assets is sensitive to the uncertainties inherent in the preparation of projections and the discount rate used in the calculation. For the years ended December 31, 2020 and 2019, the Company did not record any impairment loss in the value of its intangible assets.

j) Guarantee deposits

Guarantee deposits consist primarily of aircraft maintenance deposits paid to lessors, deposits for rent of flight equipment and other guarantee deposits. Aircraft and engine deposits are held by lessors in U.S. dollars and are presented as current assets and non-current assets, based on the recovery dates of each deposit established in the related agreements (Note 11).

Aircraft maintenance deposits paid to lessors

Most of the Company's lease agreements require the Company to pay maintenance deposits to aircraft lessors to be held as collateral in advance of the Company's performance of major maintenance activities. These lease agreements provide that maintenance deposits are reimbursable to the Company upon completion of the maintenance event in an amount equal to the lesser of (i) the amount of the maintenance deposits held by the lessor associated with the specific maintenance event, or (ii) the qualifying costs related to the specific maintenance event.

Substantially all these maintenance deposits are calculated based on a utilization measure of the leased aircrafts and engines, such as flight hours or cycles, and are used solely to collateralize the lessor for maintenance time run off the aircraft and engines until the completion of the maintenance of the aircraft and engines.

Maintenance deposits expected to be recovered from lessors are reflected as guarantee deposits in the accompanying consolidated statement of financial position. These deposits are recorded as a monetary asset and are revaluated in order to record the foreign currency changes at each reported period. The Company makes certain assumptions at the inception of the lease and at each consolidated statement of financial position date to determine the recoverability of maintenance deposits. These assumptions are based on various factors such as the estimated time between the maintenance events, the date the aircraft is due to be returned to the lessor, and the number of flight hours the aircraft and engines is estimated to be utilized before it is returned to the lessor.

Some other aircraft lease agreements do not require the obligation to pay maintenance deposits to lessors in advance in order to ensure major maintenance activities, so the Company does not record guarantee deposits regarding these aircraft. However, certain of these lease agreements include the obligation to make a maintenance adjustment payment to the lessors at the end of the lease period. These maintenance adjustments cover maintenance events that are not expected to be made before the termination of the lease; for such agreements the Company accrues a liability related to the amount of the costs to be incurred at the lease term, since no maintenance deposits had been made, Note 15c). The portion of prepaid maintenance deposits that is deemed unlikely to be recovered and accruals in lien of maintenance deposits, are recorded as a variable lease payment and is presented as supplemental rent in the consolidated statements of operations. For the years ended December 31, 2020, 2019 and 2018, the Company expensed as supplemental rent Ps.421,030, Ps.295,720 and Ps.299,601, respectively.

During the year ended December 31, 2020, 2019 and 2018, the Company added seven, seven and ten new net leases aircraft to its fleet, respectively (Note 14).

During the year ended December 31, 2020, the Company did not extend the lease term of aircraft and engines agreements. During the years ended December 31, 2019 and 2018, the Company extended the lease term of one and two aircraft agreements, respectively. Additionally, the Company extended the lease term of one spare engine in 2019 and two spare engines in 2018. The maintenance event for which the maintenance deposits were previously expensed was scheduled to occur after the original lease term and as such the supplemental rental payments were expensed. However, when the leases were amended the maintenance deposits amounts became probable of recovery due to the longer lease term and as such they are being recognized as an asset.

The effect of these lease extensions was recognized as a lease incentive reducing the right of use asset (Note 14).

k) Aircraft and engine maintenance

The Company is required to conduct various levels of aircraft maintenance. Maintenance requirements depend on the type of aircraft, age and the route network over which it operates.

Fleet maintenance requirements may involve short cycle engineering checks, for example, component checks, monthly checks, annual airframe checks and periodic major maintenance and engine checks.

Aircraft maintenance and repair consists of routine and non-routine works, divided into three general categories: (i) routine maintenance, (ii) major maintenance and (iii) component service.

(i) Routine maintenance requirements consist of scheduled maintenance checks on the Company's aircraft, including pre-flight, daily, weekly and overnight checks, any diagnostics and routine repairs and any unscheduled tasks performed as required. These type of maintenance events are currently serviced by Company mechanics and are primarily completed at the main airports that the Company currently serves.

All other maintenance activities are sub-contracted to qualified maintenance business partner, repair and overhaul organizations. Routine maintenance also includes scheduled tasks that can take from seven to 14 days to accomplish and typically are required approximately every 22 months. All routine maintenance costs are expensed as incurred.

(ii) Major maintenance consists of a series of more complex tasks that can take up to six weeks to accomplish and typically are required approximately every five to six years.

Major maintenance is accounted for under the deferral method, whereby the cost of major maintenance and major overhaul and repair is capitalized (leasehold improvements to flight equipment) and amortized over the shorter of the period to the next major maintenance event or the remaining contractual lease term. The next major maintenance event is estimated based on assumptions including estimated usage. The United States Federal Aviation Administration ("FAA") and the Mexican Federal Civil Aviation Agency (*Agencia Federal de Aviación Civil*) mandate maintenance intervals and average removal times as suggested by the manufacturer.

These assumptions may change based on changes in the utilization of aircraft, changes in government regulations and suggested manufacturer maintenance intervals. In addition, these assumptions can be affected by unplanned incidents that could damage an airframe, engine, or major component to a level that would require a heavy maintenance event prior to a scheduled maintenance event. To the extent the planned usage increases, the estimated life would decrease before the next maintenance event, resulting in additional expense over a shorter period.

During the years ended December 31, 2020 and 2019, the Company capitalized major maintenance events as part of leasehold improvements to flight equipment for an amount of Ps.646,219 and Ps.659,082, respectively. For the years ended December 31, 2020 and 2019, the amortization of major maintenance leasehold improvement costs was Ps.652,091 and Ps.450,371, respectively. The amortization of deferred maintenance costs is recorded as part of depreciation and amortization in the consolidated statements of operations.

(iii) The Company has a power-by-the hour agreement for component services, which guarantees the availability of aircraft parts for the Company's fleet when they are required. It also provides aircraft parts that are included in the redelivery conditions of the contract (hard time) without constituting an additional cost at the time of redelivery. The monthly maintenance cost associated with this agreement is recognized as incurred in the consolidated statements of operations.

The Company has an engine flight hour agreement (component repair agreement), that guarantees a cost per overhaul, provides miscellaneous engines coverage, caps the cost of foreign objects damage events, ensures there is protection from annual escalations, and grants an annual credit for scrapped components. The cost associated with the miscellaneous engines' coverage is recorded monthly as incurred in the consolidated statements of operations.

l) Rotable spare parts, furniture and equipment, net

Rotable spare parts, furniture and equipment, are recorded at cost and are depreciated to estimated residual values over their estimated useful lives using the straight-line method.

Aircraft spare engines have significant components with different useful lives; therefore, they are accounted for as separate items (major components) of spare engine parts (Note 12e).

Pre-delivery payments refer to prepayments made to aircraft and engine manufacturers during the manufacturing stage of the aircraft. The borrowing costs related to the acquisition or construction of a qualifying asset are capitalized as part of the cost of that asset.

During the years ended December 31, 2020, 2019 and 2018, the Company capitalized borrowing costs which amounted to Ps.384,038, Ps.456,313 and Ps.357,920, respectively (Note 21). The rate used to determine the amount of borrowing cost was 3.58%, 5.10% and 4.41%, for the years ended December 31, 2020, 2019 and 2018, respectively.

Depreciation rates are as follows:

	Annual depreciation rate
Flight equipment	4.0-16.7%
Constructions and improvements	Remaining contractual lease term
Computer equipment	25%
Workshop tools	33.3%
Electric power equipment	10%
Communications equipment	10%
Workshop machinery and equipment	10%
Motorized transport equipment platform	25%
Service carts on board	20%
Office furniture and equipment	10%
Leasehold improvements to flight equipment	The shorter of: (i) remaining contractual lease term, or (ii) the next major maintenance event

The Company reviews annually the useful lives of these assets and any changes are accounted for prospectively.

The Company identified one Cash Generating Unit (CGU), which includes the entire aircraft fleet and flight equipment. The Company assesses, at each reporting date, whether there is an objective evidence that rotable spare parts, furniture and equipment and right of use asset are impaired in the CGU. The Company records impairment charges on rotable spare parts, furniture and equipment and right of use assets used in operations when events and circumstances indicate that the assets may be impaired or when the carrying amount of a long-lived asset or related cash generating unit exceeds its recoverable amount, which is the higher of (i) its fair value less cost to sell and (ii) its value in use.

The value in use calculation is based on a discounted cash flow model, using projections of operating results for the near future. The recoverable amount of long-lived assets is sensitive to the uncertainties inherent in the preparation of projections and the discount rate used in the calculation.

During 2020, the Company performed its annual impairment test. The recoverable amount of the CGU was determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management, covering a five-year period. The projected cash flows have been updated to reflect the future operating cashflows. It was concluded that the carrying amount of the CGU did not exceed the value in use. Consequently, for the years ended December 31, 2020, 2019 and 2018, there were no impairment charges recorded in respect of the Company's cash generating unit.

For the years ended December 31, 2020, there was no impairment charges recorded in respect of the Company's cash generating unit despite of the consequence of decreased operations as a result of Covid-19.

m) Foreign currency transactions and exchange differences

The Company's consolidated financial statements are presented in Mexican peso, which is the reporting and functional currency of the parent Company. For each subsidiary, the Company determines the functional currency and items included in the financial statements of each entity are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The financial statements of foreign subsidiaries prepared under IFRS and denominated in their respective local currencies, are translated into the functional currency as follows:

- Transactions in foreign currencies are translated into the respective functional currencies at the exchange rates at the dates of the transactions.
- All monetary assets and liabilities were translated at the exchange rate at the consolidated statement of financial position date.
- All non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.
- Equity accounts are translated at the prevailing exchange rate at the time the capital contributions were made and the profits were generated.
- Revenues, costs and expenses are translated at the average exchange rate during the applicable period.

Any differences resulting from the currency translation are recognized in the consolidated statements of operations and the OCI.

For the year ended December 31, 2020, 2019 and 2018, the exchange rates of local currencies translated to functional currencies are as follows:

			Exchange rates of local currencies translated to functional currencies					
Country	Local currency	Functional currency	Average exchange rate for 2020	Exchange rate as of 2020	Average exchange rate for 2019	Exchange rate as of 2019	Average exchange rate for 2018	Exchange rate as of 2018
Costa Rica	Colon	U.S. dollar	¢. 588.4240	¢. 615.7800	¢. 590.9574	¢. 573.4400	¢. 580.8534	¢. 609.6100
Guatemala	Quetzal	U.S. dollar	Q. 7.7292	Q. 7.8095	Q. 7.7066	Q. 7.6988	Q. 7.5337	Q. 7.7440
El Salvador	U.S Dollar	U.S. dollar	$. 21.4961	$. 19.9487	$. 19.2618	$. 18.8452	$. –	$. –

The exchange rates used to translate the above amounts to Mexican pesos at December 31, 2020, 2019 and 2018, were Ps.19.9487, Ps.18.8452 and Ps.19.6829, respectively, per U.S. dollar.

Foreign currency differences arising on translation into the presentation currency are recognized in OCI. Exchange differences on translation of foreign entities for the year ended December 31, 2020, 2019 and 2018, were Ps.23,970, Ps.8,045 and Ps.22,156, respectively.

n) Liabilities and provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

o) Employee benefits

i) Personnel vacations

The Company and its subsidiaries in Mexico and Central America recognize a reserve for the costs of paid absences, such as vacation time, based on the accrual method.

ii) Termination benefits

The Company recognizes a liability and expense for termination benefits at the earlier of the following dates:

a) When it can no longer withdraw the offer of those benefits; and

b) When it recognizes costs for a restructuring that is within the scope of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and involves the payment of termination benefits.

The Company is demonstrably committed to a termination when, and only when, it has a detailed formal plan for the termination and is without realistic possibility of withdrawal.

For the years ended December 31, 2020 and 2019, no termination benefits provision has been recognized.

iii) Seniority premiums

In accordance with Mexican Labor Law, the Company provides seniority premium benefits to the employees which rendered services to its Mexican subsidiaries under certain circumstances. These benefits consist of a one-time payment equivalent to 12 days' wages for each year of service (at the employee's most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with 15 or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit.

Obligations relating to seniority premiums other than those arising from restructurings, are recognized based upon actuarial calculations and are determined using the projected unit credit method.

The latest actuarial computation was prepared as of December 31, 2020. Remeasurement gains and losses are recognized in full in the period in which they occur in OCI. Such remeasurement gains and losses are not reclassified to profit or loss in subsequent periods.

The defined benefit asset or liability comprises the present value of the defined benefit obligation using a discount rate based on government bonds, less the fair value of plan assets out of which the obligations are to be settled.

For entities in Costa Rica, Guatemala and El Salvador there is no obligation to pay seniority premium, these countries have Post- Employee Benefits.

iv) Incentives

The Company has a quarterly incentive plan for certain personnel whereby cash bonuses are awarded for meeting certain performance targets. These incentives are payable shortly after the end of each quarter and are accounted for as a short-term benefit under IAS 19, Employee Benefits. A provision is recognized based on the estimated amount of the incentive payment. During the years ended December 31, 2020, 2019 and 2018 the Company expensed Ps.25,918, Ps.62,825 and Ps.67,680, respectively, as quarterly incentive bonuses, recorded under the caption salaries and benefits.

The Company has a short-term benefit plan for certain key personnel whereby cash bonuses are awarded when certain Company's performance targets are met. These incentives are payable shortly after the end of each year and also are accounted for as a short-term benefit under IAS 19. A provision is recognized based on the estimated amount of the incentive payment. During the years ended December 31, 2020, 2019 and 2018 the Company recorded an expense for an amount of Ps.0, Ps.80,634 and Ps.50,000, respectively, under the caption salaries and benefits.

v) Long-term incentive plan ("LTIP") and long-term retention plan (LTRP)

The Company has adopted a Long-term incentive plan ("LTIP"). This plan consists of a share purchase plan (equity-settled) and a share appreciation rights "SARs" plan (cash settled), and therefore accounted under IFRS 2 "Shared based payments". This incentive plan has been granting annual extensions in the same terms from the original granted in 2014.

During 2020, 2019 and 2018, the Company approved a new long-term retention plan ("LTRP"), which consisted in a purchase plan (equity-settled). This plan does not include cash compensations granted through appreciation rights on the Company's shares. The retention plans granted in previous periods will continue in full force and effect until their respective due dates and the cash compensation derived from them will be settled according to the conditions established in each plan.

vi) Share-based payments

a) LTIP

- Share purchase plan (equity-settled)

Certain key employees of the Company receive additional benefits through a share purchase plan denominated in Restricted Stock Units ("RSUs"), which has been classified as an equity-settled share-based payment. The cost of the equity-settled share purchase plan is measured at grant date, taking into account the terms and conditions on which the share options were granted. The equity-settled compensation cost is recognized in the consolidated statement of operations under the caption of salaries and benefits, over the requisite service period (Note 17).

During the years ended December 31, 2020, 2019 and 2018, the Company expensed Ps.75,040, Ps.49,659 and Ps.19,980, respectively, related to RSUs granted under the LTIP and LTRP. The expenses were recorded under the caption salaries and benefits.

- SARs plan (cash settled)

The Company granted SARs to key employees, which entitle them to a cash payment after a service period. The amount of the cash payment is determined based on the increase in the share price of the Company between the grant date and the time of exercise. The liability for the SARs is measured, initially and at the end of each reporting period until settled, at the fair value of the SARs, taking into account the terms and conditions on which the SARs were granted. The compensation cost is recognized in the consolidated statement of operations under the caption of salaries and benefits, over the requisite service period (Note 17). During the years ended December 31, 2020, 2019 and 2018, the Company recorded an expense (benefit) expense for Ps.(1,901), Ps.2,964 and Ps.(186), respectively, related to the SARs included in the LTIP. These amounts were recorded under the caption salaries and benefits.

b) Management incentive plan ("MIP")

- MIP I

Certain key employees of the Company receive additional benefits through a share purchase plan, which has been classified as an equity-settled share-based payment. The equity-settled compensation cost is recognized in the consolidated statement of operations under the caption of salaries and benefits, over the requisite service period (Note 17). The total cost of this plan has been totally recognized during the required service period.

- MIP II

On February 19, 2016, the Board of Directors of the Company authorized an extension to the MIP for certain key employees, this plan was named MIP II. In accordance with this plan, the Company granted SARs to key employees, which entitle them to a cash payment after a service period. The amount of the cash payment is determined based on the increase in the share price of the Company between the grant date and the time of exercise. The liability for the SARs is measured initially and at the end of each reporting period until settled at the fair value of the SARs, taking into account the terms and conditions on which the SARs were granted. The compensation cost is recognized in the consolidated statement of operations under the caption of salaries and benefits, over the requisite service period (Note 17).

During the years ended December 31, 2020, 2019 and 2018, the Company recorded an expense (benefit) for Ps.107,204, Ps.37,760 and Ps.(5,052), respectively, related to MIP II into the consolidated statement of operations.

c) Board of Directors Incentive Plan (BoDIP)

Certain members of the Board of Directors of the Company receive additional benefits through a share-based plan, which has been classified as an equity-settled share-based payment and therefore accounted under IFRS 2 "Shared based payments".

In April 2018, the Board of Directors of the Company authorized a Board of Directors Incentive Plan "BoDIP", for the benefit of certain board members. The BoDIP grants options to acquire shares of the Company or CPOs during a four year period with an exercise price share at Ps.16.12, which was determined on the grant date. Under this plan, no service or performance conditions are required to the board members for exercise the option to acquire shares, and therefore, they have the right to request the delivery of those shares at the time they pay for them.

vii) Employee profit sharing

The Mexican Income Tax Law ("MITL"), establishes that the base for computing current year employee profit sharing shall be the taxpayer's taxable income of the year for income tax purposes, including certain adjustments established in the Income Tax Law, at the rate of 10%. For the years ended December 2020, 2019 and 2018, the employee profit sharing is Ps.13,458, Ps.22,134 and Ps.14,106, respectively, and is presented as an expense in the consolidated statements of operations. Subsidiaries in Central America do not have such profit-sharing benefit, as it is not required by local regulation.

p) Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Company recognize right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, and lease payments made at or before the commencement date less any lease incentives received.

Components of the right-of-use assets are depreciated on a straight-line basis over the shorter of the remining lease term and the estimated useful lives of the assets, as follows:

Aircraft and engines	up to 18 years
Spare engines	up to 14 years
Buildings leases	one to ten years
Maintenance component	up to eight years

ii) Lease Liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset.

The short-term leases and leases of low value assets are recognized as expense on a straight-line basis over the lease term.

During the years ended December 31, 2020, 2019 and 2018, there were no impairment charges recorded in respect of the Company right-of-use asset.

iii) Sale and leaseback

The Company enters into sale and leaseback agreements whereby an aircraft or engine is sold to a lessor upon delivery and the lessor agrees to lease such aircraft or engine back to the Company.

The Company measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the Company recognizes in the Statement of Operations only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor. The rest of the gain is amortized over the lease term.

iv) Return obligations

The aircraft lease agreements of the Company also require that the aircraft and engines be returned to lessors under specific conditions of maintenance. The costs of return, which in no case are related to scheduled major maintenance, are estimated and recognized ratably as a provision from the time it becomes likely such costs will be incurred and can be estimated reliably. These return costs are recognized on a straight-line basis as a component of variable lease expenses and the provision is included as part of other liabilities, through the remaining lease term. The Company estimates the provision related to airframe, engine overhaul and limited life parts using certain assumptions including the projected usage of the aircraft and the expected costs of maintenance tasks to be performed. For the years ended December 31, 2020, 2019 and 2018, the Company expensed as variable rent of Ps.1,428,179, Ps.680,964 and Ps.659,106, respectively.

q) Other taxes and fees payable

The Company is required to collect certain taxes and fees from customers on behalf of government agencies and airports and to remit these to the applicable governmental entity or airport on a periodic basis. These taxes and fees include federal transportation taxes, federal security charges, airport passenger facility charges, and foreign arrival and departure fees. These charges are collected from customers at the time they purchase their tickets but are not included in passenger revenue. The Company records a liability upon collection from the customer and discharges the liability when payments are remitted to the applicable governmental entity or airport.

r) Income taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax relating to items recognized directly in equity is recognized in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except, in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry-forward of unused tax credits and any available tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and available tax losses can be utilized, except, in respect of deductible temporary differences associated with investments in subsidiaries deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilized.

The Company considers the following criteria in assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilized: (a) whether the entity has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses or unused tax credits can be utilized before they expire; (b) whether it is probable that the Company will have taxable profits before the unused tax losses or unused tax credits expire; (c) whether the unused tax losses result from identifiable causes which are unlikely to recur; and (d) whether tax planning opportunities are available to the Company that will create taxable profit in the period in which the unused tax losses or unused tax credits can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction in OCI.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

The charge for income taxes incurred is computed based on tax laws approved in Mexico, Costa Rica, Guatemala and El Salvador at the date of the consolidated statement of financial position.

s) Derivative and non-derivative financial instruments and hedge accounting

The Company mitigates certain financial risks, such as volatility in the price of jet fuel, adverse changes in interest rates and exchange rate fluctuations, through a risk management program that includes the use of derivative financial instruments and non-derivative financial instrument.

In accordance with IFRS 9, derivative financial instruments and non-derivative financial instruments are recognized in the consolidated statement of financial position at fair value. At inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting, as well as the risk management objective and strategy for undertaking the hedge. The documentation includes the hedging strategy and objective, identification of the hedging instrument, the hedged item or transaction, the nature of the risks being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk(s).

Only if such hedges are expected to be effective in achieving offsetting changes in fair value or cash flows of the hedge item(s) and are assessed on an ongoing basis to determine that they have been effective throughout the financial reporting periods for which they were designated, hedge accounting treatment can be used.

Under the cash flow hedge (CFH) accounting model, the effective portion of the hedging instrument's changes in fair value is recognized in OCI, while the ineffective portion is recognized in current year earnings in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item. During the years ended December 31, 2019 and 2018, there was no ineffectiveness with respect to derivative financial instruments. The amounts recognized in OCI are transferred to earnings in the period in which the hedged transaction affects earnings. During the year ended December 31, 2020, the Company recorded the ineffective portion of Ps.448.6 million with respect to derivative financial instruments.

The realized gain or loss of derivative financial instruments and non-derivative financial instruments that qualify as CFH are recorded in the same caption of the hedged item in the consolidated statement of operations.

Accounting for the time value of options

The Company accounts for the time value of options in accordance with IFRS 9, which requires all derivative financial instruments to be initially recognized at fair value. Subsequent measurement for options purchased and designated as CFH requires that the option's changes in fair value be segregated into its intrinsic value (which will be considered the hedging instrument's effective portion in OCI) and its correspondent changes in extrinsic value (time value and volatility). The extrinsic value changes will be considered as a cost of hedging (recognized in OCI in a separate component of equity) and accounted for in income when the hedged items also are recognized in income.

t) Financial instruments – Disclosures

IFRS 7 requires a three-level hierarchy for fair value measurement disclosures and requires entities to provide additional disclosures about the relative reliability of fair value measurements (Notes 4 and 5).

u) Treasury shares

The Company's equity instruments that are reacquired (treasury shares), are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of treasury shares. Any difference between the carrying amount and the consideration received, if reissued, is recognized in additional paid in capital. Share-based payment options exercised during the reporting period are settled with treasury shares (Note 17).

v) Operating segments

Management of Controladora monitors the Company as a single business unit that provides air transportation and related services, accordingly it has only one operating segment.

The Company has two geographic areas identified as domestic (Mexico) and international (United States of America and Central America) Note 24.

w) Current versus non-current classification

The Company presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is: (i) expected to be realized or intended to be sold or consumed in normal operating cycle, (ii) expected to be realized within twelve months after the reporting period, or, (iii) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as non-current. A liability is current when: (i) it is expected to be settled in normal operating cycle, (ii) it is due to be settled within twelve months after the reporting period, or, (iii) there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. The Company classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

x) Impact of new International Financial Reporting Standards

New and amended standards and interpretations already effective

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2020. The Company has not early adopted any other standard interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below:

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments did not have an impact on consolidated financial statements of the Company.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the consolidated financial statements of the Company.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Company.

Conceptual Framework for Financial Reporting issued on March 29, 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Company.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. This amendment had impact on the consolidated financial statements of the Company (Note 14).

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

These amendments had no impact on the consolidated financial statements of the Company.

y) Convenience translation

U.S. dollar amounts at December 31, 2020 shown in the consolidated financial statements have been included solely for the convenience of the reader and are translated from Mexican pesos, using an exchange rate of Ps.19.9487 per U.S. dollar, as reported by the Mexican Central Bank (Banco de México) as the rate for the payment of obligations denominated in foreign currency payable in Mexico in effect on December 31, 2020. Such translation should not be construed as a representation that the peso amounts have been or could be converted into U.S. dollars at this or any other rate. The referred information in U.S. dollars is solely for information purposes and does not represent that the amounts are in accordance with IFRS or the equivalent in U.S. dollars in which the transactions were conducted or in which the amounts presented in Mexican pesos can be translated or realized.

2. Significant accounting judgments, estimates and assumptions

The preparation of these financial statements requires management to make estimates, assumptions and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of the Company's consolidated financial statements. Note 1 to the Company's consolidated financial statements provides a detailed discussion of the significant accounting policies. Certain of the Company's accounting policies reflect significant judgments, assumptions or estimates about matters that are both inherently uncertain and material to the Company's financial position or results of operations.

Actual results could differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimate is revised. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

For Leases significant accounting judgments, estimates and assumptions refer to Note 1p (iv).

i) LTIP, LTRP and MIP (equity settled)

The Company measures the cost of its equity-settled transactions at fair value at the date the equity benefits are conditionally granted to employees. The cost of equity-settled transactions is recognized in earnings, together with a corresponding increase in treasury shares, over the period in which the performance and/or service conditions are fulfilled. For grants that vest on meeting performance conditions, compensation cost is recognized when it becomes probable that the performance condition will be met. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model, including the expected life of the share option, volatility and dividend yield, and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in (Note 17).

SARs plan (cash settled)

The cost of the SARs plan is measured initially at fair value at the grant date, further details of which are given in (Note 17). This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognized in salaries and benefits expense together with the grant date fair value. As with the equity settled awards described above, the valuation of cash settled award also requires using similar inputs, as appropriate.

ii) Deferred taxes

Deferred tax assets are recognized for all available tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management's judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning opportunities to advance taxable profit before expiration of available tax losses.

Tax losses relate to operations of the Company on a stand-alone basis, in conformity with current Tax Law and may be carried forward against taxable income generated in the succeeding years at each country and may not be used to offset taxable income elsewhere in the Company's consolidated group (Note 19).

During the years ended December 31, 2020, 2019 and 2018, the Company used Ps.0, Ps.214,460 and Ps.154,353, respectively, of the available tax loss carry-forwards.

iii) Fair value measurement of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated statements of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The judgments include considerations of inputs such as liquidity risk, credit risk and expected volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments (Note 4).

iv) Impairment of long-lived assets

The Company assesses whether there are indicators of impairment for long-lived assets and right of use assets, annually and at other times when such indicators exist in the related CGU. Impairment exists when the carrying amount of a long-lived asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less cost to sell and its value-in-use.

In making these determinations, the Company uses certain assumptions, including, but not limited to estimated, undiscounted future cash flows expected to be generated by these assets, which are based on additional assumptions such as asset utilization, length of service the asset will be used in the Company's operations, excluding additions and extensions.

The Company's assumptions about future conditions important to its assessment of potential impairment of its long-lived assets, including the impact of the COVID-19 pandemic to its business, are subject to uncertainty, and the Company will continue to monitor these conditions in future periods as new information becomes available, and will updated its analyses accordingly.

The Company has assessed whether any impairment of its long-lived assets existed and has determined that no charges were deemed necessary under applicable accounting standards as of December 31, 2020.

v) Allowance for expected credit loss

An allowance for expected credit loss on accounts receivables is established in accordance with the information mentioned in Note 1f) ii).

vi) Leases - Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in its leases, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

3. Financial instruments and risk management

Financial risk management

The Company's activities are exposed to different financial risks stemmed from exogenous variables which are not under their control but whose effects might be potentially adverse such as: (i) market risk, (ii) credit risk, and (iii) liquidity risk.

The Company's global risk management program is focused on uncertainty in the financial markets and tries to minimize the potential adverse effects on net earnings and working capital requirements. The Company uses derivative financial instruments to hedge part of such risks. The Company does not enter into derivatives for trading or speculative purposes. The sources of these financial risks exposures are included in both "on balance sheet" exposures, such as recognized financial assets and liabilities, as well as in "off-balance sheet" contractual agreements and on highly expected forecasted transactions. These on and off-balance sheet exposures, depending on their profiles, do represent potential cash flow variability exposure, in terms of receiving less inflows or facing the need to meet outflows which are higher than expected, therefore increase the working capital requirements.

Since adverse movements erode the value of recognized financial assets and liabilities, as well some other off-balance sheet financial exposures, there is a need for value preservation, by transforming the profiles of these fair value exposures. The Company has a Finance and Risk Management department, which identifies and measures financial risk exposures, in order to design strategies to mitigate or transform the profile of certain risk exposures, which are taken up to the corporate governance level for approval.

Market risk

a) Jet fuel price risk

Since the contractual agreements with jet fuel suppliers include reference to jet fuel index, the Company is exposed to fuel price risk which might have an impact on the forecasted consumption volumes. The Company's jet fuel risk management policy aims to provide the Company with protection against increases in jet fuel prices. In an effort to achieve the aforesaid, the risk management policy allows the use of derivative financial instruments available on over the counter ("OTC") markets with approved counterparties and within approved limits. Aircraft jet fuel consumed in the years ended December 31, 2020, 2019 and 2018 represented 28%, 38% and 38%, of the Company's operating expenses, respectively. The foreign currency risk is disclosed within subsection b) in this note.

During the year ended December 31, 2020 and 2019, the Company entered into US Gulf Coast Jet fuel 54 Asian call options designated to hedge 23,967 and 13,492 thousand gallons respectively. Such hedges represented a portion of the projected consumption for the 2Q 2020, 3Q 2020 & 1Q 2021 and for the 4Q 2019, respectively. Additionally, during the same period, the Company entered into US Gulf Coast Jet Fuel 54 Asian Zero-Cost collar options designated to hedge 81,646 thousand gallons and 70,136 thousand gallons, respectively. Such hedges represent a portion of the projected consumption for the 2Q 2020, 2H 2020 & 2Q 2021 and the year 2020, respectively.

Furthermore, the Company restructured part of its hedging portfolio by unwinding put legs on two Zero-Cost Collars instruments with maturity dates of June & July to reduce crude market exposure, in line with capacity adjustments due to COVID-19 outbreak.

For the year ended December 31, 2020, the Company recognized an unwind of the Zero cost collar of Ps.42,644 which was recognized as part of finance cost.

In accordance with IFRS 9 the Company separates the intrinsic value from the extrinsic value of an option contract; as such, the change in the intrinsic value can be designated as hedge accounting. Because extrinsic value (time and volatility values) of the Asian call options is related to a "transaction related hedged item", it is required to be segregated and accounted for as a cost of hedging in OCI and accrued as a separate component of stockholders' equity until the related hedged item matures and therefore impacts profit and loss.

The underlying (US Gulf Coast Jet Fuel 54) of the options held by the Company is a consumption asset (energy commodity), which is not in the Company's inventory. Instead, it is directly consumed by the Company's fleet at different airport terminals. Therefore, although a non-financial asset is involved, its initial recognition does not generate a book adjustment in the Company's inventories.

Rather, it is initially accounted for in the Company's OCI and a reclassification adjustment is made from OCI to profit and loss and recognized in the same period or periods in which the hedged item is expected to be allocated to profit and loss. Furthermore, the Company hedges its forecasted jet fuel consumption month after month, which is congruent with the maturity date of the monthly serial Asian call options and Zero-Cost Collars.

The Company has a hedging policy in place to stablish guidelines to hedge fuel consumption; nevertheless, with COVID-19 outbreak, capacity was considerably reduced, thereby, ineffectiveness arose in the hedging relationship.

As of December 31, 2020 and 2019, the fair value of the outstanding US Gulf Coast Jet Fuel Asian call options was Ps.206 and Ps.0, respectively. As of December 31, 2020 and 2019 the Zero-Cost Collars outstanding balance was of Ps.(9,657) and Ps.133,567, respectively and are presented as part of the financial assets and financial liabilities in the consolidated statement of financial position. (See Note 4).

During the year ended December 31, 2020, the intrinsic value of the Asian call options recycled to the fuel cost was an expense of Ps.33,627 (Ps.20,646 which was recognized in the fuel cost and an expense of Ps.12,981 in finance cost).

During the year ended December 31, 2019, the intrinsic value of the Asian call options recycled to the fuel cost was an expense of Ps.61,069.

During the year ended December 31, 2018, the intrinsic value of the Asian call options recycled to the fuel cost was a benefit of Ps.402,493.

During the year ended December 31, 2020, the intrinsic value of the Zero-Cost Collars recycled to the fuel cost was an expense of Ps.1,271,462. (Ps.835,884 which was recognized in the fuel cost and an expense of Ps.435,578 in finance cost) and for the year ended December 2019 and 2018 the intrinsic value of the Zero-Cost Collars recycled to the fuel cost was an expense of Ps.9,477. As of December 31, 2018, the Company did not have intrinsic value recycled to the fuel cost as settlements started taking place on 2019.

The cost of hedging derived from the extrinsic value changes of the jet fuel hedged position as of December 31, 2020 recognized in other comprehensive income totals Ps.21,650. The (benefit) cost of hedging in December 2019 and 2018 totals (Ps.133,567) and Ps.134,096, and will be recycled to the fuel cost during 2021, as these options expire on a monthly basis and the jet fuel is consumed.

The following table includes the notional amounts and strike prices of the derivative financial instruments outstanding as of the end of the year:

	Position as of December 31, 2020 Jet fuel Asian call and Zero-Cost collars option contracts maturities					
		1 Half 2021		2 Half 2021		2021 Total
Jet fuel risk Asian Calls						
Notional volume in gallons (thousands)*		7,280		–		7,280
Strike price agreed rate per gallon (U.S. dollars) **	US$	1.90		–	US$	1.90
Approximate percentage of hedge (of expected consumption value)		6%		-%		3%
Jet fuel risk Zero-Cost collars						
Notional volume in gallons (thousands)*		7,556		–		7,556
Strike price agreed rate per gallon (U.S. dollars) **	US$	1.23/1.93	US$	–	US$	1.23/1.93
Approximate percentage of hedge (of expected consumption value)		6%		-%		3%
All-in						
Approximate percentage of hedge (of expected consumption value)		12%		-%		6%

* US Gulf Coast Jet 54 as underlying asset
** Weighted average

	Position as of December 31, 2019 Jet fuel Zero-Cost Collar collars option contracts maturities					
		1 Half 2020		2 Half 2020		2020 Total
Jet fuel risk Zero-Cost collars						
Notional volume in gallons (thousands)*		34,480		22,164		56,644
Strike price agreed rate per gallon (U.S. dollars)**	US$	1.63/1.82	US$	1.65/1.81	US$	1.64/1.82
Approximate percentage of hedge (of expected consumption value)		25%		15%		20%
All-in						
Approximate percentage of hedge (of expected consumption value)		25%		15%		20%

* US Gulf Coast Jet 54 as underlying asset
** Weighted average

The following table illustrates the sensitivity of US Gulf Coast Jet Fuel 54 Zero Cost Collars to a reasonably possible change in fuel prices, with all other variables held constant, on the caption of accumulated other comprehensive income.

The calculations were made considering a parallel movement of +/-5% in the spot price of the US Gulf Coast Jet 54 as of December 31, 2020:

	Sensitivity of position as of December 31, 2020 effect on equity (U.S. dollars)
US Gulf Coast Jet Fuel 54 spot level	
+5%	+0.16M
-5%	-0.16M

Please note this sensitivity was calculated with the net position delta of the portfolio, as change on the underlying price is small enough to be a good proxy.

b) Foreign currency risk

Though the Mexican peso is the functional currency of the Company, a significant portion of its operating expenses are denominated in U.S. dollar; thus, Volaris relies on sustained U.S. dollar cash flows coming from operations in the United States of America and Central America to support part of its commitments in such currency, however there's still a mismatch.

Foreign currency risk arises from possible unfavorable movements in the exchange rate which could have a negative impact in the Company's cash flows. To mitigate this risk, the Company may use foreign exchange derivative financial instruments and non-derivative financial instruments.

While most of the Company's revenue is generated in Mexican pesos, 27% of its revenues came from operations in the United States of America and Central America for the year ended at December 31, 2020, (29% at December 31, 2019 and 32% at December 31, 2018) and U.S. dollar denominated collections accounted for 44%, 43% and 38%, of the Company's total collections in 2020, 2019 and 2018, respectively.

Company's expenditures, particularly those related to aircraft leasing and acquisition, are denominated in U.S. dollar. In addition, although jet fuel for those flights originated in Mexico are paid in Mexican pesos, the price formula is impacted by the Mexican peso /U.S. dollar exchange rate.

The Company's foreign exchange on and off-balance sheet exposure as of December 31, 2020 and 2019 is as set forth below:

	Thousands of U.S. dollars			
	2020		2019	
Assets:				
Cash and cash equivalents	US$	495,612	US$	373,099
Other accounts receivable, net		39,997		23,620
Guarantee deposits		479,566		437,499
Derivative financial instruments		10		7,088
Total assets	US$	1,015,185		841,306
Liabilities:				
Financial debt (Note 5)	US$	183,806	US$	176,927
Lease liabilities		2,334,153		2,263,849
Suppliers		174,553		76,471
Other taxes and fees payable		16,105		22,486
Derivative financial instruments		484		–
Total liabilities		2,709,101		2,539,733
Net foreign currency position	US$	(1,693,916)	US$	(1,698,427)

At April 29, 2021, date of issuance of these financial statements, the exchange rate was Ps.19.9785 per U.S. dollar.

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Company initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Company determines the transaction date for each payment or receipt of advance consideration.

As of December 31, 2020, the Company did not enter foreign exchange rate derivatives financial instruments. As of December 31, 2019, the Company did not enter foreign exchange rate derivatives financial instruments. All the Company's remaining position in FX plain vanilla forwards matured throughout the first quarter of 2019 (January).

During the year ended December 31, 2018, the Company entered into foreign currency forward contracts in U.S. dollars to hedge approximately, 20% of its future 12 and 6 months of aircraft rental expenses. A portion of the Company's foreign currency forwards position matured throughout the fourth quarter of 2018 (November & December). As of December 31, 2018, the unrealized gains of Ps.14,241, respectively relating to the foreign currency forward contracts is included in OCI.

For the years ended December 31, 2019 and 2018, the net gains (loss) on the foreign currency forward contracts were Ps.4,199 and Ps.52,516, respectively, which were recognized as part of rental expense in the consolidated statements of operations.

Foreign currency sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in USD exchange rates, with all other variables held constant. The impact on the Company's profit before tax is due to changes in the fair value of monetary assets and liabilities excluding the assets and liabilities associated with non-derivative financial instruments. The Company's exposure to foreign currency changes for all other currencies is not material.

	Change in USD rate	Effect on profit before tax	
2020	+5%	Ps.	(253,763)
	–5%		253,763
2019	+5%	Ps.	(155,593)
	–5%		155,593

The movement in the pre-tax effect is a result of a change in the fair value of assets and liabilities denominated in US dollars, where the functional currency of the entity is a currency other than US dollars.

i) Hedging relationships designating non-derivative financial instruments as hedging instruments for Foreign Exchange (FX) risk

Regarding the foreign currency risk effective since January 1st, 2019, the Company implemented two hedging strategies associated to forecasted FX exposures, by using non-derivatives financial assets and liabilities denominated in a non-functional currency (the USD in this case) as hedging instruments.

In the first FX hedging strategy, the Company designated a hedge to mitigate the variability in FX fluctuation denominated in USD associated to forecasted revenues by using a portion of USD denominated financial liabilities associated to a portfolio of leasing liabilities up until the terms of the remaining leasing arrangements. The lease liability amount designated as a hedging item during 2019 was USD$2.1 billion.

The outstanding USD balance designated under this hedging strategy as of December 31, 2020 and 2019 amount to US$1.5 billion and USD$1.7 billion respectively, represented by recognized leasing liabilities, which have been designated as hedging instruments tagged to USD denominated forecasted revenues over the remaining lease term.

The second FX strategy consists on designating a hedging relationship by using a portion of USD denominated non-derivative financial assets as hedging instruments, to mitigate the FX variability (MXN/USD) contractually included as a component in the purchase of a portion of future Jet Fuel consumption. For this strategy designated in 2019, a portion of the Jet Fuel consumption over the two following years has been designated as hedged item; while the hedging instrument is represented by USD denominated recognized assets, including guaranteed deposits and cash and cash equivalents equivalent to USD$410 million, which represent a portion of the financial assets denominated in USD.

The outstanding USD balance designated under this hedging strategy as of December 31, 2020 and 2019 amount to US$60.5 million and USD$166.7 million respectively, which does represent a portion of the recognized financial assets.

Since the hedged items on for both hedging strategies are targeted at mitigating the cash flow variability of highly expected forecasted transactions, these are represented by multiple hedging relationships which do follow the Cash Flow Hedge Accounting Model.

The effective portion of the hedging instrument's changes in fair value, are taken to the hedge reserve within the OCI, presented as a separate caption within the Company's Stakeholders Equity, which is in accordance with IFRS 9 criteria.

The amounts recorded in OCI are recycled to profit and loss on a time basis as corresponding USD denominated Income and/or Jet Fuel consumptions do also impact the Company's operating margin and are presented as adjustments to both operating income and expense, with respect to each FX hedging strategy in a timely matter, as USD denominated income and jet fuel consumption are recognized within operating earnings, hence reflecting a portion of both operating income and expenses amounts, net of both FX Hedging activities.

During the year ended December 31, 2020, the Company determined that a portion of its non-derivative financial instruments designated as hedge accounting were no longer effective, since the jet fuel consumption was lower than anticipated as a result of the adverse effect of COVID-19. The impact of this adjustment in 2020 was a benefit of Ps.111 million in the Company´s net loss for the period. This amount was reclassified from other comprehensive income to comprehensive financial result. Further, Ps.94 million were also reclassified from other comprehensive income to operating expenses during 2020 as a result of the completion of a forecasted transaction designated in a hedge relationship.

c) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations and flight equipment lease agreements with floating interest rates.

The Company's results are affected by fluctuations in certain benchmark market interest rates due to the impact that such changes may have on operational lease payments indexed to the *London Inter Bank Offered Rate* ("LIBOR").

The Company uses derivative financial instruments to reduce its exposure to fluctuations in market interest rates and accounts for these instruments as an accounting hedge.

In most cases, when a derivative can be tailored within the terms and it perfectly matches cash flows of a leasing agreement, it may be designated as a CFH and the effective portion of fair value variations are recorded in equity until the date the cash flow of the hedged lease payment is recognized in the consolidated statements of operations.

The Irrevocable Trust number CIB/3249, whose trustor is the Company, entered a cap to mitigate the risk due to interest rate increases on the CEBUR coupon payments. The floating rate coupons reference to TIIE 28 are limited under the cap to 10% on the reference rate for the life of the CEBUR and have the same amortization schedule. Thus, the cash flows of the CEBUR are perfectly matched by the hedging instrument.

The cap start date was July 19, 2019, and the maturity date is June 20, 2024; consisting of 59 caplets with the same specifications as the CEBUR coupons for reference rate determination, coupon term, and fair value.

At December 31, 2020 and December 31, 2019, the Company's outstanding hedging contracts in the form of interest rate caps with notional amount of Ps.1.5 billion had fair values of Ps.326 and Ps.2,695, respectively, recorded in assets.

During the years ended December 31, 2018, the Company did not have any outstanding interest rate derivatives.

d) Liquidity risk

Liquidity risk represents the risk that the Company has insufficient funds to meet its obligations. Because of the cyclical nature of the business, the operations, and its investment and financing needs related to the acquisition of new aircraft and renewal of its fleet, the Company requires liquid funds to meet its obligations.

The Company attempts to manage its cash and cash equivalents and its financial assets, relating the term of investments with those of its obligations. Its policy is that the average term of its investments may not exceed the average term of its obligations. This cash and cash equivalents position is invested in highly liquid short-term instruments through financial entities.

The Company has future obligations related to maturities of bank borrowings, lease liabilities and derivative contracts. The Company's off-balance sheet exposure represents the future obligations related to aircraft purchase contracts. The Company concluded that it has a low concentration of risk since it has access to alternate sources of funding. The table below presents the Company's contractual principal payments required on its financial liabilities and the derivative financial instruments fair value:

	December 31, 2020		
	Within one year	One to five years	Total
Interest-bearing borrowings:			
Pre-delivery payments facilities (Note 5)	Ps. 1,096,543	Ps. 2,554,069	Ps. 3,650,612
Short-term working capital facilities (Note 5)	200,000	–	200,000
Asset backed trust note (Note 5)	250,000	1,250,000	1,500,000
Derivative financial instruments:			
Jet fuel Asian Zero-Cost collars options contracts	9,657	–	9,657
Lease liabilities:			
Aircraft, engines, land and buildings leases	6,484,092	37,646,450	44,130,542
Aircraft and engine lease return obligation	86,801	2,417,683	2,504,484
Total	Ps. 8,127,093	Ps. 43,868,202	Ps. 51,995,295

	December 31, 2019		
	Within one year	One to five years	Total
Interest-bearing borrowings:			
Pre-delivery payments facilities (Note 5)	Ps. 1,855,956	Ps. 1,452,553	Ps. 3,308,509
Short-term working capital facilities (Note 5)	200,000	–	200,000
Asset backed trust note (Note 5)	–	1,500,000	1,500,000
Lease liabilities:			
Aircraft, engines, land and buildings leases	4,720,505	35,796,540	40,517,045
Aircraft and engine lease return obligation	383,093	1,469,595	1,852,688
Total	Ps. 7,159,554	Ps. 40,218,688	Ps. 47,378,242

e) Credit risk

Credit risk is the risk that any counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments including derivatives.

Financial instruments that expose the Company to credit risk involve mainly cash equivalents and accounts receivable. Credit risk on cash equivalents relate to amounts invested with major financial institutions.

Credit risk on accounts receivable relates primarily to amounts receivable from the major international credit card companies. The Company has a high receivable turnover; hence management believes credit risk is minimal due to the nature of its businesses, which have a large portion of their sales settled in credit cards.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Some of the outstanding derivative financial instruments expose the Company to credit loss in the event of nonperformance by the counterparties to the agreements. However, the Company does not expect any of its counterparties to fail to meet their obligations. The amount of such credit exposure is generally the unrealized gain, if any, in such contracts.

To manage credit risk, the Company selects counterparties based on credit assessments, limits overall exposure to any single counterparty and monitors the market position with each counterparty. The Company does not purchase or hold derivative financial instruments for trading purposes. At December 31, 2020, the Company concluded that its credit risk related to its outstanding derivative financial instruments is low, since it has no significant concentration with any single counterparty and it only enters into derivative financial instruments with banks with high credit-rating assigned by international credit-rating agencies.

g) Capital management

Management believes that the resources available to the Company are enough for its present requirements and will be sufficient to meet its anticipated requirements for capital expenditures and other cash requirements for the 2020 fiscal year.

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios to support its business and maximize the shareholder's value. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2020 and 2019. The Company is not subject to any externally imposed capital requirement, other than the legal reserve (Note 18).

4. Fair value measurements

The only financial assets and liabilities measured at fair value after initial recognition are the derivative financial instruments. Fair value is the price that would be received from sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

i) In the principal market for the asset or liability, or
(ii) In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is assessed using the course of thought which market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The assessment of a non-financial asset's fair value considers the market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Set out below, is a comparison by class of the carrying amounts and fair values of the Company's financial instruments, other than those for which carrying amounts are reasonable approximations of fair values:

	Carrying amount				Fair value			
		2020		2019		2020		2019
Assets								
Derivative financial instruments	Ps.	532	Ps.	136,262	Ps.	532	Ps.	136,262
Liabilities								
Financial debt		(5,350,612)		(5,008,509)		(5,527,332)		(5,194,316)
Derivative financial instruments		(9,657)		–		(9,657)		–
Total	Ps.	(5,359,737)	Ps.	(4,872,247)	Ps.	(5,536,457)	Ps.	(5,058,054)

The following table summarizes the fair value measurements at December 31, 2020:

	Fair value measurement							
	Quoted prices in active markets Level 1		Significant observable inputs Level 2		Significant unobservable inputs Level 3		Total	
Assets								
Derivatives financial instruments:								
Jet fuel Asian call options contracts*	Ps.	–	Ps.	206	Ps.	–	Ps.	206
Interest rate Caps		–		326		–		326
Liabilities								
Derivatives financial instruments:								
Jet fuel Asian Zero-Cost collars options contracts*		–		(9,657)		–		(9,657)
Liabilities for which fair values are disclosed:								
Interest-bearing loans and borrowings**		–		(5,527,332)		–		(5,527,332)
Net	Ps.	–	Ps.	(5,536,457)	Ps.	–	Ps.	(5,536,457)

* Jet fuel forwards levels and LIBOR curve.
** LIBOR curve and TIIE Mexican interbank rate. Includes short-term and long-term debt.
There were no transfers between level 1 and level 2 during the period.

The following table summarizes the fair value measurements at December 31, 2019:

	Fair value measurement							
	Quoted prices in active markets Level 1		Significant observable inputs Level 2		Significant unobservable inputs Level 3		Total	
Assets								
Derivatives financial instruments:								
Jet fuel Zero-Cost collar options contracts*	Ps.	–	Ps.	133,567	Ps.	–	Ps.	133,567
Interest rate Caps		–		2,695		–		2,695
Liabilities for which fair values are disclosed:								
Interest-bearing loans and borrowings**		–		(5,194,316)		–		(5,194,316)
Net	Ps.	–	Ps.	(5,058,054)	Ps.	–	Ps.	(5,058,054)

* Jet fuel forwards levels and LIBOR curve.
** LIBOR curve and TIIE Mexican interbank rate. Includes short-term and long-term debt.
There were no transfers between level 1 and level 2 during the period.

The following table summarizes the (loss) gain from derivatives financial instruments recognized in the consolidated statements of operations for the years ended December 31, 2020, 2019 and 2018:

Instrument	Financial statements line	2020		2019		2018	
Jet fuel Asian call options contracts	Fuel	Ps.	(20,646)	Ps.	(61,069)	Ps.	402,493
Jet fuel Zero-Cost collars contracts	Fuel		(835,884)		(9,477)		–
Jet fuel Asian call options contracts	Finance cost		(12,981)		–		–
Jet fuel Zero-Cost collars contracts	Finance cost		(435,578)		–		–
Foreign currency forward	Aircraft and engine rent expenses		–		4,199		52,516
Interest rate cap	Finance cost		(1,468)		(1,282)		–
Total		Ps.	(1,306,557)	Ps.	(67,629)	Ps.	455,009

The following table summarizes the net gain (loss) on CFH before taxes recognized in the consolidated statements of comprehensive income for the years ended December 31, 2020, 2019 and 2018:

Consolidated statements of other comprehensive (loss) income

Instrument	Financial statements line	2020		2019		2018	
Jet fuel Asian call options contracts	OCI	Ps.	(11,993)	Ps.	11,148	Ps.	(174,984)
Jet fuel Zero cost collars	OCI		(143,224)		256,515		(122,948)
Foreign currency contracts	OCI		–		(14,241)		14,241
Interest rate cap	OCI		(900)		(4,023)		–
Non derivative financial instruments	OCI		(1,591,569)		14,096		–
Total		Ps.	(1,747,686)	Ps.	263,495	Ps.	(283,691)

The exchange rates used to translate the above amounts to Mexican pesos at December 31, 2020, 2019 and 2018 were Ps.19.9487, Ps.18.8452 and Ps.19.6829, respectively, per U.S. dollar.

5. Financial assets and liabilities

At December 31, 2020 and 2019, the Company's financial assets are represented by cash and cash equivalents, trade and other accounts receivable, accounts receivable with carrying amounts that approximate their fair value.

a) Financial assets

	2020		2019	
Derivative financial instruments designated as cash flow hedges (effective portion recognized within OCI)				
Jet fuel Asian call options	Ps.	206	Ps.	–
Jet fuel Zero-Cost collars		–		133,567
Interest rate cap		326		2,695
Total financial assets	Ps.	532	Ps.	136,262
Presented on the consolidated statements of financial position as follows:				
Current	Ps.	206	Ps.	133,567
Non-current	Ps.	326	Ps.	2,695

b) Financial debt

(i) At December 31, 2020 and 2019, the Company's short-term and long-term debt consists of the following:

	2020		2019	
I. Revolving line of credit with Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander ("Santander") and Banco Nacional de Comercio Exterior, S.N.C. ("Bancomext"), in U.S. dollars, to finance pre-delivery payments, maturing on October 31, 2022, bearing annual interest rate at the three-month LIBOR plus a spread of 260 basis points.	Ps.	3,650,612	Ps.	3,308,509
II. The Company issued in the Mexico market Asset backed trust notes ("CEBUR"), in Mexican pesos, maturing on June 20th, 2024 bearing annual interest rate at TIIE 28 days plus 175 basis points.		1,500,000		1,459,871
III. In December 2019, the Company entered into a short-term working capital facility with Banco Sabadell S.A., Institución de Banca Multiple ("Sabadell") in Mexican pesos, bearing annual interest rate at TIIE 28 days plus a 300 basis points.		200,000		200,000
IV. Amortized transaction costs		(15,542)		(22,472)
V. Accrued interest and other financial cost		19,563		30,061
		5,354,633		4,975,969
Less: Short-term maturities		1,558,884		2,086,017
Long-term	Ps.	3,795,749	Ps.	2,889,952

TIIE: Mexican interbank rate

(ii) The following table provides a summary of the Company's scheduled principal payments of financial debt and accrued interest at December 31, 2020:

	2021	2022	2023	2024		Total
Santander/Bancomext	1,112,629	2,554,069	–	–	Ps.	3,666,698
CEBUR	252,605	500,000	500,000	250,000		1,502,605
Banco Sabadell	200,872	–	–	–		200,872
Total	1,566,106	3,054,069	500,000	250,000	Ps.	5,370,175

(iii) Since 2011, the Company has financed the pre-delivery payments with Santander/Bancomext for the acquisition of its aircraft through a revolving financing facility.

The "Santander/Bancomext" loan agreement provides for certain covenants, including limits to the ability to, among others:

i) Incur debt above a specified debt basket unless certain financial ratios are met.
ii) Create liens.
iii) Merge with or acquire any other entity without the previous authorization of the Banks.
iv) Dispose of certain assets.
v) Declare and pay dividends or make any distribution on the Company's share capital unless certain financial ratios are met.

At December 31, 2020, the Company was not in compliance with the financial ratio, therefore, the Company requested a waiver to the banks. The company received a waiver dated October 23, 2020, for the covenant regarding the financial ratio for the PDP financing facility that included the third and fourth quarter of 2020 and the first and second quarter of 2021. The waiver was provided by both banks, Santander and Bancomext. At December 31, 2019, the Company was in compliance with the covenants under the above-mentioned loan agreement.

For purposes of financing the pre-delivery payments, Mexican trusts were created whereby, the Company assigned its rights and obligations under the Airbus Purchase Agreement with Airbus S.A.S. ("Airbus"), including its obligation to make pre-delivery payments to the Mexican trusts, and the Company guaranteed the obligations of the Mexican trusts under the financing agreement (CI Banco, S.A. (previously Deutsche Bank México, S.A. Trust 1710 and 1711)).

At December 31, 2020, the Company has available credit lines totaling Ps.9,256,978 of which Ps.6,851,338 were related to financial debt (Ps.1,500,726 were undrawn) and Ps.2,405,640 were related to letters of credit (Ps.214,012 were undrawn). At December 31, 2019, the Company has available credit lines totaling Ps.9,005,008, of which Ps.6,649,358 were related to financial debt (Ps.1,640,849 were undrawn) and Ps.2,355,650 were related to letters of credit (Ps.86,066 were undrawn).

On June 20, 2019, the Company, through its subsidiary Concesionaria issued 15,000,000 asset backed trust notes under the ticket VOLARCB 19 for the amount of Ps.1.5 billion Mexican pesos through the Irrevocable Trust number CIB/3249 created by Concesionaria. The issuance amount is part of a program approved by the Mexican National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores) for an amount of up to Ps.3.0 billion Mexican pesos.

The notes have a five year maturity annual reductions of Ps.250,000, Ps.500,000, Ps.500,000 and Ps.250,000 in 2021, 2022, 2023 and 2024, respectively, with a floating one-month coupon rate referenced to TIIE 28 plus with a 175 basis point spread. The notes start amortizing at the end of the second year.

The asset backed trust notes structure operate on specific rules and provide a DSCR "Debt Service Coverage Ratio" which is computed by comparing the Mexican Peso collections over the previous six months to the next 6 months of debt service. In general, not retention of funds exists if the ratio exceeds 2.5 times. Amortization on the asset backed trust notes begins in July of 2021. In addition, early amortization applies if:

i) An event of retention is not cover in a period of 90 consecutive days.
ii) The debt service reserve account of any series maintains on deposit an amount less than the required balance of the debt service reserve account for a period that includes two or more consecutive payment methods.
iii) Insolvency event of Concesionaria.

In December 2019, the Company entered into a short-term working capital facility with Banco Sabadell S.A., Institución de Banca Multiple ("Sabadell") in Mexican pesos, bearing annual interest rate at TIIE 28 days plus a 300 basis points. The "Sabadell" working capital facility has the following covenant:

i) Joint obligor (Concesionaria) must represent 85% of EBITDA of the holding

During the years ended on December 31, 2020 and 2019, we were in compliance with the covenants under the terms and conditions of the asset backed trusted notes and short-term working capital facilities.

Changes in liabilities arising from financing activities

At December 31, 2020 and 2019, the changes in liabilities from financing activities from the Company are summarized in the following table:

	January 1, 2020	Net cash Flows	Accrued Interest	Foreign exchange movement	Current vs non-current reclassification	Other	December 31, 2020
Current interest-bearing loans and borrowings	Ps. 2,086,017	Ps. (1,231,695)	Ps. (10,498)	Ps. (32,491)	Ps. 747,551	Ps. –	Ps. 1,558,884
Non-current interest - bearing loans and borrowings	2,889,952	1,374,678	–	231,612	(747,551)	47,058	3,795,749
Total liabilities from financing activities	Ps. 4,975,969	Ps. 142,983	Ps. (10,498)	Ps. 199,121	Ps. –	Ps. 47,058	Ps. 5,354,633

	January 1, 2019	Net cash Flows	Accrued Interest	Foreign exchange movement	Current vs non-current reclassification	Other	December 31, 2019
Current interest-bearing loans and borrowings	Ps. 1,212,259	Ps. (633,609)	Ps. 13,698	Ps. (41,173)	Ps.1,534,842	Ps. –	Ps. 2,086,017
Non-current interest - bearing loans and borrowings	2,310,939	2,273,143	–	(122,466)	(1,534,842)	(36,822)	2,889,952
Total liabilities from financing activities	Ps. 3,523,198	Ps. 1,639,534	Ps. 13,698	Ps. (163,639)	Ps. –	Ps. (36,822)	Ps. 4,975,969

c) Other financial liabilities

	2020	2019
Derivative financial instruments designated as CFH (effective portion recognized within OCI):		
Zero-Cost Collar options	Ps. 9,657	Ps. –
Total financial liabilities	Ps. 9,657	Ps. –
Presented on the consolidated statements of financial position as follows:		
Current	Ps. 9,657	Ps. –
Non-current	Ps. –	Ps. –

6. Cash and cash equivalents

An analysis of this caption is as follows:

	2020	2019
Cash in banks	Ps. 6,907,295	Ps. 4,612,927
Short-term investments	3,068,618	3,231,125
Cash on hand	36,432	44,880
Restricted funds held in trust related to debt service reserves	91,040	91,040
Total cash and cash equivalents	Ps. 10,103,385	Ps. 7,979,972

As of December 31, 2020 and 2019, the Company recorded a portion of advance ticket sales by an amount of Ps.91,040 and Ps.91,040, respectively, as a restricted fund (Note 1e). The restricted funds held in Trust are used to constitute the debt service reserves and cannot be used for purposes other than those established in the contract of the Trust.

7. Related parties

a) An analysis of balances due from/to related parties at December 31, 2020 and 2019 is provided below.

All companies are considered affiliates, since the Company's primary shareholders or directors are also direct or indirect shareholders of the related parties:

	Type of transaction	Country of origin	2020	2019	Terms
Due from:					
Frontier Airlines Inc. ("Frontier")	Code-share	USA	Ps. 72,629	Ps. 23,442	30 days
			Ps. 72,629	Ps. 23,442	
Due to:					
Grupo Aeroportuario del Centro Norte ("OMA")	Airport Services	Mexico	Ps. 80,681	Ps. –	30 days
Aeromantenimiento, S.A. ("Aeroman")	Aircraft and engine maintenance	Mexico/ El Salvador	39,284	1,474	30 days
Chevez, Ruiz, Zamarripa y Cía., S.C.	Professional fees	Mexico	4,823	–	30 days
Mijares, Angoitia, Cortés y Fuentes, S.C.	Professional fees	Mexico	166	996	30 days
Frontier Airlines Inc. ("Frontier")	Code-share	USA	39	16,246	30 days
One Link, S.A. de C.V. ("One Link")	Call center fees	El Salvador	–	39,838	30 days
			Ps. 124,993	Ps. 58,554	

b) During the years ended December 31, 2020, 2019 and 2018, the Company had the following transactions with related parties:

Related party transactions	Country of origin	2020	2019	2018
Revenues:				
Transactions with affiliates				
Frontier Airlines Inc				
Code-share	USA	Ps. 148,964	Ps. 208,968	Ps. 8,358
Expenses:				
Transactions with affiliates				
Aeromantenimiento, S.A.				
Aircraft and engine maintenance	Mexico/El Salvador	Ps. 239,118	Ps. 201,624	Ps. 341,726
Technical support	Mexico/El Salvador	3,945	5,815	4,796
Onelink, S.A. de C.V.				
Call center fees	Mexico/El Salvador	73,167	37,026	–
Grupo Aeroportuario del Centro Norte				
Airport services	Mexico	32,193	–	–
Mijares, Angoitia, Cortés y Fuentes, S.C.				
Professional fees	Mexico	5,582	1,321	1,672
Chevez, Ruiz, Zamarripa y Cía, S.C.				
Professional fees	Mexico	4,823	–	–
Servprot, S.A. de C.V.				
Security services	Mexico	3,464	3,120	2,804
Human Capital International HCI, S.A. de C.V.				
Professional fees	Mexico	–	–	324

Frontier started having transactions with the Company in September 2018. As of December 31, 2020 and 2019, there have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2020 and 2019, no provision for expected credit losses had been recognized.

c) Servprot

Servprot S.A. de C.V. ("Servprot") is a related party because Enrique Beltranena, the Company's President and Chief Executive Officer, and Rodolfo Montemayor, who served as an alternate member of our board of directors until April 19, 2018, are shareholders of such company. Servprot provides security services for Mr. Beltranena and his family, as well as for Mr. Montemayor. As of December 31, 2020 and 2019 Servprot did not have net balance under this agreement. During the years ended December 31, 2020, 2019 and 2018 the Company expensed Ps.3,464, Ps.3,120 and Ps.2,804, respectively for this concept.

d) Aeroman

Aeroman is a related party, because Marco Baldocchi a member of the board of the Company's board of directors is an alternate director of Aeroman. The Company entered into an aircraft repair and maintenance service agreement with Aeroman on January 1, 2017. This agreement provides that the Company must use Aeroman, exclusively for aircraft repair and maintenance services, subject to availability. Under this agreement, Aeroman provides inspection, maintenance, repair and overhaul services for aircraft. The Company makes payments under this agreement depending on the services performed. This agreement is for a 5-year term. As of December 31, 2020 and 2019, the balances due under the agreement with Aeroman were Ps.39,284 and Ps.1,474, respectively. The Company incurred expenses in aircraft, engine maintenance and technical support under this agreement of Ps.243,063, Ps.207,439 and Ps.346,522 for the years ended December 31, 2020, 2019 and 2018, respectively.

e) Human Capital International

Human Capital International HCI, S.A. de C.V. ("Human Capital International"), was a related party until April 19, 2018, because Rodolfo Montemayor Garza, a former member of the Company's board of directors, is founder and chairman of the board of directors of Human Capital International. Human Capital International provided the Company with services regarding the selection and hiring of executives. As of December 31, 2018, Human Capital International did not have net balance under this agreement. For the year ended December 31, 2018, the Company recognized an expense under this agreement of Ps.324.

f) OneLink

Onelink, S.A. de C.V. ("Onelink") was a related party until December 31, 2017, because Marco Baldocchi, a member of the board, was a director of Onelink. As of October 24, 2019 and until June 30,2020 Onelink, Holdings, S.A. ("Onelink Holdings") and its subsidiary Onelink were related parties, because Mr. Rodrigo Antonio Escobar Nottebohm, a former alternate board member of Onelink Holdings, became an alternate Director of the Company. Pursuant to this agreement, Onelink received calls from the customers to book flights and provides customers with information about fares, schedules and availability.

As of December 31, 2020 and 2019, the account payable under this agreement was Ps.0 and Ps.39,838, respectively. For the years ended December 31, 2020, 2019 and 2018, Company recognized an expense under this agreement of Ps.73,167, Ps.37,026 and Ps.0, respectively.

g) Mijares, Angoitia, Cortés y Fuentes

Mijares, Angoitia, Cortés y Fuentes, S.C. ("MACF") is a related party because Ricardo Maldonado Yañez and Eugenio Macouzet de León, member and alternate member, respectively, of the board of the Company since April 2018, are partners of the Company. As of December 31, 2020 and 2019, MACF, the balance due under the agreement was Ps.166 and Ps.996, respectively. For the years ended December 31, 2020, 2019 and 2018, the Company expensed Ps.5,582, Ps.1,321 and Ps.1,672, respectively, for this concept.

h) Frontier

Frontier is a related party because Mr. William A. Franke and Brian H. Franke are members of the board of the Company and Frontier as well as Indigo Partners have significant investments in both Companies. As of December 31, 2020 and 2019, the account receivable under this agreement was Ps.72,629 and Ps.23,442, respectively. Additionally, as of December 31, 2020 and 2019, the account payable under this agreement was Ps.39 and Ps.16,246, respectively. For the year ended December 31, 2020, 2019 and 2018 the Company recognized revenue under this agreement of Ps.148,964, Ps.208,968 and Ps.8,358, respectively.

i) Grupo Aeroportuario del Centro Norte (OMA)

In April 22, 2020, Grupo Aeroportuario del Centro Norte (OMA) became a related party because Mrs. Guadalupe Phillips Margain is an independent member of the board of directors the Company and OMA. Mr. Ricardo Maldonado Yañez is also an independent member of the board of directors the Company and OMA. As of December 31, 2020, the account payable under this agreement was Ps.80,681. For the year ended December 31, 2020, the Company expensed Ps.32,193 for this concept.

j) Chevez, Ruiz, Zamarripa y Cia, S.C. (Chevez)

Chevez, Ruiz, Zamarripa y Cia, S.C. (Chevez) is a related party because Mr. José Luis Fernández Fernández is an independent member of the Board of Directors, as well as the chairman of the Audit and Corporate Governance Committee of the Company and non-managing partner of Chevez. Chevez provides tax advisory services to us. As of December 31, 2020, the balances due to Chevez under the tax advisory services provided to the Company were Ps.4,823. For the year ended December 31, 2020, the Company expensed Ps.4,823 for this concept.

k) Directors and officers

During the year ended December 31, 2020, 2019 and 2018, the chairman and the independent members of the Company's board of directors received an aggregate compensation of approximately Ps.5,762, Ps.8,085 and Ps.7,178, respectively, and the rest of the directors received a compensation of Ps.3,692, Ps.4,367 and Ps.5,217, respectively.

During the years ended December 31, 2020, 2019 and 2018, all the Company's senior managers received an aggregate compensation of short and long-term benefits of Ps.253,681, Ps.237,846 and Ps.180,001, respectively, these amounts were recognized in salaries and benefits in the consolidated statement of operations.

For the years ended December 31, 2020, 2019 and 2018 the cost of the share-based payments transactions (MIP and LTIP) were Ps.75,040, Ps.49,659 and Ps.19,980, respectively. The cost (benefit) of the cash-settled payments transactions MIP II and SARs were Ps.105,303, Ps.40,724 and Ps.(5,238), respectively (Note 17).

The Company has a short-term benefit plan for certain personnel whereby cash bonuses are awarded for meeting certain Company's performance target. During the years ended December 31, 2020, 2019 and 2018, the Company recorded a provision in the amount of Ps.0, Ps.80,634 and Ps.50,000, respectively.

8. Other accounts receivable, net

An analysis of other accounts receivable at December 31, 2020 and 2019, is detailed below:

		2020		2019
Current:				
Credit cards	Ps.	231,260	Ps.	389,634
Benefits from suppliers		105,947		26,989
Other accounts receivable		87,204		189,904
Other points of sales		67,315		102,002
Cargo clients		45,201		46,600
Employees		36,287		29,681
Travel agencies and insurance commissions		16,099		76,975
Marketing services receivable		4,020		7,024
Airport services		15		42,894
Affinity credit card		–		49,040
Settlement receivable		–		2,422
Insurance claims		–		143
		593,348		963,308
Allowance for credit losses		(32,708)		(40,308)
	Ps.	560,640	Ps.	923,000

Accounts receivable have the following aging:

Days		2020 Impaired		2020 Not impaired		Total 2020		2019 Impaired		2019 Not impaired		Total 2019
0 – 30	Ps.	4,090	Ps.	486,001	Ps.	490,091	Ps.	5,804	Ps.	722,651	Ps.	728,455
31 – 60		–		13,872		13,872		–		64,983		64,983
61 – 90		–		6,081		6,081		–		19,274		19,274
91 – 120		28,618		54,686		83,304		34,504		116,092		150,596
	Ps.	32,708	Ps.	560,640	Ps.	593,348	Ps.	40,308	Ps.	923,000	Ps.	963,308

The movement in the allowance for credit losses from January 1, 2018 to December 31, 2020 is as follows:

Balance as of January 1st, 2018	Ps.	(17,809)
Write-offs		17,126
Increase in allowance		(10,621)
Balance as of December 31, 2018		(11,304)
Write-offs		11,389
Increase in allowance		(40,393)
Balance as of December 31, 2019		(40,308)
Write-offs		21,264
Increase in allowance		(13,664)
Balance as of December 31, 2020	Ps.	(32,708)

9. Inventories

An analysis of inventories on December 31, 2020 and 2019 is as follows:

	2020	2019
Spare parts and accessories of flight equipment	Ps. 271,454	Ps. 294,390
Miscellaneous supplies	7,505	7,518
	Ps. 278,959	Ps. 301,908

The inventory items are consumed during or used mainly in delivery of in-flight services and for maintenance services by the Company and are valued at the lower of cost or replacement value. During the years ended as of December 31, 2020, 2019 and 2018, the amount of consumption of inventories, recorded as an operating expense as part of maintenance expense was Ps.234,691, Ps.284,687 and Ps.290,206, respectively.

10. Prepaid expenses and other current assets

An analysis of prepaid expenses and other current assets at December 31, 2020 and 2019 is as follows:

	2020	2019
Flight credits	Ps. 389,927	Ps. –
Advances to suppliers	163,044	283,340
Sales commission to travel agencies (Note 1d)	151,342	84,239
Other prepaid expenses	81,803	115,054
Prepaid insurance	64,309	88,941
Advances to components suppliers	–	209,557
	Ps. 850,425	Ps. 781,131

11. Guarantee deposits

An analysis of this caption on December 31, 2020 and 2019 is as follows:

	2020	2019
Current asset:		
Credit letters deposits	Ps. 829,918	–
Aircraft maintenance deposits paid to lessors (Note 1j)	279,390	Ps. 576,505
Deposits for rental of flight equipment	23,584	–
Other guarantee deposits	9,064	23,822
	1,141,956	600,327
Non-current asset:		
Aircraft maintenance deposits paid to lessors (Note 1j)	7,641,544	7,047,360
Deposits for rental of flight equipment	741,871	557,530
Other guarantee deposits	41,323	39,531
	8,424,738	7,644,421
	Ps. 9,566,694	Ps. 8,244,748

12. Rotable spare parts, furniture and equipment, net

	Gross value At December 31,		Accumulated depreciation At December 31,		Net carrying value At December 31,	
	2020	2019	2020	2019	2020	2019
Leasehold improvements to flight equipment	Ps. 5,092,049	Ps. 4,220,672	Ps. (3,354,166)	Ps. (2,679,884)	Ps. 1,737,883	Ps. 1,540,788
Pre-delivery payments*	4,920,126	4,507,770	–	–	4,920,126	4,507,770
Flight equipment	1,689,473	1,287,102	(1,223,560)	(553,852)	465,913	733,250
Construction and improvements in process	53,545	474,240	–	–	53,545	474,240
Constructions and improvements	175,407	172,460	(148,391)	(131,510)	27,016	40,950
Computer equipment	49,945	47,566	(42,126)	(34,495)	7,819	13,071
Workshop tools	27,727	26,875	(24,398)	(22,023)	3,329	4,852
Electric power equipment	20,448	20,412	(12,773)	(11,400)	7,675	9,012
Communications equipment	14,803	14,099	(9,038)	(8,322)	5,765	5,777
Workshop machinery and equipment	20,574	16,301	(7,641)	(6,092)	12,933	10,209
Motorized transport equipment platform	15,247	15,026	(7,924)	(5,392)	7,323	9,634
Service carts on board	9,216	7,675	(6,112)	(5,554)	3,104	2,121
Office furniture and equipment	67,035	70,709	(35,309)	(34,049)	31,726	36,660
Allowance for obsolescence	(3,000)	(3,000)	–	–	(3,000)	(3,000)
Total	Ps. 12,152,595	Ps. 10,877,907	Ps. (4,871,438)	Ps. (3,492,573)	Ps. 7,281,157	Ps. 7,385,334

* During the years ended December 31, 2020, 2019 and 2018, the Company capitalized borrowing costs of Ps.384,038, Ps.456,313 and Ps.357,920, respectively. The amount of this line is net of disposals of capitalized borrowing costs related to sale and leaseback transactions of Ps.401,862, Ps.328,571 and Ps.242,678, respectively.

	Flight equipment	Constructions and improvements	Computer equipment	Office furniture and equipment	Electric power equipment	Workshop Tools	Motorized transport equipment platform	Communications equipment	Workshop machinery and equipment	Service carts on board	Allowance for obsolescence	Pre-delivery payments	Construction and improvements in process	Leasehold improvements to flight equipment	Total
Net book amount as of December 31, 2018	Ps. 664,322	Ps. 15,235	Ps. 16,547	Ps. 38,306	Ps. 5,122	Ps. 3,369	Ps. 446	Ps. 4,911	Ps. 4,481	Ps. 126	Ps. –	Ps. 3,672,090	Ps. 142,738	Ps. 1,214,589	Ps. 5,782,282
Additions	692,186	5,596	1,730	1,461	2,487	3,137	–	355	4,278	2,273	(3,000)	1,412,790	525,556	661,954	3,310,803
Disposals and transfers	(538,370)	–	(131)	(10)	–	–	–	(2)	(35)	–	–	(704,852)	(3,957)	–	(1,247,357)
Borrowing costs, net*	–	–	–	–	–	–	–	–	–	–	–	127,742	–	–	127,742
Other movements	–	34,840	1,999	2,757	2,487	284	9,529	1,446	2,529	–	–	–	(190,097)	133,939	(287)
Depreciation	(84,888)	(14,721)	(7,074)	(5,854)	(1,084)	(1,938)	(341)	(933)	(1,044)	(278)	–	–	–	(469,694)	(587,849)
As of December 31, 2019	733,250	40,950	13,071	36,660	9,012	4,852	9,634	5,777	10,209	2,121	(3,000)	4,507,770	474,240	1,540,788	7,385,334
Cost	1,287,102	172,460	47,566	70,709	20,412	26,875	15,026	14,099	16,301	7,675	(3,000)	4,507,770	474,240	4,220,672	10,877,907
Accumulated depreciation	(553,852)	(131,510)	(34,495)	(34,049)	(11,400)	(22,023)	(5,392)	(8,322)	(6,092)	(5,554)	–	–	–	(2,679,884)	(3,492,573)
Net book amount as of December 31, 2019	733,250	40,950	13,071	36,660	9,012	4,852	9,634	5,777	10,209	2,121	(3,000)	4,507,770	474,240	1,540,788	7,385,334
Additions	668,376	128	1,648	733	–	851	–	–	–	1,541	–	2,185,902	176,607	646,219	3,682,005
Disposals and transfers	(861,761)	–	–	–	–	–	–	–	–	–	–	(1,755,724)	(354,146)	–	(2,971,631)
Borrowing costs, net*	–	–	–	–	–	–	–	–	–	–	–	(17,822)	–	–	(17,822)
Other movements	–	2,317	713	101	36	–	222	1,083	4,273	–	–	–	(243,156)	235,509	1,098
Depreciation	(73,952)	(16,379)	(7,613)	(5,768)	(1,373)	(2,374)	(2,533)	(1,095)	(1,549)	(558)	–	–	–	(684,633)	(797,827)
As of December 31, 2020	465,913	27,016	7,819	31,726	7,675	3,329	7,323	5,765	12,933	3,104	(3,000)	4,920,126	53,545	1,737,883	7,281,157
Cost	1,689,473	175,407	49,945	67,035	20,448	27,727	15,247	14,803	20,574	9,216	(3,000)	4,920,126	53,545	5,092,049	12,152,595
Accumulated depreciation	(1,223,560)	(148,391)	(42,126)	(35,309)	(12,773)	(24,398)	(7,924)	(9,038)	(7,641)	(6,112)	–	–	–	(3,354,166)	(4,871,438)
Net book amount as of December 31, 2020	Ps. 465,913	Ps. 27,016	Ps. 7,819	Ps. 31,726	Ps. 7,675	Ps. 3,329	Ps. 7,323	Ps. 5,765	Ps. 12,933	Ps. 3,104	Ps. (3,000)	Ps. 4,920,126	Ps. 53,545	Ps. 1,737,883	Ps. 7,281,157

a) Depreciation expense for the years ended December 31, 2020, 2019 and 2018, was Ps.797,827, Ps.587,849 and Ps.427,756, respectively. Depreciation charges for the year are recognized as a component of operating expenses in the consolidated statements of operations.

b) In October 2005 and December 2006, the Company entered into purchase agreements with Airbus and International Aero Engines AG ("IAE") for the purchase of aircraft and engines, respectively. Under such agreements and prior to the delivery of each aircraft and engine, the Company agreed to make pre-delivery payments, which were calculated based on the reference price of each aircraft and engine, and following a formula established for such purpose in the agreements.

In 2011, the Company amended the agreement with Airbus for the purchase of 44 A320 family aircraft to be delivered from 2015 to 2020. The new order includes 14 A320CEO ("Current Engine Option Aircraft") and 30 A320NEO. Additionally, during December 2017, the Company amended the agreement with Airbus for the purchase of 80 A320 family aircraft to be delivered from 2022 to 2026. The new order includes 46 A320NEO and 34 A321NEO. Under such agreement and prior to the delivery of each aircraft, the Company agreed to make pre-delivery payments, which shall be calculated based on the reference price of each aircraft, and following a formula established for such purpose in the agreement.

In November 2018, the Company amended the agreement with Airbus to reschedule the remaining 26 fleet deliveries between 2019 and 2022. Also, in this amendment Volaris used its rights on the Airbus Purchase Agreement to convert six A320NEO into A321NEO. In July 2020, we amended the agreement with Airbus to reschedule the 80 aircraft deliveries between 2023 and 2028. In October 2020, we amended the agreement with Airbus to reschedule the remaining 18 fleet deliveries between 2020 and 2022.

On August 16, 2013, the Company entered into certain agreements with IAE and United Technologies Corporation Pratt & Whitney Division ("P&W"), which included the purchase of the engines for 14 A320CEO and 30 A320NEO respectively, to be delivered between 2014 and 2022. This agreement also included the purchase of one spare engine for the A320CEO fleet (which was received during the fourth quarter of 2016) and six spare engines for the A320NEO fleet to be received from 2017 to 2022. In November 2015, the Company amended the agreement with the engine supplier to provide major maintenance services for the engines of sixteen aircrafts (10 A320NEO and 6 A321NEO). This agreement also includes the purchase of three spare engines, two of them for the A320NEO fleet, and one for the A321NEO fleet.

The Company received credit notes from P&W in December 2017 of Ps.58,530 (US$3.06 million), which are being amortized on a straight-line basis, prospectively during the term of the agreement. As of December 31, 2020, and 2019, the Company amortized a corresponding benefit from these credit notes of Ps.4,878 and Ps.4,878, respectively, which is recognized as an offset to maintenance expenses in the consolidated statements of operations.

During the years ended December 31, 2020 and 2019, the amounts paid for aircraft and spare engine pre-delivery payments were of Ps.2,185,902 (US$102.7 million) and Ps.1,412,790 (US$75.0 million), respectively.

The current purchase agreement with Airbus requires the Company to accept delivery of 96 Airbus A320 family aircraft during the following eight years (from January 2021 to October 2028). The agreement provides for the addition of 96 Aircraft to its fleet as follows: four in 2021, twelve in 2022, three in 2023, thirteen in 2024, fifteen in 2025, twenty-five in 2026, eleven in 2027 and thirteen in 2028.

Commitments to acquisitions of property and equipment are disclosed in Note 23.

During the years ended December 31, 2020, 2019 and 2018 the Company entered into aircraft and spare engines sale and leaseback transactions, resulting in a gain of Ps.710,522, Ps.284,759 and Ps.609,168, respectively, that was recorded under the caption other operating income in the consolidated statement of operations, only the amount of gains that relates to the rights transferred to the buyer-lessor. The rest of the gains are amortized under the lease term (Note 20).

c) During December 2017, the Company entered into an updated total support agreement with Lufthansa for 66 months, with an effective date on July 1, 2018. This agreement includes similar terms and conditions as the original agreement.

As part of this agreement, the Company received credit notes of Ps.28,110 (US$1.5 million), which are being amortized on a straight-line basis, prospectively during the term of the agreement. As of December 31, 2020, 2019 and 2018, the Company amortized a corresponding benefit from these credit notes of Ps.5,230, Ps.5,230 and Ps.7,191, respectively, recognized as an offset to maintenance expenses in the consolidated statements of operations.

d) On September 5, 2019, the Company acquired one previously leased A319 aircraft from the lessor, which was accounted for a cost for a total amount of Ps.392,076 (US$19,600). This transaction did not generate any gain or loses in our consolidated statements of operations.

The Company identified the major components as separate parts at their respective cost. These major components of the aircraft are presented as part of the aircraft and depreciated over their useful life.

During the month of December 2019, the Company sold the recently acquired aircraft engines in a sale and lease back transaction. As of December 31, 2020, the carry amount of the remaining owned aircraft and the depreciation was Ps.52,984 and Ps.5,946, respectively. As of December 31, 2019, the carry amount of the remaining owned aircraft and the depreciation was Ps.54,771 and Ps.1,787, respectively.

13. Intangible assets, net

The composition and movement of intangible assets is as follows:

		Gross value		Accumulated amortization		Net carrying amount	
		At December 31,					
	Useful Life years	2020	2019	2020	2019	2020	2019
Software	1 - 4	Ps. 704,257	Ps. 579,360	Ps. (512,695)	Ps. (411,963)	Ps. 191,562	Ps. 167,397

Balance as of January 1st, 2019	Ps. 179,124
Additions	77,325
Disposals	-
Amortization	(87,667)
Exchange differences	(1,385)
Balance as of December 31, 2019	167,397
Additions	124,724
Disposals	-
Amortization	(100,618)
Exchange differences	59
Balance as of December 31, 2020	Ps. 191,562

Software amortization expense for the years ended December 31, 2020, 2019 and 2018 was Ps.100,618, Ps.87,667 and Ps.72,885, respectively. These amounts were recognized in depreciation and amortization in the consolidated statements of operations.

14. Leases

The most significant leases are as follows:

a) Aircraft and engine represent the Company´s most significant lease agreements. At December 31, 2020, the Company leases 85 aircraft (81 as of December 31, 2019) and 18 spare engines under lease agreements (14 as of December 31, 2019) that have maximum terms through 2033. These leases are generally guaranteed by either deposit in cash or letters of credits.

Composition of the fleet and spare engines, leases*:

Aircraft Type	Model	At December 31, 2020	At December 31, 2019
A319	132	3	3
A319	133	2	4
A320	233	39	39
A320	232	1	2
A320NEO	271N	24	17
A321	231	10	10
A321NEO	271N	6	6
		85	81

Engine spare Type	Model	At December 31, 2020	At December 31, 2019
V2500	V2524-A5	2	2
V2500	V2527M-A5	3	3
V2500	V2527E-A5	5	3
V2500	V2527-A5	2	2
PW1100	PW1127G-JM	5	3
PW1100	PW1133G-JM	1	1
		18	14

* Certain of the Company's aircraft and engine lease agreements include an option to extend the lease term period. Terms and conditions are subject to market conditions at the time of renewal.

During the year ended December 31, 2020, the Company added seven new leased aircraft to its fleet (seven A320 NEO´s acquired through sale and leaseback transactions under our existing Airbus purchase agreement). Also, the Company returned three aircraft to their respective lessors.

During the year ended December 31, 2020, the Company also leased two NEO spare engines (based on the terms of the Pratt & Whitney purchase agreement FMP) and two CEO spare engines to its fleet. These four engines incorporated were subject to sale and leaseback transactions and their respective lease agreements were accounted as leases.

During the year ended December 31, 2019, the Company added seven new leased aircraft to its fleet (three A320 NEO´s acquired through sale and leaseback transactions under our existing Airbus purchase agreement and four obtained directly from the lessor´s). Also, the Company extended the lease term of one spare engine (effective from 2019) and returned two aircraft to their respective lessors. All the aircraft incorporated through the lessor´s aircraft order book was not subject to sale and leaseback transactions.

During the year ended December 31, 2019, the Company also leased two NEO spare engines (based on the terms of the Pratt & Whitney purchase agreement FMP) and two CEO spare engines to its fleet. These four engines incorporated were subject to sale and leaseback transactions and their respective lease agreements were accounted as leases. Additionally, during 2019 the Company extended the lease term of one spare engine (effective from November 2019).

During the year ended December 31, 2018, the Company added ten new leased aircraft to its fleet (acquired three A320 NEO's through sale leaseback transactions under our existing Airbus purchase agreement and seven obtained directly from the lessors). Also, the Company extended the lease term of Aircraft (effective from 2019) and two spare engines (effective from February and April 2018), and returned four aircraft to their respective lessors.

During the year ended December 31, 2018, the Company also added two NEO spare engines to its fleet based on the terms of the Pratt & Whitney purchase agreement (FMP). These two engines incorporated were subject to sale and leaseback transactions.

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

	Aircraft leases	Spare engine leases	Land and building leases	Total
As at January 1st, 2019	Ps. 31,126,169	Ps. 579,696	Ps. 176,188	Ps. 31,882,053
Additions	6,676,492	230,200	42,992	6,949,684
Depreciation on right of use assets	(4,490,572)	(132,698)	(79,701)	(4,702,971)
As at December 31, 2019	33,312,089	677,198	139,479	34,128,766
Additions	4,876,071	362,081	15,222	5,253,374
Disposals	(17,742)	-	-	(17,742)
Foreign exchange effect	-	-	795	795
Depreciation on right of use assets	(4,763,928)	(210,079)	(74,969)	(5,048,976)
As at December 31, 2020	Ps. 33,406,490	Ps. 829,200	Ps. 80,527	Ps. 34,316,217

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2020	2019
As at January 1st	Ps. 40,517,045	Ps. 39,565,146
Additions	5,572,764	7,186,613
Disposals	(231,566)	
Accretion of interest	2,218,982	2,037,540
Foreign exchange effect	2,163,886	(1,772,452)
Payments	(6,110,569)	(6,499,802)
As at 31 December	Ps. 44,130,542	Ps. 40,517,045
Current	Ps. 6,484,092	Ps. 4,720,505
Non-current	Ps. 37,646,450	Ps. 35,796,540

The Company applied practical expedients to leases from applying IFRS 16 guidance on lease modification accounting for rent concessions for those lease modifications arising as a direct result of COVID-19. The net impact on the consolidated statements of operations for 2020 was Ps.190,811, which reflects the changes to lease payments that arose from such concessions.

The following are the amounts recognized in profit or loss:

	As of December 31,		
	2020	2019	2018
Depreciation of right-of-use assets	Ps. (5,048,976)	Ps. (4,702,971)	Ps. (4,043,691)
Interest expense on lease liabilities and aircraft and engine lease return obligation (Note 21)	(2,350,250)	(2,128,162)	(1,755,978)
Aircraft and engine variable expenses	(1,845,254)	(961,657)	(956,010)
Total amount recognized in profit or loss	Ps. (9,244,480)	Ps. (7,792,790)	Ps. (6,755,679)

The Company had total cash outflows for leases of Ps.6,110,569 in 2020 (Ps.6,499,802 in 2019 and Ps.5,710,907 in 2018).

i) Return obligations

The aircraft lease agreements of the Company also require that the aircraft and engines be returned to lessors under specific conditions of maintenance. The costs of return, which no case are related to scheduled major maintenance, are estimated and recognized ratably as a provision from the time it becomes likely such costs will be incurred and can be estimated reliably. These return costs are recognized on a straight-line basis as a component of variable lease expenses and the provision is included as part of other liabilities, through the remaining lease term.

The Company estimates the provision related to airframe, engine overhaul and limited life parts using certain assumptions including the projected usage of the aircraft and the expected costs of maintenance tasks to be performed. For the years ended December 31, 2020, 2019 and 2018, the Company expensed as supplemental rent Ps.1,428,179, Ps.680,964 and Ps.659,106, respectively.

Purchase of 80 A320 New Engine Option ("NEO") aircraft

On December 28, 2017, the Company amended the agreement with Airbus, S.A.S. ("Airbus") for the purchase of additional 80 A320NEO family aircraft to be delivered from 2022 to 2026, to support the Company's targeted growth markets in Mexico, United States and Central America. The related commitments for the acquisitions of such aircraft are disclosed in Note 23.

15. Accrued liabilities

a) An analysis of current accrued liabilities at December 31, 2020 and 2019 is as follows:

	2020	2019
Fuel and traffic accrued expenses	Ps. 1,285,931	Ps. 1,507,659
Salaries and benefits	337,467	296,829
Sales, marketing and distribution accrued expenses	179,342	230,935
Maintenance deposits	174,549	132,085
Accrued administrative expenses	122,729	81,124
Maintenance and aircraft parts accrued expenses	98,942	120,254
Others	86,374	48,526
Information and communication accrued expenses	35,359	67,808
Deferred revenue from V Club membership	20,830	35,465
Supplier services agreement	10,634	10,634
Benefits from suppliers	3,888	–
Advances from travel agencies	242	542
	Ps. 2,356,287	Ps. 2,531,861

b) Non-current accrued liabilities at December 31, 2020 and 2019 is as follows:

	2020	2019
Supplier services agreement	Ps. 45,270	Ps. 55,905
Benefits from suppliers	16,847	19,439
Other	4,581	15,452
	Ps. 66,698	Ps. 90,796

c) An analysis of other liabilities is as follows:

	Balance as of January 1, 2020	Increase for the year	Payments	Balance as of December 31, 2020
Aircraft and engine lease return obligation	Ps. 1,852,688	Ps. 2,126,401	Ps. (1,474,605)	Ps. 2,504,484
Guarantee deposit	–	250,000	–	250,000
Employee profit sharing (Note 16)	24,097	20,810	(30,490)	14,417
	Ps. 1,876,785	Ps. 2,397,211	Ps. (1,505,095)	Ps. 2,768,901
Current maturities				Ps. 101,218
Non-current				Ps. 2,667,683

	Balance as of January 1, 2019		Increase for the year		Payments		Balance as of December 31, 2019
Aircraft and engine lease return obligation	Ps.	1,831,045	Ps.	725,506	Ps.	703,863	Ps. 1,852,688
Employee profit sharing (Note 16)		14,984		22,134		13,021	24,097
	Ps.	1,846,029	Ps.	747,640	Ps.	716,884	Ps. 1,876,785
Current maturities							Ps. 407,190
Non-current							Ps. 1,469,595

During the years ended December 31, 2020 and 2019 no cancellations or write-offs related to these liabilities were recorded.

On September 12, 2012, the Company entered into a cobrand credit card agreement with Banco Invex, S.A., Institución de Banca Múltiple, Invex, Grupo Financiero Invex "Invex".

On June 26, 2020, the Company signed a new amendment with Invex. Through this agreement, Invex pays certain commissions to Volaris related to the cobrand credit card and Invex's clients receive vouchers to be redeemed in different Volaris services under certain conditions. A portion of the voucher cost is paid by Volaris and the remaining amount by Invex.

During the year ended December 31, 2020, Invex prepaid certain commissions to Volaris, which were recorded as part of other liabilities.

16. Employee benefits

The components of net period cost recognized in the consolidated statement of operations and the obligations for seniority premium for the years ended December 31, 2020, 2019 and 2018, are as follows:

		2020		2019		2018
Analysis of net period cost:						
Current service cost	Ps.	8,449	Ps.	8,214	Ps.	4,977
Interest cost on benefit obligation		2,630		1,872		1,424
Net period cost	Ps.	11,079	Ps.	10,086	Ps.	6,401

Changes in the defined benefit obligation are as follows:

		2020		2019
Defined benefit obligation at January 1,	Ps.	38,151	Ps.	18,153
Net period cost charged to profit or loss:				
Current service cost		8,449		8,214
Interest cost on benefit obligation		2,630		1,872
Remeasurement losses in other comprehensive income:				
Actuarial changes arising from changes in assumptions		2,651		10,192
Payments made		(1,254)		(225)
Defined benefit obligation at December 31,	Ps.	50,627	Ps.	38,206

The significant assumptions used in the computation of the seniority premium obligations are shown below:

	2020	2019	2018
Financial:			
Discount rate	7.04%	7.18%	9.91%
Expected rate of salary increases	5.50%	5.50%	5.65%
Annual increase in minimum salary	4.00%	4.00%	4.15%
Biometric:			
Mortality [(1)]	EMSSA 09, CEPAL* 2010 EL SALVADOR, CEPAL*2010 COSTA RICA	EMSSA 09, CEPAL* 2010 EL SALVADOR, CEPAL*2010 COSTA RICA	EMSSA 09
Disability [(2)]	IMSS–97	IMSS–97	IMSS–97

(1) Mexican Experience of social security (EMSSA), Economic Commission for Latin America and the Caribbean (CEPAL for its Spanish acronym).
(2) Mexican Experience of *Instituto Mexicano del Seguro Social* (IMSS).

Accruals for short-term employee benefits at December 31, 2020 and 2019, respectively, are as follows:

		2020		2019
Employee profit-sharing (Note 15c)	Ps.	14,417	Ps.	24,097

The key management personnel of the Company include the members of the Board of Directors (Note 7).

17. Share-based payments

a) LTRP

On November 6, 2014, the shareholders of the Company and the shareholders of its subsidiary Servicios Corporativos, approved an amendment to the current LTRP for the benefit of certain key employees, based on the recommendations of the Board of Directors of the Company at its meetings held on July 24 and August 29, 2014. For such purposes on November 10, 2014 an irrevocable Administrative Trust was created by Servicios Corporativos and the key employees. The new plan was restructured and named LTIP, which consists of a share purchase plan (equity-settled transaction) and SARs plan (cash settled).

On October 18, 2018, the Board of Directors of the Company approved a new long-term retention plan LTRP for certain executives of the Company, through which the beneficiaries of the plan, will receive shares of the Company once the service conditions are met. This plan does not include cash compensations granted through appreciation rights on the Company's shares. The retention plans granted in previous periods under LTRP will continue in full force and effect until their respective due dates and the cash compensation derived from them will be settled according to the conditions established in each plan.

b) LTIP

– Share purchase plan (equity-settled)

Under the share purchase plan (equity- settled), in November 2014 certain key employees of the Company were granted with a special bonus by an amount of Ps.10,831, to be used to purchase Company's shares. The plan consisted in:

(i) Servicios Corporativos granted a bonus to each key executive;
(ii) The bonus amount by Ps.7,059, net of withheld taxes, was transferred on November 11, 2014, as per the written instructions of each key employees, to the Administrative Trust for the acquisition of Series A shares of the Company through an intermediary authorized by the BMV based on the Administration Trust's Technical Committee instructions;
(iii) Subject to specified terms and conditions set forth in the Administrative Trust, the acquired shares were in escrow under the Administrative Trust for its administration until the vesting period date for each key executive, date as of which the key executive can fully dispose of the shares and instruct as desired.
(iv) The share purchase plan provides that if the terms and conditions are not met by the vesting period date, then the shares would be sold in the BMV, and Servicios Corporativos would be entitled to receive the proceeds of the sale of shares.
(v) The key employees' account balance will be tracked by the Administrative Trust. The Administrative Trust's objectives are to acquire Series A shares on behalf of the key employees and to manage the shares granted to such key executive based on instructions set forth by the Technical Committee.

As the Administrative Trust is controlled and therefore consolidated by Controladora, shares purchased in the market and held within the Administrative Trust are presented for accounting purposes as treasury stock in the consolidated statement of changes in equity.

In November 2020, 2019 and 2018, the extensions to the LTIP were approved by the Company's shareholder's and Company's Board of Directors, respectively. The total cost of the extensions approved were Ps.92,132 (Ps.59,899 net of withheld taxes), Ps.86,772 (Ps.56,407 net of withheld taxes) and Ps.63,961 (Ps.41,590 net of withheld taxes), respectively. Under the terms of the incentive plan, certain key employees of the Company were granted a special bonus that was transferred to the Administrative Trust for the acquisition of Series A shares of the Company.

As of December 31, 2020, 2019 and 2018, the number of shares into the Administrative Trust associated with the Company's share purchase payment plans is as follows:

	Number of Series A shares
Outstanding as of January 1st, 2018	820,088 *
Purchased during the year	3,208,115
Granted during the year	–
Exercised/vested during the year	(353,457)
Forfeited during the year	(121,451)
Outstanding as of December 31, 2018	3,553,295 *
Purchased during the year	2,694,600
Granted during the year	–
Exercised/vested during the year	(959,614)
Forfeited during the year	(173,090)
Outstanding as of December 31, 2019	5,115,191
Purchased during the year	3,159,763
Granted during the year	–
Exercised/vested during the year	(2,142,426)
Forfeited during the year	(327,217)
Outstanding as of December 31, 2020	5,805,311 *

* These shares are presented as treasury shares in the consolidated statement of financial position as of December 31, 2020, 2019 and 2018.

The vesting period of the shares granted under the Company's share purchase plans is as follows:

Number of Series A shares	Vesting period
2,979,412	November 2020 – 2021
1,819,440	November 2021 – 2022
1,006,459	November 2022 – 2023
5,805,311	

In accordance with IFRS 2, the share purchase plans are classified as equity-settled transactions on the grant date. This valuation is the result of multiplying the total number of Series A shares deposited in the Administrative Trust and the price per share, plus the balance in cash deposited in the Administrative Trust.

For the years ended December 31, 2020, 2019 and 2018, the compensation expense recorded in the consolidated statement of operations amounted to Ps.75,040, Ps.49,659 and Ps.19,980, respectively. All shares held in the Administrative Trust are considered outstanding for both basic and diluted (loss) earnings per share purposes, since the shares are entitled to dividend if and when declared by the Company.

During 2020, 2019 and 2018, some key employees left the Company; therefore, the vesting conditions were not fulfilled. In accordance with the terms of the plan, Servicios Corporativos is entitled to receive the proceeds of the sale of such shares, the number of forfeited shares as of December 31, 2020, 2019 and 2018, were (327,217), (173,090) and (121,451), respectively.

– SARs (cash settled)

On November 6, 2014, the Company granted 4,315,264 SARs to key employees that entitle them to a cash payment and vest as long as the employee continues to be employed by the Company at the end of each anniversary, during a 3 years period. The total amount of the appreciation rights granted under this plan at the grant date was Ps.10,831 at such date.

Fair value of the SARs was measured at each reporting date. The carrying amount of the liability relating to the SARs as of December 31, 2019 and 2018 were Ps.1,901 and Ps.537, respectively. The retention plan granted in previous periods expired in November 2020.

The compensation cost is recognized in the consolidated statement of operations under the caption of salaries and benefits over the service period. During the years ended December 31, 2020, 2019 and 2018, the Company recorded a expense (benefit) of Ps.(1,901), Ps.2,964 and Ps.(186), respectively, in the consolidated statement of operations.

The fair value of these SARs was estimated at the grant date and at each reporting date using the Black-Scholes option pricing model, taking into account the terms and conditions on which the SARs were granted.

During the years ended December 31, 2019, the Company made a cash payment to key employees related to the SARs plan in the amount of Ps.2,395.

Such payments were determined based on the increase in the share price of the Company from the grant date to the exercisable date.

c) MIP

– MIP I

In April 2012, the Board of Directors authorized a MIP for the benefit of certain key employees, subject to shareholders' approval. On December 21, 2012, the shareholders approved the MIP consisting of: (i) the issuance of an aggregate of 25,164,126 Series A and Series B shares, representing 3.0% of the Company's fully diluted capital stock; (ii) a grant of options to acquire shares of the Company or CPOs having shares as underlying securities for which, as long as certain conditions occur, the employees will have the right to request the delivery of those shares (iii) the creation of an Administrative Trust to deposit such shares in escrow until they are delivered to the officers or returned to the Company in the case that certain conditions do not occur; and (iv) the execution of share sale agreements setting forth the terms and conditions upon which the officers may exercise its shares at Ps.5.31 (five Mexican pesos 31/100) per share.

On December 24, 2012, the Administrative Trust was created, and the share sale agreements were executed. On December 27, 2012, the trust borrowed Ps.133,723 from the Company and immediately after; the trust paid the Company the same amount borrowed as purchase price for the shares.

The share sale agreements provide that the officers may pay for the shares at the same price upon the occurrence of either an initial public offering of the Company's capital stock or a change of control and as long as they remain employees until the options are exercised, with a maximum term of ten years. Upon payment of the shares by the officers to the Management Trust, it must pay such amount back to the Company as repayment of the loan, for which the Company charges no interest.

The MIP has been classified as equity-settled, by which, the grant date, fair value is fixed and is not adjusted by subsequent changes in the fair value of capital instruments. Equity-settled transactions are measured at fair value at the date the equity benefits are conditionally granted to employees. The total cost of the MIP determined by the Company was Ps.2,722 to be recognized from the time it becomes probable the performance condition will be met over the vesting period. Total cost of the MIP related to the vested shares has been fully recognized in the consolidated statements of operations during the vesting years.

This cost was determined by using the improved Binomial valuation model from Hull and White, on the date in which the plan had already been approved by the shareholders and a shared understanding of the terms and conditions of the plan was reached with the employees (December 24, 2012, defined as the grant date), with the following assumptions:

	2012
Dividend yield (%)	0.00%
Volatility (%)	37.00%
Risk-free interest rate (%)	5.96%
Expected life of share options (years)	8.8
Exercise share price (in Mexican pesos Ps.)	5.31
Exercise multiple	1.1
Fair value of the stock at grant date	1.73

The expected volatility reflects the assumption that the historical volatility of comparable companies is indicative of future trends, which may not necessarily be the actual outcome.

Under the methodology followed by the Company, at the grant date and December 31, 2012, the granted shares had no positive intrinsic value.

In 2019, the key employees exercised 2,780,000 Series A shares. As a result, the key employees paid to the Management Trust Ps.14,773 corresponding to the exercised shares for the year ended December 31, 2019. During 2020, there were no exercised shares under the MIP.

Thereafter, the Company received from the Management Trust the payment related to the exercised shares by the key employees as a repayment of the loan between the Company and the Management Trust.

Movements in share options

The following table illustrates the number of shares options and fixed exercise prices during the year:

		Number of share options		Exercise price in Mexican pesos		Total in thousands of Mexican pesos
Outstanding as of December 31, 2018	Ps.	10,433,981	Ps.	5.31	Ps.	55,441
Granted during the year		–		–		–
Forfeited during the year		–		–		–
Exercised during the year		(2,780,000)		5.31		(14,773)
Outstanding as of December 31, 2019		7,653,981	Ps.	5.31	Ps.	40,668
Granted during the year		–		–		–
Forfeited during the year		–		–		–
Exercised during the year		–		–		–
Outstanding as of December 31, 2020	Ps.	7,653,981	Ps.	5.31	Ps.	40,668

At December 31, 2020 and 2019, 7,653,981 and 7,653,981 share options pending to exercise were considered as treasury shares, respectively.

– MIP II

On February 19, 2016, the Board of Directors of the Company authorized an extension to the MIP for certain key employees. Such extension was modified as of November 6, 2016. Under MIP II, 13,536,960 share appreciation rights of our Series A shares were granted to be settled annually in cash in a period of five years in accordance with the established service conditions. In addition, a five-year extension to the period in which the employees can exercise MIP II once the SARs are vested was approved.

Fair value of the SARs is measured at each reporting period using a Black-Scholes option pricing model, taking into consideration the terms and conditions granted to the employees. The amount of the cash payment is determined based on the increase in our share price between the grant date and the settlement date.

The carrying amount of the liability relating to the SARs as of December 31, 2020 and 2019 was Ps.177,770 and Ps.70,567, respectively. The compensation cost is recognized in the consolidated statement of operations under the caption of salaries and benefits over the service period.

During the years ended December 31, 2020 and 2019, the Company recorded a (benefit) expense of Ps.107,204 and Ps.37,760, respectively, in the consolidated statement of operations. No SARs were exercised during 2020.

The vesting schedule is summarized in the table below:

Number of SARs	Vesting date
3,391,020	February 2021
3,391,020 *	

* Includes forfeited SARs of 0, 0 and 1,563,520, for the years ended December 31, 2020, 2019 and 2018, respectively.

The expense (benefit) recognized for the Company's retention plans during the year is shown in the following table:

		2020		2019		2018
Expense (benefit) arising from cash-settled share-based payments transactions	Ps.	105,303	Ps.	40,724	Ps.	(5,238)
Expense arising from equity-settled share-based payments transactions		75,040		49,659		19,980
Total expense arising from share-based payments transactions	Ps.	180,343	Ps.	90,383	Ps.	14,742

d) Board of Directors Incentive Plan (BoDIP)

Certain members of the Board of Directors of the Company receive additional benefits through a share-based plan, which has been classified as an equity-settled share-based payment and therefore accounted under IFRS 2 "Shared based payments".

In April 2018, the Board of Directors of the Company authorized a Board of Directors Incentive Plan "BoDIP", for the benefit of certain board members. The BoDIP grants options to acquire shares of the Company or CPOs during a four years period with an exercise price share at Ps.9.74, Ps.16.80 and Ps.16.12 for the years ended 2020, 2019 and 2018, respectively, which was determined on the grant date. Under this plan, no service or performance conditions are required to the board members for exercise the option to acquire shares, and therefore, they have the right to request the delivery of those shares at the time they pay for them.

For such purposes on August 29, 2018 the Trust Agreement number CIB/3081 was created by Controladora Vuela, Compañia de Aviación S.A.B de C.V as trustee and CIBanco, S.A., Institucion de Banco Multiple as trustor. The number of shares hold as of December 31, 2020 and 2019 available to be exercised is 5,233,693 and 2,072,344, respectively.

18. Equity

As of December 31, 2020, the total number of the Company's authorized shares was 1,165,976,677; represented by common registered shares, issued and with no par value, fully subscribed and paid, comprised as follows:

	Shares		
	Fixed Class I	Variable Class II	Total shares
Series A shares (1)	10,478	1,077,914,326	1,077,924,804
Series B shares (1)	13,702	88,038,171	88,051,873
	24,180	1,165,952,497	1,165,976,677
Treasury shares (Note 17)	–	(19,020,202)	(19,020,202) (1)
	24,180	1,146,932,295	1,146,956,475

(1) The number of forfeited shares as of December 31, 2020 were 327,217, which are include in treasury shares.

On December 11, 2020, Controladora Vuela Compañía de Aviación, S.A.B. de C.V announced the closing of an upsized primary follow-on equity offering in which the Company offered 134,000,000 of its Ordinary Participation Certificates (Certificados de Participación Ordinarios), or CPOs, in the form of American Depositary Shares, or ADSs, at a price to the public of USD11.25 per ADS in the United States and other countries outside of Mexico, pursuant to the Company's shelf registration statement filed with the Securities and Exchange Commission (the "SEC"). In connection with the offering, the underwriters exercised their option to purchase up to 20,100,000 additional CPOs in the form of ADSs. Each ADS represents 10 CPOs and each CPO represents a financial interest in one Series A share of common stock of the Company. The Company currently intends to use the net proceeds of approximately USD164,419,000 (after the deduction of the underwriters´ commission and expenses payable by the Company) from the offering for general corporate purposes. The increase in capital stock amounts of Ps.3,272,832.

As of December 31, 2019, the total number of the Company's authorized shares was 1,011,876,677; represented by common registered shares, issued and with no par value, fully subscribed and paid, comprised as follows:

	Shares		
	Fixed Class I	Variable Class II	Total shares
Series A shares (1)	10,478	923,814,326	923,824,804
Series B shares (1)	13,702	88,038,171	88,051,873
	24,180	1,011,852,497	1,011,876,677
Treasury shares (Note 17)	–	(15,136,057)	(15,136,057) (1)
	24,180	996,716,440	996,740,620

(1) The number of forfeited shares as of December 31, 2019 were 294,541, which are include in treasury shares.

All shares representing the Company's capital stock, either Series A shares or Series B shares, grant the holders the same economic rights and there are no preferences and/or restrictions attaching to any class of shares on the distribution of dividends and the repayment of capital. Holders of the Company's Series A common stock and Series B common stock are entitled to dividends when, and if, declared by a shareholders' resolution. The Company's revolving line of credit with Santander and Bancomext limits the Company's ability to declare and pay dividends in the event that the Company fails to comply with the payment terms thereunder. Only Series A shares from the Company are listed.

During the years ended December 31, 2020 and 2019, the Company did not declare any dividends.

a) Earnings (loss) per share

Basic earnings (loss) per share ("EPS or LPS") amounts are calculated by dividing the net income (loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS or LPS amounts are calculated by dividing the profit (loss) attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares, if any), by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares (to the extent that their effect is dilutive).

The following table shows the calculations of the basic and diluted earnings (loss) income per share for the years ended December 31, 2020, 2019 and 2018.

	At December 31,		
	2020	2019	2018 (Adjusted)
Net (loss) income for the period	Ps. (4,293,791)	Ps. 2,639,063	Ps. (942,882)
Weighted average number of shares outstanding (in thousands):			
Basic	1,021,561	1,011,877	1,011,877
Diluted	1,021,561	1,011,877	1,011,877
EPS - LPS:			
Basic	(4.203)	2.608	(0.932)
Diluted	(4.203)	2.608	(0.932)

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorization of these financial statements.

b) In accordance with the Mexican Corporations Act, the Company is required to allocate at least 5% of the net income of each year to increase the legal reserve. This practice must be continued until the legal reserve reaches 20% of capital stock. As of December 31, 2020, 2019 and 2018, the Company's legal reserve was Ps.291,178 or 8.5%, 9.8% and 9.8% respectively of our capital stock. For the years ended December 31, 2020, 2019 and 2018, we did not allocate any amount to our legal reserve fund.

At an ordinary general shareholders' meeting held on April 19, 2017 the shareholders approved to increase legal reserve in the amount of Ps.252,928. As of December 31, 2020, 2019 and 2018 the Company's legal reserve has not reached the 20% of its capital stock.

c) Any distribution of earnings in excess of the net tax profit account (*Cuenta de utilidad fiscal neta* or "CUFIN") balance will be subject to corporate income tax, payable by the Company, at the enacted income tax rate at that time. A 10% withholding tax is imposed on dividends distributions to individuals and foreign shareholders from earnings generated starting January 1, 2014.

d) Shareholders may contribute certain amounts for future increases in capital stock, either in the fixed or variable capital. Said contributions will be kept in a special account until the shareholders meeting authorizes an increase in the capital stock of the Company, at which time each shareholder will have a preferential right to subscribe and pay the increase with the contributions previously made. As it is not strictly regulated in Mexican law, the shareholders meeting may agree to return the contributions to the shareholders or even set a term in which the increase in the capital stock has to be authorized.

19. Income tax

a) In accordance with the MITL, the Company and its Mexican subsidiaries are subject to income tax and each files its tax returns on an individual entity basis and the related tax results are included in the accompanying consolidated financial statements. The income tax is computed taking into consideration the taxable and deductible effects of inflation, such as depreciation calculated on Adjusted assets values. Taxable income is increased or reduced by the effects of inflation on certain monetary assets and liabilities through the annual inflation adjustment.

(i) Based on the approved law, corporate income tax rate for 2020 and thereafter is 30%.

(ii) The tax rules include limits in the deductions of the exempt compensation amount certain items, as follows: Wages and benefits paid to workers 47% of income paid to workers and in certain cases up to 53% (holiday bonus, savings fund, employee profit sharing, seniority premiums) will be deductible for employers. As a result, certain wage and salary provisions have difference between tax and book values at year-end.

(iii) The MITL sets forth criteria and limits for applying some deductions, such as: the deduction of payments which, in turn, are exempt income for workers, contributions for creating or increasing provisions for pension funds, contributions to the Mexican Institute of Social Security payable by the worker that are paid by the employer, as well as the possible non-deduction of payments made to related parties in the event of failing to meet certain requirements.

(iv) Taxable income for purposes of the employee profit sharing is the same used for the Corporate Income Tax except for certain items.

(v) A 10% withholding tax is imposed on dividends distributions to individuals and foreign shareholders from earnings generated starting January 1, 2014.

The income tax rates for 2020, 2019 and 2018 in Guatemala, Costa Rica and El Salvador are 25%, 30% and 30% respectively.

b) For the years ended December 31, 2020, 2019 and 2018, the Company reported on a consolidated basis taxable income of Ps.302,029, Ps.938,304 and Ps.777,513, respectively, which was partially offset by tax losses from prior years.

In accordance with the MITL and Costa Rican Income Tax Law (CRITL), tax losses may be carried forward against taxable income generated in the succeeding ten and three years, respectively. Carryforward tax losses are Adjusted based on inflation.

c) An analysis of consolidated income tax expense for the years ended December 31, 2020, 2019 and 2018 is as follows:

Consolidated statements of operations

		2020		2019		2018
Current year income tax expense	Ps.	(90,609)	Ps.	(281,491)	Ps.	(232,824)
Deferred income tax benefit (expense)		1,496,793 [1]		(813,340) [2]		582,644 [3]
Total income tax benefit (expense)	Ps.	1,406,184	Ps.	(1,094,831)	Ps.	349,820

(1) Includes translation effect by Ps.2,035
(2) Includes translation effect by Ps.(2,278)
(3) Includes translation effect by Ps.2,680

Consolidated statements of comprehensive income

		2020		2019		2018
Deferred income tax related to items recognized in OCI during the year						
Net gain (loss) cash flow hedges	Ps.	46,835	Ps.	(74,820)	Ps.	85,107
Remeasurement (loss) gain of employee benefits		794		3,058		(1,797)
Deferred income tax charged to OCI	Ps.	47,629	Ps.	(71,762)	Ps.	83,310

d) A reconciliation of the statutory corporate income tax rate to the Company's effective tax rate for financial reporting purposes is as follows:

	2020	2019	2018
Statutory income tax rate	30.00%	30.00%	30.00%
Amendment tax return effects and other tax adjustments	0.92%	(0.51%)	0.05%
Inflation on furniture, intangible and equipment	0.29%	(0.48%)	2.08%
Inflation of tax losses	0.23%	(0.21%)	1.16%
Foreign countries difference with Mexican statutory rate	(0.06%)	0.11%	(0.02%)
Annual inflation adjustment	(0.91%)	(0.05%)	0.26%
Unrecorded deferred taxes on tax losses	(1.29%)	0.27%	(3.96%)
Non-deductible expenses	(4.51%)	0.19%	(2.51%)
	24.67%	29.32%	27.06%

Mexican income tax matters

For Mexican purposes, corporate income tax is computed on accrued basis. MITL requires taxable profit to be determined by considering revenue net of tax deductions. Prior years' tax losses can be utilized to offset current year taxable income. Income tax is determined by applying the 30% rate on the net amount after tax losses utilization.

For tax purposes, income is considered taxable at the earlier of: (i) the time the revenue is collected, (ii) the service is provided or (iii) the time of the issuance of the invoice. Expenses are deductible for tax purposes generally on accrual basis, with some exceptions, once the requirements established in the tax law are fulfilled.

Central America (Guatemala, Costa Rica and El Salvador)

According to Guatemala Corporate Income tax law, under the regime on profits from business activities, net operating losses cannot offset taxable income in prior or future years. For the year ended December 31, 2020, 2019 and 2018, the Company obtained a net operating (loss) income of Ps.(1,835), Ps.(1,085) and Ps.8,549, respectively.

According to Costa Rica Corporate Income tax law, under the regime on profits from business activities, net operating losses can offset taxable income in a term of three years. For the years ended December 31, 2020, 2019 and 2018, the Company generated net operating losses for an amount of Ps.55,751, Ps.50,246 and Ps.170,731, respectively, for which no deferred tax asset has been recognized.

According to El Salvador Corporate Income tax law, under the regime on profits from business activities, net operating losses cannot offset taxable income in prior or future years. For the year ended December 31, 2020 and 2019, the Company obtained a net operating loss of Ps.16,619 and Ps.32,494.

e) An analysis of consolidated deferred taxes is as follows:

	2020		2019	
	Consolidated statement of financial position	Consolidated statement of operations	Consolidated statement of financial position	Consolidated statement of operations
Activos por impuestos diferidos:				
Deferred income tax assets:				
Lease liability	Ps. 13,239,254	Ps. 1,084,140	Ps. 12,155,114	Ps. 313,137
Unearned transportation revenue	1,233,661	436,598	797,063	61,708
Extension lease agreement	773,443	314,100	459,343	(137,639)
Tax losses available for offsetting against future taxable income	576,422	272,452	303,970	(5,350)
Intangible	420,908	(25,941)	446,849	(13,741)
Allowance for doubtful accounts	61,565	47,476	14,089	9,187
Employee benefits	15,191	2,934	11,463	2,958
Financial instruments	7,948	(22)	(38,865)	–
Employee profit sharing	4,323	(2,904)	7,227	2,734
Provisions	(91,253)	(442,598)	351,345	60,655
Non derivative financial instruments	(473,242)	(477,471)	4,229	4,229
	15,768,220	1,208,764	14,511,827	297,878
Deferred income tax liabilities:				
Right of use asset	10,292,753	55,824	10,236,929	672,311
Supplemental rent	1,878,865	171,916	1,706,949	111,430
Rotable spare parts, furniture and equipment, net	707,092	(177,384)	884,476	239,452
Inventories	83,402	(6,885)	90,287	1,392
Other prepayments	9,786	(17,942)	27,728	(4,329)
Prepaid expenses and other assets	(132,462)	(311,523)	179,061	88,683
	12,839,436	(285,994)	13,125,430	1,108,939
	Ps. 2,928,784	Ps. 1,494,758	Ps. 1,386,397	Ps. (811,061)

Reflected in the consolidated statement of financial position as follows:

	2020	2019
Deferred tax assets	Ps. 3,128,555	Ps. 1,542,536
Deferred tax liabilities	(199,771)	(156,139)
Deferred tax assets, net	Ps. 2,928,784	Ps. 1,386,397

A reconciliation of deferred tax asset, net is as follows:

		2020		2019
Opening balance as of January 1,	Ps.	1,386,397	Ps.	2,269,220
Deferred income tax (expense) benefit during the current year recorded on profits		1,494,758		(811,061)
Deferred income tax (expense) benefit during the current year recorded in accumulated other comprehensive income (loss)		47,629		(71,762)
Closing balance as of December 31,	Ps.	2,928,784	Ps.	1,386,397

At December 31, 2020, 2019 and 2018, the table shown above includes deferred income tax asset recognized by Concesionaria (2020 and 2017), Comercializadora (2019 and 2020) and Vuela Aviación (2020) for tax losses carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

According to IAS 12, *Income Taxes*, a deferred tax asset should be recognized for the carry-forward of available tax losses to the extent that it is probable that future taxable income will be available against which the available tax losses can be utilized. In these regards, the Company has recognized at December 31, 2020, 2019 and 2018 a deferred tax asset for tax losses of Ps.576,422, Ps.303,970 and Ps.309,320 respectively.

During 2020, the Company recognized a deferred tax asset for the carry-forward of available tax losses of Concesionaria and Comercializadora, based on the positive evidence of the Company to generate taxable profit related to the same taxation authority against which the available tax losses can be utilized before they expire. Positive evidence includes Concesionaria's actions to increase its aircraft fleet in the following years, increase in flight frequencies, and routes, inside and outside of Mexico; the profit of Comercializadora, is derived directly from Concesionaria's operations.

The temporary differences associated with investments in the Company's subsidiaries, for which a deferred tax liability has not been recognized in the periods presented, aggregate to Ps.150,683 (2019: Ps.276,393). The Company has determined that the undistributed profits of its subsidiaries will not be distributed in the foreseeable future. The Company has an agreement with its associate that the profits of the associate will not be distributed until it obtains the consent of the Company. The Company does not anticipate giving such consent at the reporting date. Furthermore, the Group's joint venture will not distribute its profits until it obtains the consent of all venture partners.

An analysis of the available tax losses carry-forward of the Company at December 31, 2020 is as follows:

Year of loss		Historical loss		Adjusted tax loss		Utilized		Total remaining amount	Year of expiration
2017	Ps.	1,067,836	Ps.	1,206,232	Ps.	217,393	Ps.	988,839	2027
2018		92,604		92,604		78,849		13,755	2021
2019		4,922		5,186		-		5,186	2029
2020		863,847		878,533		-		878,533	2030
2020		55,751		55,751		-		55,751	2023
	Ps.	2,084,960	Ps.	2,238,306	Ps.	296,242	Ps.	1,942,064	

A breakdown of available tax loss carry-forward of Controladora and its subsidiaries at December 31, 2020 is as follows:

		Historical loss		Adjusted tax loss		Utilized		Total remaining amount
Comercializadora	Ps.	42,777	Ps.	43,685	Ps.	-	Ps.	43,685
Concesionaria		1,875,180		2,027,302		217,393		1,809,909
Operaciones Volaris		18,648		18,965		-		18,965
Vuela Aviación		148,355		148,354		78,849		69,505
	Ps.	2,084,960	Ps.	2,238,306	Ps.	296,242	Ps.	1,942,064
Unrecognized NOLs								20,657
							Ps.	1,921,407
Tax rate								30%
Deferred income tax							Ps.	576,422

f) At December 31, 2020 the Company had the following tax balances:

		2020
Adjusted contributed capital account (*Cuenta de capital de aportación* or "CUCA")	Ps.	4,607,752
CUFIN*		3,241,275

* The calculation comprises all the subsidiaries of the Company.

20. Other operating income and expenses

An analysis of other operating income is as follows:

		2020		2019		2018
Gain on sale and leaseback (Note 12)	Ps.	710,522	Ps.	284,759	Ps.	609,168
Loss on sale of rotable spare parts furniture and equipment		(2,604)		(8,954)		(2,356)
Other income		22,415		51,403		15,161
	Ps.	730,333	Ps.	327,208	Ps.	621,973

An analysis of other operating expenses is as follows:

		2020		2019		2018
Administrative and operational support expenses	Ps.	632,041	Ps.	581,181	Ps.	536,079
Technology and communications		383,648		381,055		385,841
Passenger services		87,850		65,477		70,337
Insurance		53,507		74,661		60,892
Others		194		10,553		5,949
	Ps.	1,157,240	Ps.	1,112,927	Ps.	1,059,098

21. Finance income and cost

An analysis of finance income is as follows:

		2020		2019		2018
Interest on cash and equivalents	Ps.	93,122	Ps.	201,191	Ps.	152,437
Interest on asset backed trust notes		6,342		6,525		–
Interest on recovery of guarantee deposits		2,047		83		166
	Ps.	101,511	Ps.	207,799	Ps.	152,603

An analysis of finance cost is as follows:

		2020		2019		2018
Interest expense on lease liabilities and aircraft and engine lease return obligation	Ps.	2,350,250	Ps.	2,128,162	Ps.	1,755,978
Financial instruments loss		448,559		–		–
Interest on asset backed trust notes		116,240		80,314		–
Cost of letter credit notes		73,141		49,856		57,277
Bank fees and others		3,707		3,607		6,141
Interest on debts and borrowings*		16,368		1,660		56,916
Other finance costs		10,219		6,230		–
	Ps.	3,018,484	Ps.	2,269,829	Ps.	1,876,312

* The borrowing costs related to the acquisition or construction of qualifying assets are capitalized as part of the cost of the asset (Note 12). Interest expense not capitalized is related to the short-term working capital facility from Citibanamex.

		2020		2019		2018
Interest on debts and borrowings	Ps.	400,406	Ps.	457,973	Ps.	414,836
Capitalized interest (Note 12)		(384,038)		(456,313)		(357,920)
Net interest on debts and borrowing in the consolidated statements of operations	Ps.	16,368	Ps.	1,660	Ps.	56,916

22. Components of other comprehensive (loss) income

An analysis of the other comprehensive (loss) income for the years ended December 31, 2020, 2019 and 2018 is as follows:

		2020		2019		2018
Derivative financial instruments:						
Reclassification of call options and forwards during the year to profit or loss	Ps.	–	Ps.	–	Ps.	(455,009)
Extrinsic value of changes on jet fuel Asian call options		(11,993)		11,148		227,509
Extrinsic value of changes on jet fuel Zero cost collars		(143,224)		256,515		(122,948)
(Loss) gain of the matured foreign currency forward contracts		–		(14,241)		66,757
Loss of the interest rate Cap		(900)		(4,023)		–
Non derivative financial instruments		(1,591,569)		14,096		–
Total	Ps.	(1,747,686)	Ps.	263,495	Ps.	(283,691)

23. Commitments and contingencies

Aircraft related commitments and financing arrangements

Committed expenditures for aircraft purchase and related flight equipment related to the Airbus purchase agreement, including estimated amounts for contractual prices escalations and pre-delivery payments, will be as follows:

	Commitment expenditures in U.S. dollars		Commitment expenditures equivalent in Mexican pesos [1]	
2021	US$	40,213	Ps.	802,197
2022		138,919		2,771,253
2023		265,836		5,303,083
2024		705,331		14,070,437
2025 and thereafter		3,221,596		64,266,652
	US$	4,371,895	Ps.	87,213,622

[1] Using the exchange rate as of December 31, 2020 of Ps.19.9487.

All aircraft acquired by the Company through the Airbus purchase agreement through December 31, 2020 have been executed through sale and leaseback transactions.

In addition, we have commitments to execute sale and leaseback over the next two years. The estimated proceeds from these commitments are as follows:

	Aircraft sale prices estimated in U.S. dollars		in Mexican pesos [1]	
2021	US$	209,500	Ps.	4,179,253
2022		547,328		10,918,482
	US$	756,828	Ps.	15,097,735

[1] Using the exchange rate as of December 31, 2020 of Ps.19.9487.

The future lease payments for these non-cancellable sale and leaseback contracts are as follows:

	Aircraft leases in U.S. dollars		in Mexican pesos [1]	
2021	US$	9,720	Ps.	193,901
2022		47,972		956,979
2023		63,222		1,261,197
2024		63,222		1,261,197
2025 and thereafter		574,529		11,461,107
	US$	758,665	Ps.	15,134,381

[1] Using the exchange rate as of December 31, 2020 of Ps.19.9487.

Litigation

The Company is a party to legal proceedings and claims that arise during the ordinary course of business. The Company believes the ultimate outcome of these matters will not have a material adverse effect on the Company's financial position, results of operations, or cash flows.

24. Operating segments

The Company is managed as a single business unit that provides air transportation services. The Company has two geographic segments identified below:

		2020		2019		2018
Operating revenues:						
Domestic (Mexico)	Ps.	16,572,198	Ps.	24,594,797	Ps.	18,493,476
International:						
United States of America and Central America*		5,998,615		10,230,824		8,811,674
Non-derivative financial instruments		(411,222)		(72,949)		–
Total operating revenues	Ps.	22,159,591	Ps.	34,752,672	Ps.	27,305,150

* United States of America represents approximately 27%, 29% and 31% of total revenues from external customers in 2020, 2019 and 2018, respectively.

Revenues are allocated by geographic segments based upon the origin of each flight. The Company does not have material non-current assets located in foreign countries.

25. Subsequent events

Subsequent to December 31, 2020 and through April 29, 2021:

During the first quarter of 2021, the Company demonstrated flexibility focusing on capacity management in the face of a volatile demand environment. The Company finished the quarter operating 88.3% of the *Available Seat Miles* flown in the first quarter of the prior year.

On April 16, 2021, the Company received the Famous Brand Declaration from the Mexican Institute of Industrial Property ("IMPI") for the "Volaris" brand, which is the first trademark within the Mexican aviation industry declared as a Famous Brand by IMPI.

5

Operating and Financial Review and Prospects

A. Operating Results

You should read the following discussion of our financial condition and results of operations in conjunction with our consolidated financial statements and the notes thereto included elsewhere in this annual report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this annual report, particularly in "Risk Factors."

Description of Our Principal Line Items

Operating Revenues

As of January 1, 2018, we adopted IFRS 15 "Revenue from Contracts with Customers" using the full retrospective method of adoption. The main impact of IFRS 15 on us is the timing of recognition of certain air travel-related ancillary services. Under the new standard, certain ancillary services are recognized when we satisfy our performance obligations, which is typically when the air transportation service is rendered (at the time of the flight). In addition, these ancillary services do not constitute separate performance obligations or represent administrative tasks that do not represent a different promised service and therefore should be accounted for together with the air fare as a single performance obligation of providing passenger transportation.

Therefore, the classification of certain ancillary fees in our statement of operations, such as advanced seat selection, fees charged for excess baggage, itinerary changes and other air travel-related services, changed with adoption of IFRS 15, since they are part of the single performance obligation of providing passenger transportation.

Passenger Revenues

Our passenger revenue includes income generated from: (i) fare revenue and (ii) other passenger revenue.

We derive our operating revenues primarily from transporting passengers on our aircraft and some tickets sold by other airlines such as Frontier. Approximately 58% of our total operating revenues were derived from passenger fares in 2020. Passenger revenues are based upon our capacity, load factor and the average ticket revenue per booked passenger. Our capacity is measured in terms of ASMs, which represents the number of seats we make available on our aircraft multiplied by the number of miles the seats are flown. Load factor, or the percentage of our capacity that is actually used by paying customers, is calculated by dividing RPMs by ASMs. The average ticket revenue per booked passenger represents the total passenger revenue divided by booked passengers.

Other passenger revenues include but are not limited to fees charged for excess baggage, bookings through our call center or third-party agencies, advanced seat selection, itinerary changes, V-Club memberships and charters. They are recognized as revenue when the obligation of passenger transportation service is provided by us or when the non-refundable ticket expires at the date of the scheduled travel. Approximately 3% of our total operating revenues were derived from other passenger revenues in 2020.

Non-Passenger Revenues

Our non-passenger revenues include income generated from (i) other non-passenger revenues and (ii) cargo services. In 2020, we derived approximately Ps. 0.7 billion, or 3% of our total operating revenues from these sources.

Revenues from other non-passenger services mainly include but are not limited to commissions charged to third parties for the sale of hotel reservations, trip insurance, rental cars and advertising spaces to third parties. They are recognized as revenue at the time the service is provided.

Revenues from cargo services are recognized when the cargo transportation is provided (upon delivery of the cargo to the destination).

The following table shows each of the line items in our consolidated statements of operations for the periods indicated as a percentage of our total operating revenues for that period:

	For the Years ended December 31,		
	2018 Adjusted [(1)]	2019	2020
Operating revenues:			
Passenger revenues:			
Fare revenues	68%	67%	58%
Other passenger revenues	29%	30%	39%
Non-passenger revenues:			
Other non-passenger revenues	3%	3%	4%
Cargo	0%	0%	1%
Non-derivative financial instruments:	0%	0%	(2)%
Total operating revenues	**100%**	**100%**	**100%**
Other operating income	(2)%	(1)%	(3)%
Fuel expense, net	37%	33%	30%
Landing, take-off and navigation expenses	17%	15%	18%
Depreciation of right of use assets	15%	14%	23%
Salaries and benefits	11%	10%	16%
Maintenance expenses	5%	4%	5%
Sales, marketing and distribution expenses	5%	4%	8%
Aircraft and engine variable lease expenses	4%	3%	8%
Other operating expenses	4%	3%	5%
Depreciation and amortization	2%	2%	4%
Total operating expenses, net	**98%**	**87%**	**115%**
Operating income	**2%**	**13%**	**(15)%**
Finance income	1%	1%	0%
Finance cost	(7)%	(7)%	(14)%
Exchange gain, net	0%	4%	2%
Income (loss) before income tax	(5)%	11%	(26)%
Income tax (expense) benefit	1%	(3)%	6%
Net income (loss)	**(3)%**	**8%**	**(19)%**

(1) On adoption of IFRS 16 we apply the new standard on the required effective date as of January 1, 2019, using the full retrospective method of adoption in order to provide for comparative results in all periods presented, recognizing the effect in retained earnings as of January 1, 2017.

Revenues from our international operations represented 32%, 29% and 27% of our total revenues in 2018, 2019 and 2020, respectively, and revenues from our domestic operations represented 68%, 71% and 73% of our total revenues in 2018, 2019 and 2020, respectively.

Revenue Recognition

General

As of January 1, 2018, we adopted IFRS 15 "Revenue from Contracts with Customers" using the full retrospective method of adoption. The main impact of IFRS 15 on us is the timing of recognition of certain air travel-related ancillary services. Under the new standard, certain ancillary services are recognized when we satisfy our performance obligations, which is typically when the air transportation service is rendered (at the time of the flight). In addition, these ancillary services do not constitute separate performance obligations or represent administrative tasks that do not represent a different promised service and therefore should be accounted for together with the air fare as a single performance obligation of providing passenger transportation.

Therefore, the classification of certain ancillary fees in our statement of operations, such as advanced seat selection, fees charged for excess baggage, itinerary changes and other air travel-related services, changed with adoption of IFRS 15, since they are part of the single performance obligation of providing passenger transportation. We have recasted our financial statements as of January 1, 2016 and 2017 for comparability purposes.

Passenger revenues

Revenues from the air transportation of passengers are recognized at the earlier of when the service is provided or when the non-refundable ticket expires at the date of the scheduled travel.

Ticket sales for future flights are initially recognized as contract liabilities under the caption unearned transportation revenue and, once we provide the transportation service or when the non-refundable ticket expires at the date of the scheduled travel, the earned revenue is recognized as fare revenue and the unearned transportation revenue is reduced by the same amount. All of our tickets are non-refundable and are subject to change upon a payment of a fee. Additionally, the Company does not operate a frequent flier program.

Passenger revenues includes income generated from: (i) fare revenues and (ii) other passenger revenues. Other passenger 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 and charters. They are recognized as revenue when the obligation of passenger transportation service is provided by the Company or when the non-refundable ticket expires at the date of the scheduled travel.

We also classify as other passenger revenue "V-Club" and other similar services, which are recognized as revenue over time when the service is provided, as a modification of the tickets sold to V-Club members.

Tickets sold by other airlines such as Frontier where we provide the transportation are recognized as passenger revenue when the service is provided.

We sell certain tickets with connecting flights with one or more segments operated by other airline partners. For segments operated by other airline partners, we have determined that we are acting as an agent on behalf of the other airlines as they are responsible for their portion of the contract (i.e. transportation of the passenger). We, as the agent, recognize revenue within other operating revenue at the time of the travel for the net amount retained by us for any segments flown by other airlines.

Our tickets are non-refundable. However, if we cancel a flight for causes attributable to us, including as a result of the COVID-19 pandemic, then the passenger is entitled to either reschedule their flight at no cost or receive a refund or a voucher. No revenue is recognized until either the voucher is redeemed and the associated flight occurs, or the voucher expires. When vouchers issued exceed the original amount paid by the passenger, the excess is recorded as a decrease of operating revenues. All of our revenues related to future services are rendered through a period of approximately 12 months.

Non-passenger revenues

Non-passenger revenues include revenues generated from: (i) other non-passenger revenues and (ii) cargo services.

Revenues from other non-passenger services mainly include but are not limited to commissions charged to third parties for the sale of hotel reservations, trip insurance, rental cars and advertising spaces to third parties. They are recognized as revenue at the time the service is provided.

We concluded that the timing of satisfaction of revenue from advertising spaces is to be recognized over time because the customer simultaneously receives and consumes the benefits we provide.

Additionally, we recognize as revenue the air transportation facility charges for non-show passengers, when the non-refundable ticket expires at the date of the scheduled travel.

We also evaluated principal versus agent considerations as they relate to certain non-air travel services arrangements with third party providers. No changes were identified under this analysis as we are the agent for those services provided by third parties.

We are also required to collect certain taxes and fees from customers on behalf of government agencies and airports and remit these back to the applicable governmental entity or airport on a periodic basis. These taxes and fees include value added tax, federal transportation taxes, federal security charges, airport passenger facility charges, and foreign arrival and departure taxes. These items are collected from customers at the time they purchase their tickets, but are not included in passenger revenue. We record a liability upon collection from the customer and discharge the liability when payments are remitted to the applicable governmental entity or airport.

Operating Expenses, net

Our operating expenses consist of the following line items.

Other Operating Income. Other operating income primarily includes the gains from sale and lease back operations of our aircraft and engines.

Fuel expense, net. Fuel expense is our single largest operating expense. It includes the cost of fuel, related taxes, fueling into-plane fees and transportation fees. It also includes realized gains and losses that arise from any fuel price derivative activity qualifying for hedge accounting and gains and losses that arise from non-derivative financial instruments.

Landing, Take-off and Navigation Expenses. Landing, take-off and navigation expenses include airport fees, handling charges, and other rents, which are fixed and variable facilities' expenses, such as the fees charged by airports for the use or lease of airport facilities, as well as costs associated with ground handling services that we outsource at certain airports. This expense also includes route charges, which are the costs of using a country's or territory's airspace and are levied depending on the distance flown over such airspace.

Depreciation of right–of–use assets. Depreciation of right-of-use assets use includes the depreciation of all aircraft and engine leases and some land and building leases that qualify under IFRS 16.

With respect to this line item, IFRS 16 was issued in January 2016 and replaces IAS 17 "Leases," IFRIC 4 "Determining Whether an Arrangement Contains a Lease," SIC-15 "Operating Leases-Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease." IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. Under IFRS 16, at the commencement date of a lease, a lessee recognizes a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees are required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees are also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term or a change in future lease payments). The lessee generally recognizes the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. In addition, for leases denominated in a foreign currency other than our functional currency (which is the Mexican Peso) the lease liability will be remeasured at each reporting date, using the foreign exchange of the period. We adopted IFRS 16 on the mandatory date, January 1, 2019, through the full retrospective method recognizing the effect on our statement of financial position as of January 1, 2017. This led to approximately Ps. 23.5 billion of right-of-use assets and Ps. 32.7 billion as lease liabilities as of January 1, 2017. Our financial results as of and for the years ended December 31, 2017 and 2018 as presented in our annual report for the year ended December 31, 2018 filed with the SEC on April 26, 2019 have been adjusted in our Audited Consolidated Financial Statements presented in this annual report to take into account this application of IFRS 16. See note 1x to our Audited Consolidated Financial Statements for more details.

Salaries and Benefits. Salaries and benefits expense include the salaries, hourly wages, employee health insurance coverage and variable compensation that are provided to employees for their services, as well as the related expenses associated with employee benefit plans and employer payroll taxes.

Maintenance Expenses. Maintenance expenses include all parts, materials, repairs and fees for repairs performed by third party vendors directly required to maintain our fleet. It excludes the direct labor cost of our own mechanics, which is included under salaries and benefits and includes only routine and ordinary maintenance expenses. Major maintenance expenses are capitalized and subsequently amortized as described in "—Depreciation and Amortization—" below.

Sales, Marketing and Distribution Expenses. Sales, marketing and distribution expenses consist of advertising and promotional expenses directly related to our services, including the cost of web support, our outsourced call center, travel agent commissions, and credit card discount fees that are associated with the sale of tickets and other products and services.

Aircraft and Engine Variable Lease Expenses. Aircraft and engine variable expenses consist of the maintenance deposits we pay to the lessor as maintenance deposits when we determine that we will probably not recover such deposits in whole or in part. In these cases, we record these amounts in the results of operations as additional aircraft rent (supplemental rent) from the time we make the determination over the remaining term of the lease. Aircraft and engine variable lease expense also includes the estimated return costs of our fleet, which in no case are related to scheduled major maintenance. The return costs are recognized on a straight-line basis as a component of supplemental rent.

Other Operating Expenses. Other operating expenses include (i) administrative support such as travel expenses, stationery, administrative training, monthly rent paid for our headquarters' facility, professional fees and all other administrative and operational overhead expenses; (ii) costs for technological support, communication systems, cell phones, and internal and operational telephone lines; (iii) premiums and all expenses related to the aviation insurance policy (hull and liability); and (iv) outsourced ground services and the cost of snacks and beverages that we serve on board to our passengers.

Depreciation and Amortization. Depreciation and amortization expense include the depreciation of all flight equipment, furniture and equipment we own and leasehold improvements to flight equipment. It also includes the amortization of major maintenance expenses we defer under the deferral method of accounting for major maintenance events associated with the aging of our fleet and recognize over the shorter period of the next major maintenance event or the remaining lease term.

A common measure of per unit costs in the airline industry is cost per available seat mile (CASM). The following table shows the breakdown of CASM for the periods indicated:

	For the years ended December 31,			
	2018 Adjusted [2]	2019	2020	2020
	(In Ps. cents)			(In U.S. $ cents) [1]
Other operating income	(3.0)	(1.3)	(4.0)	(0.2)
Fuel expense, net	48.2	47.7	36.3	1.8
Landing, take-off and navigation expenses	21.8	20.9	22.4	1.1
Depreciation of right of use assets	19.2	19.2	27.6	1.4
Salaries and benefits	14.9	14.7	18.9	0.9
Maintenance expenses	7.2	6.0	6.4	0.3
Sales, marketing and distribution expenses	7.1	5.9	10.1	0.5
Aircraft and engine variable lease expenses	4.6	3.9	10.1	0.5
Other operating expenses	5.0	4.5	6.3	0.3
Depreciation and amortization	2.4	2.8	4.9	0.2
Total operating expenses, net	**Ps.127.4**	**Ps.124.3**	**Ps.139.0**	**6.8**

[1] Peso amounts were converted to U.S. dollars solely for the convenience of the reader at the rate of Ps. 19.9487 per U.S. $1.00 as the rate for the payment of obligations denominated in foreign currency payable in Mexico in effect on December 31, 2020. Such conversions should not be construed as a representation that the peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated, or at all.
[2] On adoption of IFRS 16 we apply the new standard described elsewhere in this annual report as of the effective date of January 1, 2019, using the full retrospective method of adoption in order to provide for comparative results in all periods presented, recognizing the effect in retained earnings as of January 1, 2017.

Recent Developments

The outbreak of COVID-19 that has since grown into a global pandemic was first reported on December 31, 2019 in Wuhan, Hubei Province, China. From Wuhan, the disease spread rapidly to other parts of China as well as other countries, including Mexico and the United States. Since the pandemic began, countries around the world have responded 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 have 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. There are other broad and continuing concerns related to the potential effects of COVID-19 on international trade (including supply chain disruptions and export levels), travel, restrictions on our ability to access our 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, that may have a destabilizing effect on financial markets and economic activity. Please refer to *"Risk Factors—Risks related to the airline industry—Public health threats, such as the H1N1 flu virus, the bird flu, Severe Acute Respiratory Syndrome (SARS), the Zika virus, COVID-19 and other highly communicable diseases, affect 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"* for a discussion of the ways COVID-19 may impact our business and the Mexican economy.

As a result of the national health emergency and health security measures imposed by the Mexican government in the spring of 2020, we reduced our capacity as measured by available seat miles ("ASMs"). In April and May of 2020, our capacity as measured by ASMs was reduced by up to 80% and 90%, respectively, and remained reduced from June to November of 2020. Additionally, we suspended service on certain routes. Costa Rica, Guatemala and El Salvador imposed operational and migratory restrictions that made it impossible to operate international passenger flights to those countries. While a gradual opening of the economy and easing of lockdown measures in Mexico and the other countries in which we operate led to a recovery in our ASMs and route operation during the second half of the year, with our capacity returning to over 100% of 2019 levels for the month of December, 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. For example, on January 26, 2021, an order issued by the United States Center for Disease Control came into effect requiring all international air passengers arriving to the United States to be tested for COVID-19 no more than three days prior to departure, which may have an adverse effect on demand for travel to the United States.

Our business and the airline industry have experienced material adverse impacts due to COVID-19. particularly in terms of passenger traffic. The following chart sets forth passenger traffic for the Mexican airline industry in each of the four quarters of 2020 as compared to the each of the four quarters of 2019, as reported by AFAC:

	2019	2020	Variation

	(In thousands, except for %)		
First Quarter	15,753.9	15,229.4	(3.3)%
Second Quarter	17,966.2	1,868.5	(89.6)%
Third Quarter	18,427.2	6,983.7	(62.1)%
Fourth Quarter	18,157.6	10,232.3	(43.6)%
Total	**70,304.9**	**34,313.9**	**(51.2)%**

We cannot offer any assurance that these impacts will not intensify to the extent that the pandemic persists. 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. In order to mitigate the impact of the COVID-19 pandemic on us, we took the following measures:

Preserving liquidity and cash. We implemented a strict liquidity preservation program, which has resulted in approximately U.S. $200.0 million of savings as of December 31, 2020 through items such as cost reductions and deferral agreements with suppliers. In addition, we negotiated cost reductions with more than 360 suppliers and cut non-essential expenses. We also implemented online training and leave of absence programs in order to reduce costs. We expect to continue reducing costs with the aim of reaching a CASM ex-fuel (calculated based on total operating expenses, net excluding fuel expense divided by ASMs) similar to 2019 levels by the end of 2021. As of December 31, 2020, our cash and cash equivalents were approximately Ps. 10.1 billion. Additionally, as of December 31, 2020 our credit lines totaled Ps. 9.3 billion, of which Ps. 6.9 billion were related to financial debt and Ps. 2.4 billion were related to letters of credit (and of which Ps. 1.7 billion were undisbursed).

Defending ourselves against sales declines. We decreased scheduled capacity in order to protect our profitability. We also strengthened our relationships with customers by revamping our website and maintaining close communications via social media and email.

Developing commercial and network growth opportunities. We are closely monitoring capacity reductions from competitors for possible opportunities, testing new ancillary products and running targeted promotions to test potential stimulation of air travel. Certain of our competitors are facing financial difficulties which has led them to stop utilizing certain slots at the Mexico City Airport. We have been allowed to use some of these slots to open new destinations and increase operations at this airport, and by the end of 2020 we held 25% of the market share by ASMs. However, since the Mexico City Airport has issued a waiver to the minimum usage requirement due to the COVID-19 pandemic, we will not be granted historical priority of such slots unless (i) the waiver is terminated, (ii) the slots are not reclaimed by their prior holders and (iii) we continue operating the slots in accordance with certain conditions, including usage at least 85% of the time and conducting on time operations at least 85% of the time (operations are considered on time if they fall within 15 minutes of the assigned slot time). We can offer no assurance that our competitors will not reclaim the use of such slots prior to the expiration of the waiver, or that the waiver will not be extended. If our competitors do reclaim the slots prior to the expiration of the waiver, we may lose the preferential use of such slots almost immediately. Since the start of the COVID-19 pandemic, we have launched six new domestic routes and eight new international routes, now operating 105 domestic and 65 international routes in total.

Reviewing our fleet plan. Our new contractual fleet plan with Airbus allows us to maintain a "cautiously" sized fleet that will remain at approximately 85 aircraft, net of new deliveries and redeliveries, until 2023.

Protecting our customers and employees. We launched a new biosecurity and cleaning protocol and are communicating proactively with all staff, especially with crews and airport staff, regarding health and COVID-19 developments. For employees who are able to work remotely, we have activated home office technologies and protocols.

For additional information see "—Trends and Uncertainties Affecting Our Business—Impact of COVID-19" below.

Trends and Uncertainties Affecting Our Business

We believe our operating and business performance is driven by various factors that affect airlines and their markets, trends affecting the broader travel industry, and trends affecting the specific markets and customer base that we target. The following key factors may affect our future performance.

Impact of COVID-19. COVID-19 has 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. There are other broad and continuing concerns related to the potential effects of COVID-19 on international trade (including supply chain disruptions and export levels), travel, restrictions on our ability to access our 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, that may have a destabilizing effect on financial markets and economic activity.

From a macroeconomic point of view, the impact of COVID-19 in Mexico is uncertain. Mexico's GDP, previously predicted to grow between 0.5% and 1.5% in 2020, contracted by 8.2% as a result of the pandemic. Initial estimates indicate that Mexico's GDP, previously predicted to grow between 1.1% and 2.1% in 2021, could grow 4.5% mainly as a result of the COVID-19 pandemic's adverse impact on GDP in 2020 and recent news regarding the slow production and distribution of COVID-19 vaccines. However, as the full effects of the pandemic have yet to be realized, Mexican GDP may contract in an amount that is not yet possible to estimate. Economic stagnation, the depreciation of the peso, contraction and decreased income levels and increased unemployment levels could result in decreased passenger demand and lower net income in the long term, even after any potential COVID-19-related travel restrictions and border closures are lifted. For example, for the period from March 31, 2020 to December 31, 2020, 709,211 jobs were lost in Mexico. Furthermore, the COVID-19 pandemic has also resulted in increased volatility in both the local and the international financial markets and economic indicators, such as exchange rates, interest rates, credit spreads and commodity prices. Any shocks or unexpected movements in these market factors could result in financial losses.

Despite the gradual recovery we have seen in ASMs and route operation, the ongoing COVID-19 pandemic is likely to continue to have a negative impact on our financial condition and results of operations, as a result of the following indicators:

- a resurgence of COVID-19 infection rates could lead Mexico and the countries in which we operate to return to partial or total lockdowns, which would most likely result in a decrease in demand for our flights (which in turn may require reductions to our ASMs at levels similar to the early months of the pandemic) and aircraft utilization rate and consequently a decrease in our total operating revenue;
- any further downward volatility in the international capital markets could result in (i) the fall of stock prices, including the price of our stock and (ii) financial losses associated with our financial portfolio, which may cause a deterioration of our financial condition or limitations on our ability to meet our liabilities;
- if our revenues decrease for a significant portion of time, we may have less cash available to meet our obligations under our aircraft and engine lease agreements and additional sources of financing may be difficult to obtain at favorable rates;
- even after the COVID-19 pandemic eases, there is a risk that we will experience reduced demand in the near to mid-term due to the potential economic impact of the pandemic on the travel industry (business and leisure) and on our customers, as well as customer health concerns about the safety of air travel.

Economic Conditions in Mexico. Mexico's GDP is expected to grow by 2.23% per year for the next ten years according to the Mexican Central Bank, which is in line with the expected annual growth for the United States during the same period as reported by the U.S. Federal Reserve. See "Key Information—Risk Factors—Risks Related to the Airline Industry—Public health threats, such as the H1N1 flu virus, the bird flu, Severe Acute Respiratory Syndrome (SARS), the Zika virus, COVID-19 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" for more recent information on the impact of COVID-19 on Mexico's future macroeconomic condition.

Regarding population dynamics as of 2015, according to the INEGI intercensal survey, around 36% of the Mexican population was under 20 years of age, which benefits us by providing a strong base of potential customer growth. Inflation in Mexico during 2020 was 3.15% according to the INEGI. As of December 31, 2020, international reserves were at U.S. $195.7 billion.

Competition. The airline industry is highly competitive. The principal competitive factors in the airline industry are fare pricing, total price, flight schedules, aircraft type, passenger amenities and related services, number of routes served from a city, customer service, safety record and reputation, code-sharing relationships and frequent flier programs and redemption opportunities. Our current and potential competitors include traditional network airlines, low-cost carriers, regional airlines and new entrant airlines. We typically compete in markets served by legacy carriers and other low-cost carriers, and, to a lesser extent, regional airlines. Some of our current or future competitors may have greater liquidity and access to capital and may serve more routes than we do.

Our principal competitive advantages are our low base fares and our focus on VFR travelers, leisure travelers and cost-conscious business people. These low base fares are facilitated by our low CASM, which at Ps. 141.3 cents (U.S. $6.60 cents) we believe was the lowest CASM in Latin America in 2020, compared to Avianca at U.S. $26.11 cents, Azul at U.S. $10.75 cents, Copa at U.S. $17.29 cents, Gol at U.S. $8.78 cents, Grupo Aeroméxico at U.S. $17.98 cents and LATAM at U.S. $17.33 cents. We also have lower costs than our publicly traded target market competitors in the United States, including Alaska Air at U.S. $14.33 cents, Frontier at U.S. $9.53, Spirit at U.S. $8.36 cents, American at U.S. $19.39 cents, Delta at U.S. $22.01 cents, Jet Blue at U.S. $14.29 cents, Southwest Airlines at U.S. $12.44 cents and United at U.S. $17.68 cents.

Our competitors and the Mexican airline industry as a whole have also been significantly impacted by the COVID-19 pandemic. Our principal competitors for the domestic market are Grupo Aeroméxico, Interjet and VivaAerobus. Interjet and VivaAerobus are low-cost carriers in Mexico. In 2020, the Mexican low-cost carriers (including us) combined had 71.5% of the domestic market based on passenger flight segments. We had 38.3% of the domestic market which placed us first, according to the AFAC. According to information published by AFAC, as of December 31, 2020, the number of commercial aircraft in service in Mexico had decreased to 275, as compared to 355 as of December 31, 2019. This 23% reduction was comprised mainly of narrow body aircraft, including 70 Airbus A320s, 47 Boeing 737s, and 19 Airbus A321s. On June 30, 2020, Grupo Aeroméxico, our largest competitor by domestic and international market share in 2019, announced that it was filing for Chapter 11 bankruptcy protection in the United States. According to its public filings with the CNBV, Grupo Aeroméxico has maintained regular operations during the restructuring process but has received court approval to return at least 19 aircraft to lessors, which would reduce its fleet size by around 15%. As of December 31, 2020, AFAC reports indicate that Grupo Aeroméxico's subsidiaries Aeroméxico and Aeroméxico Connect had fleets of 58 and 44 aircraft, respectively, as compared to 69 and 56, respectively, as of December 30, 2019. In addition, Interjet, our second largest competitor by international market share in 2019, has been unable to resume international flights since suspending the routes in March 2020. Interjet's fleet decreased by almost 96% in 2020, from 67 aircraft as of December 30, 2019 to 3 as of December 31, 2020, according to information published by the AFAC. Interjet has not operated any domestic flights since December 2020. According to media reports, on April 26, 2021, Interjet announced that an extraordinary shareholders meeting approved the filing of a reorganization process *(concurso mercantil)* in Mexico. While VivaAerobus, our second largest competitor by domestic market share in 2019, has increased their fleet from 37 as of December 30, 2019 to 43 as of December 31, 2020, this increase does not compensate for the reductions observed in the market. In addition to these changes in fleet size, our market share has also increased. As of December 2020, our domestic market share had increased 9 percentage points to 40% and our international market share had increased 6 percentage points to 14%, in each case as compared to our market shares as of December 2019.

We also face domestic competition from ground transportation alternatives, primarily long-distance bus companies. There are limited passenger rail services in Mexico. There is a large bus industry in Mexico, with total passenger segments of approximately 3.07 billion in 2019 (the latest year for which data is available as of the date of this annual report), of which approximately 82.9 million were executive and luxury passenger segments, according to the Mexican Authority of Ground Transportation *(Dirección General de Autotransporte Federal)* and which could include both long- and short-distance travel. We set certain of our promotional fares at prices lower than bus fares for similar routes in order to stimulate demand for air travel among passengers who in the past have traveled long distances primarily by bus. We believe a small shift of bus passengers to air travel would dramatically increase the number of airline passengers and bring the air trips per capita figures in Mexico closer to those of other countries in the Americas.

Our principal competitors for the international routes between Mexico and the United States are Grupo Aeroméxico, Alaska Air, American, Delta and United. We reached 11% market share on the routes that we operate and 15% market share considering all routes between Mexico and the United States in 2020, according to the AFAC.

Seasonality and Volatility. Our results of operations for any interim period are not necessarily indicative of those for the entire year because our business is subject to seasonal fluctuations. We generally expect demand to be greater during the summer 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. Our business is also volatile and highly affected by economic cycles and trends. Consumer confidence and discretionary spending, fear of terrorism or war, health outbreaks, weakening economic conditions, fare initiatives, fluctuations in fuel prices, labor actions, weather and other factors have resulted in significant fluctuations in our revenues and results of operations in the past. Particularly, in 2008, the demand for air transportation services was significantly adversely affected by both the severe economic recession and the record high fuel prices. We believe, however, that demand for business travel historically has been more sensitive to economic pressures than demand for low-price leisure and VFR travel, which are the primary markets we serve.

Donald Trump became president of the United States on January 20, 2017, and implemented a number of immigration policies that have adversely affected the United States—Mexico travel behavior, especially in the VFR and leisure markets. President Trump was not elected to a second term, and on January 20, 2021, Joseph Biden became the president of the United States. While President Biden is expected to reverse many of President Trump's immigration policies, we can offer no assurance of the extent to which his administration will do so. President Trump's immigration policies had a negative impact on our results of operations during 2018, 2019 and 2020 and this negative impact can be expected to continue as long as these immigration policies are in force.

Fuel. Fuel costs represent the single largest operating expense for most airlines, including ours, accounting for 38%, 38% and 26% (including non-derivative financial instruments) of our total operating expenses for 2018, 2019 and 2020, respectively. Fuel availability and pricing are also subject to refining capacity, periods of market surplus and shortage, and demand for heating oil, gasoline and other petroleum products, as well as economic, social and political factors and other events occurring throughout the world, which we can neither control nor accurately predict. We source a significant portion of our fuel from refining sources located in Mexico.

During the year ended December 31, 2020, we entered into US Gulf Coast Jet Fuel 54 Asian call options designated to hedge 23,967 thousand gallons of fuel. Such hedges represented a portion of our projected consumption for third quarter 2020 and the first quarter of 2021. Additionally, during the same period, we entered into US Gulf Coast Jet Fuel 54 Asian Zero-Cost collar options designated to hedge 81,646 thousand gallons of fuel. The latter hedges represented a portion of our projected consumption for the second half of 2020 and 2021.

During the year ended December 31, 2019, we entered into US Gulf Coast Jet Fuel 54 Asian call options designated to hedge 13,492 thousand gallons of fuel. Such hedges represented a portion of our fourth quarter 2019 projected consumption. Additionally, during the same period, we entered into US Gulf Coast Jet Fuel 54 Asian Zero-Cost collar options designated to hedge 70,136 thousand gallons of fuel. The latter hedges represented a portion of our projected third quarter 2019 and our 2020 consumption.

During the year ended December 31, 2018, we entered into US Gulf Coast Jet Fuel 54 Asian Call options designated to hedge 45.6 million gallons of fuel.

As of December 31, 2020, we purchased our domestic fuel under the ASA fuel service contract, and international fuel under the WFS, Shell, Uno Petrol, Uno El Salvador, BP Products North America, Chevron and Associated Energy Group fuel service contracts. The cost and future availability of fuel cannot be predicted with any degree of certainty.

Foreign Exchange Gains and Losses. While most of our revenue is generated in pesos, 32%, 29% and 27% of our revenues came from our operations in the United States and Central America during the years ended December 31, 2018, 2019 and 2020, respectively, and U.S. dollar denominated collections accounted for 38%, 43% and 44% of our total collections in 2018, 2019 and 2020, respectively. In addition, the majority of our operating costs are denominated in or indexed to U.S. dollars, constituting 73%, 72% and 69% of our total operating costs in 2018, 2019 and 2020. Our key U.S. dollar-denominated operating costs include fuel, aircraft rentals and maintenance costs.

We manage our foreign exchange risk exposure by a policy of matching, to the extent possible, receipts and local payments in each individual currency. Most of the surplus funds are converted into U.S. dollars. However, we are exposed to fluctuations in exchange rates between the peso and the U.S. dollar.

As of December 31, 2018, 2019 and 2020, our net monetary liability position denominated in U.S. dollars was U.S. $1.7 billion, U.S. $1.7 billion and U.S. $1.7 billion, respectively. As a result of either the appreciation or depreciation of the peso against the U.S. dollar in 2018, 2019 and 2020, as the case may be, and our net U.S. dollar liability position, we recorded a foreign exchange gain (loss), net of Ps. (0.1) billion, Ps. 1.4 billion and Ps. 0.5 billion, respectively. In order to mitigate the foreign exchange risk, we also entered into hedge relationships through non-derivative financial instruments.

Maintenance Expenses. We are required to conduct varying levels of aircraft and engine maintenance, which involve significantly different labor and materials inputs. Maintenance requirements depend on the age and type of aircraft and the route network over which they operate. Fleet maintenance requirements may involve short cycle engineering checks, for example, component checks, monthly checks, annual airframe checks and periodic major maintenance and engine checks. Aircraft maintenance and repair costs for routine and non-routine maintenance are divided into three general categories:

(i) Routine maintenance requirements consist of daily and weekly scheduled maintenance checks on our aircraft, including pre-flight, daily, weekly and overnight checks, diagnostic and routine repairs and any necessary unscheduled tasks performed. These types of line maintenance are currently serviced by our mechanics and are primarily completed at the main airports that we currently serve.

All other maintenance activities are sub-contracted to qualified maintenance, repair and overhaul organizations. Routine maintenance also includes scheduled tasks that can take from seven to 14 days to accomplish and are required approximately every 22 months. All routine maintenance costs are expensed as incurred.

(ii) Major maintenance consists of a series of more complex tasks that can take from one to six weeks to accomplish and are generally required approximately every five to six years. Major maintenance is accounted for under the deferral method, whereby the cost of major maintenance and major overhaul and repair is capitalized as improvements to leased assets and amortized over the shorter period of the next major maintenance event or the remaining lease term.

(iii) Engine services are provided pursuant to an engine flight hour agreement that guarantees a cost per overhaul, provides miscellaneous engine coverage, caps the cost of foreign objects damage events, ensures protection from annual escalations and grants an annual credit for scrapped components. We also have a power-by-hour agreement for component services, which guarantees the availability of aircraft parts for our fleet when they are required and provides aircraft parts that are not included in the redelivery conditions of the contract without constituting an additional cost at the time of redelivery. The costs associated with the miscellaneous engine coverage and the component services agreements are recorded in the consolidated statements of operations.

Due to the young age of our fleet (approximately 5.3 years on average as of December 31, 2020), maintenance expense in 2018, 2019 and 2020 remained relatively low. For the years ended December 31, 2018, 2019 and 2020 we capitalized major maintenance events as part of leasehold improvements to the flight equipment in the amount of Ps. 676.5 million, Ps. 659.1 million and Ps. 646.2 million, respectively. For the years ended December 31, 2018, 2019 and 2020 the amortization of these deferred major maintenance expenses was Ps. 313.5 million, Ps. 450.4 million and Ps. 652.1 million, respectively. The amortization of deferred maintenance expenses is included in depreciation and amortization rather than total maintenance costs as described in "—Critical Accounting Polices and Estimates." In 2018, 2019 and 2020, total maintenance costs amounted to Ps. 1.5 billion, Ps. 1.5 billion and Ps. 1.2 billion, respectively. As the fleet ages, we expect that maintenance costs will increase in absolute terms. The amount of total maintenance costs and related amortization of heavy maintenance expense is subject to many variables such as future utilization rates, average stage length, the size and makeup of the fleet in future periods and the level of unscheduled maintenance events and their actual costs. Accordingly, we cannot reliably quantify future maintenance expenses for any significant period of time. However, we estimate that based on our scheduled maintenance events, current maintenance expense and maintenance-related amortization expense will be approximately Ps. 2.3 billion (U.S. $110 million) in 2021.

Aircraft Maintenance Deposits Paid to Lessors. The terms of our aircraft lease agreements require us to pay maintenance deposits to lessors to be held as collateral for the performance of major maintenance activities, resulting in our recording significant prepaid deposits on our consolidated statements of financial position. As a result, the cash costs of scheduled major maintenance events are paid well in advance of the recognition of the maintenance event in our results of operations. Please see Item 5:—Critical Accounting Policies and Estimates."

Ramp-up Period for New Routes. During 2018 we opened 35 new routes, added 30 more in 2019 and 13 more in 2020. As we continue to grow, we would expect to continue to experience a lag between when new routes are put into service and when they reach their full profit potential. See Item 3: "Key Information—Risk Factors—Airline consolidations and reorganizations could adversely affect the industry."

Critical Accounting Policies and Estimates

The following discussion and analysis of our consolidated financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of supplemental assets and liabilities at the date of our consolidated financial statements. Note 1 to our consolidated financial statements included herein provides a detailed discussion of our significant accounting policies.

Critical accounting policies are defined as those policies that reflect significant judgments or estimates about matters that are both inherently uncertain and material to our financial condition or results of operations.

Aircraft Maintenance Deposits Paid to Lessors. Our lease agreements provide that we pay maintenance deposits or supplement rent to aircraft lessors to be held as collateral in advance of our performance of major maintenance activities. Maintenance deposits are held as collateral in cash. These lease agreements provide that maintenance deposits are reimbursable to us upon completion of the maintenance event in an amount equal to the lesser of (i) the amount of the maintenance deposits held by the lessor associated with the specific maintenance event or (ii) the qualifying costs related to the specific maintenance event. Substantially all of these maintenance deposits are calculated based on a utilization measure, such as flight hours or cycles, and are used solely to collateralize the lessor for maintenance time run off the aircraft until the completion of the maintenance of the aircraft and engines. We paid Ps. 454 million, Ps. 64.6 million and Ps. 702 million in maintenance deposits, net of reimbursements, to our lessors for the years ended December 31, 2018, 2019 and 2020, respectively.
At lease inception and at each consolidated statement of financial position date, we assess whether the maintenance deposit payments

required by the lease agreements are substantively and contractually related to the maintenance of the leased asset. Maintenance deposit payments that are substantively and contractually related to the maintenance of the leased asset are accounted for as maintenance deposits. Maintenance deposits expected to be recovered from lessors are reflected as guarantee deposits in the accompanying consolidated statement of financial position.

The portion of prepaid maintenance deposits that are deemed unlikely to be recovered, primarily relate to the rate differential between the maintenance deposits payments and the expected cost for the next related maintenance event that the deposits serve to collateralize is recognized as supplemental rent.

Thus, any excess of the required deposit over the expected cost of the major maintenance event is recognized as supplemental rent starting from the period the determination is made. When it is not probable that we will recover amounts currently on deposit with a lessor, such amounts are expensed as supplemental rent. We expensed Ps. 299.6 million in 2018, Ps. 295.7 million in 2019 and Ps. 421.0 million in 2020 of maintenance deposits as supplemental rent.

As of December 31, 2018, 2019 and 2020 we had prepaid maintenance deposits of Ps. 6.5 billion, Ps. 6.4 billion and Ps. 7.1 billion, respectively, recorded in our consolidated statements of financial position. We currently expect that these prepaid maintenance deposits are likely to be recovered primarily because there is no rate differential between the maintenance deposit payments and the expected cost for the related next maintenance event that the deposits serve to collateralize.

During the years ended December 31, 2018 and 2019, we extended the lease term of two aircraft agreements and one aircraft agreement, respectively, but made no such extensions in 2020. Additionally, we extended the lease term of one spare engine agreement in 2019 and two spare engine agreements in 2018 but made no such extensions in 2020.

Because the lease extension benefits are considered lease incentives, the effect of these extensions are recorded reducing the right of use asset. See note 14 to our audited consolidated financial statements included elsewhere in this annual report.

During the year ended December 31, 2020, we added seven new net aircraft to our fleet. The lease agreements of some of these aircraft do not require the obligation to pay maintenance deposits to lessors in advance in order to ensure major maintenance activities, so we do not record guarantee deposits regarding these aircraft. However, some of these agreements provide the obligation to make a maintenance adjustment payment to the lessors at the end of the contract period. This adjustment covers maintenance events that are not expected to be made before the termination of the contract. We recognize this cost as supplemental rent during the lease term of the related aircraft, in the consolidated statements of operations.

For the years ended December 31, 2018, 2019 and 2020, we expensed as supplemental rent Ps. 299.6 million, Ps. 295.7 million and Ps. 421.0 million, respectively.

Aircraft and Engine Maintenance. We account for major maintenance under the deferral method. Under the deferral method, the cost of major maintenance is capitalized (leasehold improvements to flight equipment) and amortized as a component of depreciation and amortization expense until the next major maintenance event or during the remaining contractual lease term, whichever occurs first. The next major maintenance event is estimated based on assumptions including estimated usage maintenance intervals mandated by the FAA in the United States and the AFAC in Mexico and average removal times suggested by the manufacturer. These assumptions may change based on changes in the utilization of aircraft, changes in government regulations and changes in suggested manufacturer maintenance intervals. In addition, these assumptions can be affected by unplanned incidents that could damage an airframe, engine, or major component to a level that would require a major maintenance event prior to a scheduled maintenance event. To the extent the planned usage increases, the estimated useful life would decrease before the next maintenance event, resulting in additional amortization expense over a shorter period.

In 2018, 2019 and 2020, we capitalized costs of major maintenance events of Ps. 676.5 million, Ps. 659.1 million and Ps. 646.2 million, respectively and we recognized amortization expenses of Ps. 313.5 million, Ps. 450.4 million and Ps. 650.1 million, respectively.

The amortization of deferred maintenance expenses is included under the caption depreciation and amortization expense in our consolidated statements of operations. If the amortization of major maintenance expenditures were classified as maintenance expense, they would amount to Ps. 1.8 billion, Ps. 1.9 billion and Ps. 1.8 billion for the years ended December 31, 2018, 2019 and 2020, respectively.

In August 2012, we entered into a total support agreement with Lufthansa Technik AG (LHT), as amended in December 2016, that expires June 30, 2023, which includes a total component support agreement (power-by-hour) and ensures the availability of aircraft components for our fleet when they are required. The cost of the total component support agreement is applied monthly to the results of operations. As part of this total support agreement, we received credit notes of Ps. 46.5 million and of Ps. 28.1 million, which was deferred on the consolidated statements of financial position and is being amortized on a straight line basis, prospectively during the term of the agreement.

During 2018, 2019 and 2020, we amortized a corresponding benefit from these credit notes of, Ps. 7.2 million, Ps. 5.2 million and Ps. 5.2 million, respectively, which is recognized in the consolidated statements of operations as a reduction of maintenance expenses.

Return obligations. The aircraft and engine lease agreements also require that the aircraft and engines be returned to lessors under specific conditions of maintenance. The costs of return, which in most cases are related to scheduled major maintenance, are estimated and recognized ratably as a provision from the time it becomes likely such costs will be incurred and can be estimated reliably. These return costs are recognized on a straight-line basis as a component of variable rent expenses and the provision is included as part of other liabilities, through the remaining lease term. We estimate the provision related to airframe, engine overhaul and limited life parts using certain assumptions including the projected usage of the aircraft and the expected costs of maintenance tasks to be performed. For the years ended December 31, 2018, 2019 and 2020, the Company expensed as variable rent Ps. 659.1 million, Ps. 681.0 million and Ps. 1,428.2 million, respectively.
Fair Value. The fair value of our financial assets and financial liabilities recorded in the consolidated statements of financial position cannot be derived from active markets. They are determined using

valuation techniques such as the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and expected volatility. Changes in assumptions regarding these factors could affect the reported fair value of financial instruments.

Gains and Losses on Sale and Leaseback. We enter into sale and leaseback agreements whereby an aircraft or engine is sold to a lessor upon delivery and the lessor agrees to lease such aircraft or engine back to us.

Starting January 1, 2019, we measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, we recognize in the Statement of Operations only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor. The rest of the gain is amortized over the lease term.

During the year ended December 31, 2018, 2019 and 2020 we sold and transferred aircraft and engines to third parties, giving rise to a gain of approximately Ps. 609.2 million, Ps. 284.8 million and Ps. 710.5 million respectively, that was recorded as other operating income in the consolidated statements of operations.

During the year ended December 31, 2011, we entered into aircraft and spare engine sale and leaseback transactions, which resulted in a loss of Ps. 30.7 million. This loss was deferred on the consolidated statements of financial position and is being amortized over the contractual lease term. For the years ended December 31, 2018, 2019 and 2020, we amortized a loss of Ps. 3.0 million, Ps. 3.0 million and Ps. 3.0 million, respectively, as additional aircraft rental expense.

Equity-settled Transactions

Equity-settled transactions are measured at fair value at the date the equity benefits are conditionally granted to employees. Our Equity-settled Transactions include long-term retention plans comprised of: (i) a management incentive plan; (ii) long-term incentive plan; and (iii) a board of directors incentive plan.

Long-Term Retention Plans

Management Incentive Plan

The management incentive plan has been classified as an equity-settled transaction because as of the grant date the fair value of the transaction is fixed and is not adjusted by subsequent changes in the fair value of capital instruments.

The total cost of the management incentive plan is Ps. 2.7 million. This amount is being expensed over the vesting period, which commenced retroactively upon consummation of our initial public offering and ended on December 31, 2015. During 2012, we did not recognize any compensation expense associated with the management incentive plan in our consolidated statements of operations. During 2013, 2014 and 2015, we recorded Ps. 2.1 million Ps. 0.3 million and Ps. 0.3 million, respectively, as a cost of the management incentive plan related to the vested shares, as recorded in our consolidated statements of operations.

The factors considered in the valuation model for the management incentive plan included a volatility assumption estimated from historical returns on common stock of comparable companies and other inputs obtained from independent and observable sources, such as Bloomberg. The share spot price fair value was determined using the market approach valuation methodology, with the following assumptions:

	2012
Dividend yield (%)	0.00
Volatility (%)	37.00
Risk—free interest rate (%)	5.96
Expected life of share options (years)	8.80
Exercise share price (in pesos)	5.31
Exercise multiple	1.10
Fair value of the stock at grant date	1.73

The dividend yield was set at zero because at the time the management incentive plan was valued and as of the date of this annual report, we do not have any plans to pay a dividend. The volatility was determined based on average historical volatilities. Such volatilities were calculated according to a database including up to 18 months of historical stock price returns of U.S. and Latin American publicly traded airlines. The expected volatility reflects the assumption that the historical volatility of comparable companies is indicative of future trends, which may not necessarily be the actual outcome.

The risk-free interest rate is the interbank interest rate in Mexico, continuously expressed, accordingly to the corresponding term.

The expected life of the share options is an output of the valuation model and represents the average time the option is expected to remain viable, assuming the employee does not leave during the vesting period.

The management incentive plan explicitly incorporates expectations of the employee's early exercise behavior by assuming that early exercise happens when the stock price is a certain multiple, M, of the exercise price. The exercise multiple M, of 1.1x incorporates the assumption that the employee's exercise of the options can occur when the share prices are 1.1 times the exercise price, i.e. 10% above the exercise price.

On September 18, 2013, the key employees participating in the management incentive plan exercised 4,891,410 shares. As a result, the key employees paid Ps. 25.9 million to the Management Trust corresponding to the exercised shares. Thereafter, we received from the Management Trust the payment related to the exercised shares by the key employees as a repayment of the loan between the Company and the Management Trust.

On November 16, 2015, as part of the secondary follow-on equity offering, the key employees exercised 4,414,860 Series A shares. The key employees paid Ps. 23.5 million to the Management Trust corresponding to the exercised shares. Thereafter, we received from the Management Trust the payment related to the exercised shares by the key employees as a repayment of the loan between the Company and the Management Trust.

During 2016, the key employees participating in the management incentive plan exercised 3,299,999 Series A shares. The key employees paid Ps. 17.5 million to the Management Trust corresponding to the exercised shares. Thereafter, we received from the Management Trust the payment related to the exercised shares by the key employees as a repayment of the loan between the Company and the Management Trust.

During 2017, the key employees participating in the management incentive plan exercised 120,000 Series A shares. The key employees paid Ps. 0.6 million to the Management Trust corresponding to the exercised shares. Thereafter, we received from the Management Trust the payment related to the exercised shares by the key employees as a repayment of the loan between the Company and the Management Trust.

During 2018, the key employees participating in the management incentive plan exercised 2,003,876 Series A shares. The key employees paid Ps. 10.7 million to the Management Trust corresponding to the exercised shares. Thereafter, we received from the Management Trust the payment related to the exercised shares by the key employees as a repayment of the loan between the Company and the Management Trust.

During 2019, the key employees participating in the management incentive plan exercised 2,780,000 Series A shares. The key employees paid Ps. 14.8 million to the Management Trust corresponding to the exercised shares. Thereafter, we received from the Management Trust the payment related to the exercised shares by the key employees as a repayment of the loan between the Company and the Management Trust.

During 2020, the key employees participating in the management incentive plan did not exercise any Series A shares. Thus, the key employees did not pay any amounts to the Management Trust corresponding to any exercised shares.

As of December 31, 2020, 2019 and 2018, the 7,653,981, 7,653,981 and 10,433,981 share options pending to be exercised, respectively, were considered as treasury shares.

Movements during the year

The following table illustrates the number of share options and fixed exercise prices during the year:

	Number	Exercise price in pesos	Total in thousands of pesos
Outstanding as of December 31, 2012	25,164,126	Ps.5.31	Ps.133,723
Granted during the year	—	—	—
Forfeited during the year	—	—	—
Exercised during the year	(4,891,410)	5.31	(25,993)
Outstanding as of December 31, 2013	20,272,716	Ps.5.31	Ps.107,730
Granted during the year	—	—	—
Forfeited during the year	—	—	—
Exercised during the year	—	—	—
Outstanding as of December 31, 2014	20,272,716	Ps.5.31	Ps.107,730
Granted during the year	—	—	—
Forfeited during the year	—	—	—
Exercised during the year	(4,414,860)	5.31	(23,461)
Outstanding as of December 31, 2015	15,857,856	Ps.5.31	Ps.84,269
Granted during the year	—	—	—
Forfeited during the year	—	—	—
Exercised during the year	(3,299,999)	5.31	(17,536)
Outstanding as of December 31, 2016	12,557,857	Ps.5.31	Ps.66,733
Granted during the year	—	—	—
Forfeited during the year	—	—	—
Exercised during the year	(120,000)	5.31	(638)
Outstanding as of December 31, 2017	12,437,857	Ps.5.31	Ps.66,095
Granted during the year	—	—	—
Forfeited during the year	—	—	—
Exercised during the year	(2,003,876)	5.31	(10,654)
Outstanding as of December 31, 2018	10,433,981	Ps.5.31	Ps.55,441
Granted during the year	—	—	—
Forfeited during the year	—	—	—
Exercised during the year	(2,780,000)	5.31	(14,773)
Outstanding as of December 31, 2019	7,653,981	Ps.5.31	Ps.40,668
Granted during the year	—	—	—
Forfeited during the year	—	—	—
Exercised during the year	—	—	—
Outstanding as of December 31, 2020	**7,653,981**	**Ps.5.31**	**Ps.40,668**

At December 31, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019 and 2020, the shares held in trust to satisfy the management options were considered as treasury shares. At December 31, 2018, 2019 and 2020, 10,433,981, 7,653,981 and 7.653,981 share options pending to be exercised were considered as treasury shares, respectively.

Long-term Incentive Plan (equity-settled)

In November 2014, we established an equity-settled long-term incentive plan pursuant to which certain of our key executives were granted a special bonus equal to a fair value of Ps. 10.8 million to be used to purchase our shares. On April 21, 2016, an amendment to this plan was approved at our annual ordinary shareholders' meeting. The key components of the plan are as follows:

(i) Servicios Corporativos granted a bonus to each key executive.

(ii) Pursuant to the instructions of such key executives, on November 11, 2014, an amount equal to Ps. 7.1 million (the fair value of the bonus net of withheld taxes) was transferred to an administrative trust for the acquisition of our Series A shares through an intermediary authorized by the Mexican stock market, based on the instructions of the administration trust's technical committee. An amount equal to Ps. 7.5 million (the fair value of the bonus net of withheld taxes) was approved in April 2016 as an extension of this plan for the acquisition of our Series A shares, following the same mechanism.

(iii) Subject to the terms and conditions set forth in the administrative trust agreement signed in connection thereto, the acquired shares are to be held in escrow in the administrative trust until the applicable vesting period date for each key executive, which is the date as of which each such key executive can fully dispose of the shares as desired.

(iv) If the terms and conditions set forth therein are not meet by the applicable vesting period date, then the shares will be sold in the BMV and Servicios Corporativos will be entitled to receive the proceeds from such sale.

(v) Each key executive' account balance will be administered by the administrative trustee, whose objective is to manage the shares granted to each key executive based on instructions set forth by the administrative trust's technical committee.

The total cost of this plan is Ps. 10.8 million. This valuation is the result of multiplying the total number of our Series A shares deposited in the administrative trust and the price per share, plus the balance in cash deposited in the administrative trust. This amount is being expensed over the vesting period, which commenced on November 11, 2014 and ended in November 2019.

In November 2020, 2019 and 2018, extensions to this plan were approved by our board of directors. The total cost of each of the extensions approved was Ps. 92.1 million (or Ps. 59.9 million, net of withheld taxes), Ps. 86.8 million (or Ps. 56.4 million, net of withheld taxes) and Ps. 64.0 million (or Ps. 41.6 million, net of withheld taxes), respectively. Under these extensions, certain of our key employees were granted a special bonus that was transferred to the administrative trust for the acquisition of our Series A shares.

During 2018, 2019 and 2020, we recognized Ps. 20.0 million, Ps. 49.7 million and Ps. 75.0 million, respectively, as compensation expense associated with the long-term incentive plan in our consolidated statements of operations.

Movements during the year

The following table illustrates the number of shares associated with our long-term incentive plan during the year:

	Number of Series A shares
Outstanding as of December 31, 2019	*5,115,191
Purchased during the year	3,159,763
Granted during the year	—
Exercised during the year	(2,142,426
Forfeited during the year	(327,217
Outstanding as of December 31, 2020	***5,805,311**

* These shares were presented as treasury shares in the consolidated statements of financial position as of December 31, 2019 and 2020 and all are considered outstanding for basic and diluted earnings per share purposes because the holders are entitled to dividends if and when distributed.

The vesting period of the shares granted under the Company's equity-settled long-term incentive plan is as follows:

Number of Series A shares	Vesting period
2,979,412	November 2020-2021
1,819,440	November 2021-2022
1,006,459	November 2022-2023
5,805,311	

During the year ended December 31, 2020, some key employees left the Company; therefore, these employees did not fulfill the vesting conditions. In accordance with the plan, *Servicios Corporativos* is entitled to receive the proceeds of the sale of such shares. During the year ended December 31, 2020, 327,217 shares were forfeited.

Board of Directors Incentive Plan (BoDIP)

In April 2018, our shareholders at the annual shareholders meeting authorized a stock plan for the benefit of certain independent members of our board of directors (the "BoDIP"). The BoDIP was implemented through the execution of: (i) trust agreement number CIB/3081 created by us, as trustor, and CIBanco, S.A., Institucion de Banco Multiple, as trustee, on August 29, 2018; and (ii) a stock purchase agreement between each plan participant and the trustee, under which a plan participant has a period of four years to exercise his/her option to pay a fixed purchase price, with the title to the shares transferring to the plan participant upon payment of such purchase price by the plan participant. The number of shares held by the trustee as of December 31, 2020 was 5,233,693, of which 3,161,349 shares were priced at Ps. 9.74, 968,706 shares were priced at Ps. 16.80, 977,105 shares were priced at Ps. 16.12 and 126,533 shares were priced at Ps. 26.29. As of December 31, 2020, there were no exercises under the BoDIP.

Cash-settled Transactions

Cash-settled transactions include share appreciation rights ("SARs"). Our cash-settled transactions include long-term retention plans comprised of: (i) management incentive plan II and (ii) a cash-settled long-term incentive plan.

Long-term Retention Plans

Management Incentive Plan II

On November 6, 2016, our board of directors approved an extension of the management incentive plan to certain key employees, known as MIP II. Under MIP II, 13,536,960 share appreciation rights of our Series A shares were granted to be settled annually in cash in a period of five years in accordance with the established service conditions. In addition, a five-year extension to the period in which the executives can exercise MIP II once the SARs are vested was also approved.

The fair value of these SARs is estimated at the grant date and at each reporting date using the Black-Scholes option pricing model, which takes into account the terms and conditions on which the SARs were granted. The amount of the cash payment is determined based on the increase in our share price between the grant date and the settlement date.

The carrying amount of the liability relating to these SARs as of December 31, 2020, 2019 and 2018 was Ps. 177.8 million, Ps. 70.6 million and Ps. 32.9 million, respectively. The compensation cost is recognized in our consolidated statements of operations under the caption salaries and benefits over the service period. During the years ended December 31, 2020, 2019 and 2018 we recorded a expense (benefit) of Ps. 107.2 million, Ps. 37.8 million and Ps. (5.1) million, respectively, associated with these SARs in our consolidated statements of operations. No SARs were exercised during 2020.

Number of SARs (Grant date: November 6, 2016)	Exercisable date
3,391,020	February 2021
3,391,020*	

* Includes forfeited SARs of 1,563,520, 0 and 0 for the years ended December 31, 2018, 2019 and 2020 respectively.

Cash-settled Long-term Incentive Plan

During 2010, we adopted an employee long-term incentive plan, the purpose of which is to retain high-performing employees within the organization by paying incentives depending on our performance. Incentives under this plan were payable in three annual installments, following the provisions for other long-term benefits under IAS 19. During the year ended December 31, 2013 and 2012 we expensed Ps. 6.3 million and Ps. 6.5 million respectively, as bonuses as part of the caption salaries and benefits. During 2014, this plan was structured as a long-term incentive plan, which consists of a long-term incentive plan (equity-settled) and long-term incentive plan (cash-settled).

On November 6, 2014 we granted 4,315,264 Series A SARs to key executives. The SARs vest during a three-year period as long as the employee completes the required service period and entitle them to a cash payment. As of the grant date the amount of SARs granted under this plan totaled Ps. 10.8 million.

Under the plan program extensions described above, no SARs were granted to any of our key executives for the years ended December 31, 2018, 2019 and 2020.

The fair value of these SARs is estimated at the grant date and at each reporting date using the Black-Scholes option pricing model, which takes into account the terms and conditions on which the SARs were granted. The amount of the cash payment is determined based on the increase in our share price between the grant date and the settlement date.

The carrying amount of the liability relating to the SARs as of December 31, 2018, 2019 and 2020 was Ps. 0.5 million, Ps. 1.9 million and Ps. 0.0 million, respectively. The compensation cost is recognized in our consolidated statements of operations under the caption of salaries and benefits over the service period. During the years ended December 31, 2018, 2019 and 2020, we recorded an expense (benefit) of Ps. (0.2) million, Ps. 3.0 million and Ps. (1.9) million, respectively, in respect of these SARs in our consolidated statements of operations.

Derivative Financial Instruments and Hedge Accounting. We mitigate certain financial risks, such as volatility in the price of jet fuel, adverse changes in interest rates and exchange rate fluctuations, through a controlled risk management policy that includes the use of derivative financial instruments. The derivative financial instruments are recognized in the consolidated statement of financial position at fair value. The effective portion of a cash flow hedge's unrecognized gain or loss is recognized in "Accumulated other comprehensive income (loss) items," while the ineffective portion is recognized in current year earnings. The realized gain or loss of derivative financial instruments that qualify as hedging is recorded in the same statements of operations as the realized gain or loss of the hedged item. Derivative financial instruments that are not designated as or not effective as a hedge are recognized at fair value with changes in fair value recorded in current year earnings. Outstanding derivative financial instruments may require collateral to guarantee a portion of the unsettled loss prior to maturity. The amount of collateral delivered in guarantee, which is presented as part of "Guarantee deposits," is reviewed and adjusted on a daily basis, based on the fair value of the derivative position. As of December 31, 2020, we did not have any collateral recorded as a guarantee deposits.

(i) **Aircraft Fuel Price Risk.** We account for derivative financial instruments at fair value and recognize them in the consolidated statements of financial position as an asset or liability. The cost of aircraft fuel consumed in 2018, 2019 and 2020 represented 38%, 38% and 26% (including non-derivative financial instruments) of our operating expenses, respectively. To manage aircraft fuel price risk, we periodically enter into derivatives financial instruments.

During the year ended December 31, 2020, we entered into US Gulf Coast Jet Fuel 54 Asian call options designated to hedge 23,967 thousand gallons of fuel. Such hedges represented a portion of our projected consumption for the second quarter of 2020, third quarter of 2020 and first quarter of 2021. Additionally, during the year ended December 31, 2020, we entered into US Gulf Coast Jet Fuel 54 Asian Zero-Cost collar options designated to hedge 81,646 thousand gallons of fuel. The latter hedges represented a portion of our projected consumption for the second quarter of 2020, second half of 2020 and second quarter of 2021.

During the year ended December 31, 2019, we entered into US Gulf Coast Jet Fuel 54 Asian call options designated to hedge 13,492 thousand gallons of fuel. Such hedges represented a portion of our fourth quarter 2019 projected consumption. Additionally, during the year ended December 31, 2020, we entered into US Gulf Coast Jet Fuel 54 Asian Zero-Cost collar options designated to hedge 70,136 thousand gallons of fuel. The latter hedges represented a portion of our projected third quarter 2019 and our 2020 consumption.

During the year ended December 31, 2018, we entered into US Gulf Coast Jet Fuel 54 Asian Call options designated to hedge 45.6 million gallons of fuel. Additionally, as of December 31, 2017, we entered into US Gulf Coast Jet Fuel 54 Asian call options designated to hedge 61.1 million gallons of fuel.

During the year ended December 31, 2020, the US Gulf Coast Jet Fuel 54 Asian Zero-Cost collar options were designated to hedge approximately 3% of our 2021 fuel consumption, as well as US Gulf Coast fuel 54 Asian call options to hedge approximately 3% of projected fuel consumption for 2021. During the year ended December 31, 2019, we entered into US Gulf Coast Jet Fuel 54 Asian Zero-Cost collar options designated to hedge approximately 20% of our 2020 fuel consumption, as well as US Gulf Coast fuel 54 Asian call options that expired by the end of 2019 to hedge approximately 5% of projected fuel consumption for 2019. During the year ended December 31, 2018, we entered into US Gulf Coast Jet Fuel 54 Asian Zero-Cost collar options and US Gulf Coast fuel 54 Asian call options designated to hedge approximately 18% of our 2019 projected fuel consumption.

We utilize IFRS 9, which comprises aspects related to classifications and measurement of financial assets and financial liabilities, as well as hedge accounting treatment. Paragraph 6.2.4 (a) of IFRS 9 allows us to separate the intrinsic value and time value of an option contract and to designate as the hedging instrument only the change in the intrinsic value of the option. As further required in paragraph 6.5.15 therein, because the external value (time value) of the Jet fuel 54 Asian call options are related to a "transaction related hedged item," it is required to be segregated and accounted for as a "cost of hedging" in other comprehensive income ("OCI") and accrued as a separate component of stockholders' equity until the related hedged item affects profit and loss.

Since monthly forecasted jet fuel consumption is considered the hedged item of the "related to a transaction" type, then the time value included as accrued changes on external value in capital is considered as a "cost of hedging" under IFRS 9. The hedged item (jet fuel consumption) of the Jet fuel 54 Asian call options contracted by us represent a non-financial asset (energy commodity), which is not in our inventory. Instead, it is directly consumed by our aircraft at different airport terminals. Therefore, although a non-financial asset is involved, its initial recognition does not generate a book adjustment in our inventories. Rather, it is initially accounted for in our OCI and a reclassification adjustment is made from OCI toward the profit and loss and recognized in the same period or periods during which the hedged item is expected to be allocated to profit and loss (in accordance with IFRS 9.6.5.15, B6.5.29 (a), B6.5.34 (a) and B6.5.39). As of January 2015, we began to reclassify these amounts (previously recognized as a component of equity) to our statement of operations in the same period in which our expected jet fuel volume consumed affects our jet fuel purchase line item therein.

As of December 31, 2018, 2019 and 2020 the fair value of our outstanding US Gulf Coast Jet Fuel 54 Asian call options was Ps. 48.2 million, Ps. 0.0 million and Ps. 0.2 million, respectively. During the year ended December 31, 2020, the Company entered into US Gulf Coast Jet Fuel 54 Asian call options with 2020 and 2021 maturities. During the years ended December 31, 2018, 2019 and 2020, the net negative (positive) cost of these options recycled to our fuel cost totaled (Ps. 402.5) million, Ps. 61.1 million and Ps. 20.6 million, respectively.
As of December 31, 2019 and 2020, the fair value of our outstanding US Gulf Coast Jet Fuel 54 Zero-Cost collar options was Ps. 134 million and Ps. (9.7) million, respectively, and these were presented as part of the financial assets and financial liabilities line items in our consolidated statements of financial position. During the years ended December 31, 2019 and 2020, the net cost of these options recycled to our fuel cost totaled Ps. 9.4 million and Ps. 835.9 million, respectively.

The amount of (negative) positive cost of hedging derived from the extrinsic value changes of these options as of December 31, 2018, 2019 and 2020 recognized in other comprehensive income totaled Ps. (134.1) million, Ps. 133.6 million and Ps. 21.7 million, respectively, the latter will be recycled to our fuel cost during 2021, as these options expire on a monthly basis and as jet fuel is consumed.

(ii) **Foreign Currency Risk.** Foreign currency risk is the risk that the fair value of future cash flows will fluctuate because of changes in foreign exchange rates. Our exposure to the risk of changes in foreign exchange rates relates primarily to our operating activities (when revenue or expense is denominated in a different currency than pesos). Exchange exposure relates to amounts payable arising from U.S. dollar-denominated and U.S. dollar-linked expenses and payments. To mitigate this risk, we may use foreign exchange derivative financial instruments and non-derivative financial instruments.

During the years ended December 31, 2018, the Company entered into foreign currency forward contracts in U.S. dollars to hedge approximately 20% of its next 12 months of aircraft rental expenses. A portion of the Company's foreign currency forwards matured during the fourth quarter of 2018 (November and December), and the remainder of the Company's outstanding position matured during the first quarter of 2019 (January).

During the year ended December 31, 2020, the Company did not enter into foreign currency forward contracts.

Our foreign exchange exposure as of December 31, 2018, 2019 and 2020 was a net liability position of U.S. $1.7 billion, U.S. $1.7 billion and U.S. $1.7 billion, respectively.

Hedging relationships with non-derivative financial instruments.
We mitigate certain financial risks, such as volatility in the price of jet fuel, adverse changes in interest rates and exchange rate fluctuations, through risk management that includes the use of derivative financial instruments and non-derivative financial instruments.

In accordance with IFRS 9, derivative financial instruments and non-derivative financial instruments are recognized in the consolidated statement of financial position at fair value. At the inception of a hedge relationship, we formally designate and document the hedge relationship to which we wish to apply hedge accounting, as well as the risk management objective and strategy for undertaking the hedge. The documentation includes the hedging strategy and objective, identification of the hedging instrument, the hedged item or transaction, the nature of the risks being hedged and how we will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risks.

Only if such hedges (i) are expected to be effective in achieving offsetting changes in fair value or cash flows of the hedge items and (ii) are assessed on an ongoing basis to determine that they have been effective throughout the financial reporting periods for which they were designated, can hedge accounting treatment be used.

Under the cash flow hedge (CFH) accounting model, the effective portion of the hedging instrument's changes in fair value is recognized in OCI, while the ineffective portion is recognized in current year earnings in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The realized gain or loss of derivative financial instruments and non-derivative financial instruments that qualify as CFH are recorded in the same caption as the hedged item in the consolidated statement of operations.

(iii) Interest Rate Risk. Interest rate risk is the risk that the fair value of future cash flows will fluctuate because of changes in market interest rates. Our exposure to the risk of changes in market interest rates relates primarily to our long-term debt obligations and lease obligations with floating interest rates. As of December 31, 2018, the Company did not have any interest rate derivatives. As of December 31, 2019, we had an outstanding hedging contract in the form of an interest rate cap with a notional amount of Ps. 1.5 billion and a fair value of Ps. 2.7 million. As of December 31, 2020, we had an outstanding hedging contract in the form of an interest rate cap with a notional amount of Ps. 1.5 billion and a fair value of Ps. 0.3 million. These instruments are included as assets in our consolidated statements of financial position. All the Company's positions in the form of interest rate swaps matured on March 31 and April 30, 2017. Consequently, there was no outstanding balance as of December 31, 2018.

Deferred Taxes. We account for income taxes using the liability method. Deferred taxes are recorded based on differences between the financial statement basis and tax basis of assets and liabilities and available tax loss and credit carry-forwards. In assessing our ability to realize deferred tax assets, our management considers whether it is more likely than not that some or all of the deferred tax assets will be realized. In evaluating our ability to utilize our deferred tax assets, we consider all available evidence, both positive and negative, in determining future taxable income on a jurisdiction by jurisdiction basis. At December 31, 2018, 2019 and 2020, we had tax loss carry-forwards amounting to Ps. 1.6 billion, Ps. 1.3 billion and Ps. 1.9 billion, respectively. These losses relate to our and our subsidiaries' operations on a stand-alone basis, which in conformity with current Mexican Income Tax Law may be carried forward against taxable income generated in the succeeding years in each country and may not be used to offset taxable income elsewhere in our consolidated group. During the years ended December 31, 2018 and 2019, we used tax-loss carry-forwards of Ps. 154.4 million and Ps. 214.5 million, respectively. During the year ended December 31, 2020, we did not use any tax-loss carry-forwards.

The table below presents the payments required by our financial liabilities:

	Within one Year	One to five Years	Total
Interest-bearing borrowings:			
Pre-delivery payment facilities	Ps.1,096,543	Ps.2,554,069	Ps.3,650,612
Short-term working capital facilities	200,000	—	200,000
Asset backed trust note	250,000	1,250,000	1,500,000
Total	**Ps.1,546,543**	**Ps.3,804,069**	**Ps.5,350,612**

Central America (Guatemala, Costa Rica and El Salvador)

According to Guatemala corporate income tax law, under the regime on profits from business activities net operating losses cannot offset taxable income in prior or future years. For the years ended December 31, 2018, 2019 and 2020, we generated a net operating income (loss) of Ps. 8.5 million, Ps. (1.1) million and Ps. (1.8) million, respectively.

According to Costa Rica corporate income tax law, the tax is based on the net income earned from traffic whose origin or final destination is Costa Rica and net operating losses can offset taxable income in a term of three years. For the years ended December 31, 2018, 2019 and 2020, we obtained net operating losses of Ps. 170.7 million, Ps. 50.2 million and Ps. 55.8 million, respectively, which have not been recognized as deferred tax assets.

According to El Salvador corporate income tax law, under the regime on profits from business activities, net operating losses cannot offset taxable income in prior or future years. For the years ended December 31, 2020 and 2019, we obtained a net operating loss of Ps. 16.6 million and Ps. 32.5 million, respectively.

Impairment of Long-Lived Assets. The carrying value of flight equipment, furniture and equipment and right of use assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable and the cumulative impairment losses are shown as a reduction in the carrying value of flight equipment, furniture and equipment and right of use assets.

We record impairment charges on long-lived assets used in operations when events and circumstances indicate that the assets may be impaired or when the carrying amount of a long-lived asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less cost to sell and its value in use.

The value in use calculation is based on a discounted cash flow model, using our projections of operating results for the near future. The recoverable amount of long-lived assets is sensitive to the uncertainties inherent in the preparation of projections and the discount rate used in the calculation.

For the years ended December 31, 2018, 2019 and 2020, no impairment charges were recorded in respect of our long-lived assets.

Allowance for Credit Losses. An allowance for credit losses is established using the life-time expected credit loss approach, based on objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. At December 31, 2018, 2019 and 2020, the allowance for credit losses was Ps. 11.3 million, Ps. 40.3 million and Ps. 32.7 million, respectively.

Operating Revenues

2019 compared to 2020

	For the years ended December 31,			
	2019	2020	Variation	
	(In thousands of pesos, except for % and operating data)			
Operating Revenues				
Passenger revenues:				
Fare revenues	Ps.23,129,991	Ps.12,873,174	Ps.(10,256,817)	(44.3%)
Other passenger revenues	10,569,208	8,613,398	(1,955,810)	(18.5%)
Non-passenger revenues:				
Other non-passenger revenues	897,586	882,360	(15,226)	(1.7%)
Cargo	228,836	201,881	(26,955)	(11.8%)
Non-derivative financial instruments	(72,949)	(411,222)	(338,273)	>100.0%
Total operating revenues	**Ps.34,752,672**	**Ps.22,159,591**	**Ps.(12,593,081)**	**(36.2%)**
Operating Data				
Capacity (in ASMs in thousands)	24,498,893	18,274,946	(6,223,947)	(25.4%)
% Load factor booked	86%	80%	(6pp)	–
Booked passengers (in thousands)	21,975	14,712	(7,263)	(33.1%)
Average ticket revenue per booked passenger	1,054	875	(179)	(17.0%)
Average other passenger revenue per booked passenger	481	585	104	21.7%
Average total ancillary revenue per booked passenger	532	659	127	23.9%
Revenue passenger miles (RPMs in thousands)	21,032,364	14,596,745	(6,435,619)	(30.6%)

Fare revenues. The decrease in fare revenues in 2020 was primarily due to the significant reduction in our ASM capacity by 25.4% resulting from a substantial decrease in customer demand as a result of the impact of the COVID-19 pandemic. As a consequence, our booked passengers also decreased 33.1%, and our average ticket revenue per booked passenger decreased 17.0% year over year.

Other passenger revenues. The decrease in other passenger revenues in 2020 was primarily due to lower volume of passengers electing to purchase additional services as a result of a substantial decrease in customer demand, which in turn was a result of the impact of the COVID-19 pandemic.

Other non-passenger revenues. The decrease in other non-passenger revenues was primarily due to lower revenues from airport incentives recorded during 2020.

Cargo. The decrease in cargo revenues in 2020 was primarily due to a lower volume of cargo operations recorded during 2020.

2018 compared to 2019

	For the years ended December 31,			
	2018 Adjusted [1]	2019	Variation	
	(In thousands of pesos, except for % and operating data)			
Operating Revenues				
Passenger revenues:				
Fare revenues	Ps.18,487,858	Ps.23,129,991	Ps.4,642,133	25.1%
Other passenger revenues	7,892,497	10,569,208	2,676,711	33.9%
Non-passenger revenues:				
Other non-passenger revenues	697,357	897,586	200,229	28.7%
Cargo	227,438	228,836	1,398	0.6%
Non-derivative financial instruments	–	(72,949)	(72,949)	100%
Total operating revenues	**Ps.27,305,150**	**Ps.34,752,672**	**Ps.7,447,522**	**27.3%**
Operating Data				
Capacity (in ASMs in thousands)	21,009,545	24,498,893	3,489,348	16.6%
% Load factor booked	85%	86%	–	1.0pp
Booked passengers (in thousands)	18,396	21,975	3,579	19.5%
Average ticket revenue per booked passenger	1,006	1,054	48	4.8%
Average other passenger revenue per booked passenger	429	481	52	12.1%
Average total ancillary revenue per booked passenger	479	532	53	11.1%
Revenue passenger miles (RPMs in thousands)	17,748,408	21,032,364	3,283,956	18.5%

[1] On adoption of IFRS 16 we apply the new standard on the required effective date as of January 1, 2019, using the full retrospective method of adoption in order to provide for comparative results in all periods presented, recognizing the effect in retained earnings as of January 1, 2017.

Fare revenues. The increase in fare revenues in 2019 was primarily due to growth in our ASM capacity by 16.6% resulting from the incorporation of five new net aircraft. Additionally, our booked passengers increased 19.5%, and our average ticket revenue per booked passenger increased 4.8% year over year.

Other passenger revenues. The increase in other passenger revenues in 2019 was primarily due to higher volume of passengers electing to purchase additional services. We continue executing our fare unbundling and demand stimulation strategy. In particular, during 2019, our total ancillary revenues increased due to improved revenue from fees charged for excess baggage, advanced seat selection and itinerary changes.

Other non-passenger revenues. The increase in other non-passenger revenues was primarily due to higher revenues from airport incentives recorded during 2019.

Cargo. The increase in cargo revenues in 2019 was primarily due to a higher volume of cargo operations recorded during 2019.

Operating Expenses, net

2019 compared to 2020

For the years ended December 31,

	2019	2020	Variation	
	(In thousands of pesos, except for)%			
Other operating income	Ps.(327,208)	Ps.(730,333)	Ps.(403,125)	>100.0%
Fuel expense, net	11,626,069	6,640,820	(4,985,249)	(42.9%)
Landing, take-off and navigation expenses	5,108,489	4,090,864	(1,017,625)	(19.9%)
Depreciation of right of use assets	4,702,971	5,048,976	346,005	7.4%
Salaries and benefits	3,600,762	3,453,382	(147,380)	(4.1%)
Sales, marketing and distribution expenses	1,447,637	1,840,819	393,182	27.2%
Maintenance expenses	1,488,431	1,167,720	(320,711)	(21.5%)
Aircraft and engine variable lease expenses	961,657	1,845,254	883,597	91.9%
Other operating expenses	1,112,927	1,157,240	44,313	4.0%
Depreciation and amortization	675,514	898,445	222,931	33.0%
Total operating expenses, net	**Ps.30,397,249**	**Ps.25,413,187**	**Ps.(4,984,062)**	**(16.4%)**

Total operating expenses, net decreased 16.4% in 2020 primarily as a result of decrease of operations and other factors described below.

Other Operating Income. Other operating income increased Ps. 403.1 million or more than 100.0% in 2020, primarily due to higher sale and leaseback gains recorded during 2020 compared to the previous year as a result of the adoption of IFRS 16.

Fuel expense, net. The 42.9% decrease in fuel expense was primarily as a result of a decrease in the average fuel cost per gallon of 14.0% and a decrease in fuel gallons consumed of 29.8% which, in turn, was primarily due to the significant 29.2% decrease in departures as a result of the substantial decrease in customer demand due to the impact of the COVID-19 pandemic.

During the years ended December 31, 2020 and 2019, we entered into US Gulf Coast Jet Fuel 54 Asian Zero Cost collar options and Asian call options contracts. These instruments also qualify for hedge accounting. As a result, during 2020, their intrinsic value loss of Ps. 856.5 million was recycled to the cost of fuel.

Landing, Take-off and Navigation Expenses. The 19.9% decrease in landing, take-off and navigation expenses in 2020 was primarily due to a decrease in our operations as measured by number of departures by 29.2%, as a result of the substantial decrease in customer demand, which in turn was a result of the impact of the COVID-19 pandemic.

Depreciation of right of use assets. The 7.4% increase in depreciation of right of use assets in 2020 was primarily due to an increase in our fleet (lease agreements), as we incorporated four new net aircraft leases and eight new net engine leases during 2020.

Salaries and Benefits. The 4.1% decrease in salaries and benefits in 2020 was primarily the result of a decrease in employee salaries as result of reduced flight operations and cost-cutting measures in response to the COVID-19 pandemic. Additionally, the variable compensation of our workforce decreased also due to lower operations recorded during 2020, as well as the accounting accrual impact related to our management retention plans. See Item 6: "Directors, Senior Management and Employees—Employees."

Sales, Marketing and Distribution Expenses. The 27.2% increase in sales, marketing and distribution expenses was mainly due to a one-time VAT expense of Ps. 746 million resulting from an adjustment on the northern border VAT rate, which was partially offset by a decrease in our marketing and distribution expenses as a result of the COVID-19 pandemic and the related decrease in customer demand.

Maintenance Expenses. The 21.5% decrease in maintenance expenses in 2020 was mainly due to lower maintenance expenses as result of reduced operations due to the COVID-19 pandemic, which was partially offset by the depreciation of approximately 11.6% in the average exchange rate of the peso against the U.S. dollar during 2020 since some of these maintenance expenses are denominated in U.S. dollars.

Aircraft and engine variable lease expenses. The 91.9% increase in aircraft and engine variable expenses in 2020 was primarily due to an increase in redelivery expenses and the depreciation of approximately 11.6% in the average exchange rate of the peso against the U.S. dollar, since the majority of these expenses are denominated in U.S. dollars.

Other Operating Expenses. The 4.0% increase in other operating expenses in 2020 was primarily the result of our purchase of additional insurance to cover flight equipment. Additionally, during 2020, other operating expenses on a dollar basis increased due to the depreciation of approximately 11.6% in the average exchange rate of the peso against the U.S. dollar during 2020, since some of these expenses are denominated in U.S. dollars.

Depreciation and Amortization. The 33.0% increase in depreciation and amortization in 2020 was primarily due to higher amortization of major maintenance events associated with the aging of our fleet. The cost of the major maintenance events is accounted for under the deferral method. During 2019 and 2020, we recorded amortization of major maintenance leasehold improvements of Ps. 450.4 million and Ps. 652.1 million, respectively.

2018 compared to 2019

	For the years ended December 31,			
	2018 [(1)]	2019	Variation	
	(In thousands of pesos, except for%)			
Other operating income	Ps.(621,973)	Ps.(327,208)	Ps.294,765	(47.4)%
Fuel expense, net	10,134,982	11,626,069	1,491,087	14.7%
Landing, take-off and navigation expenses	4,573,319	5,108,489	535,170	11.7%
Depreciation of right of use assets	4,043,691	4,702,971	659,280	16.3%
Salaries and benefits	3,125,393	3,600,762	475,369	15.2%
Sales, marketing and distribution expenses	1,501,203	1,447,637	(53,566)	(3.6)%
Maintenance expenses	1,497,989	1,488,431	(9,558)	(0.6)%
Aircraft and engine variable lease expenses	956,010	961,657	5,647	0.6%
Other operating expenses	1,059,098	1,112,927	53,829	5.1%
Depreciation and amortization	500,641	675,514	174,873	34.9%
Total operating expenses, net	**Ps.26,770,353**	**Ps.30,397,249**	**Ps.3,626,896**	**13.5%**

[(1)] As of January 1, 2019, we adopted IFRS 16 using the full retrospective method of adoption in order to provide comparative results in all periods presented, recognizing the effect in retained earnings as of January 1, 2017.

Total operating expenses, net increased 13.5% in 2019 primarily as a result of growth of operations and other factors described below.

Other Operating Income. Other operating income decreased Ps. 294.8 million or 47.4% in 2019, primarily due to lower sale and leaseback gains recorded during 2019 compared to the previous year as a result of the adoption of IFRS 16.

Fuel expense, net. The 14.7% increase in fuel expense was primarily as a result of an increase in the average fuel cost per gallon of 4.1% and an increase in fuel gallons consumed of 10.7% which, in turn, was primarily due to more aircraft in operation and a 17.1% increase in our departures.

During the years ended December 31, 2019 and 2018, we entered into Asian Zero-Cost collar options and Asian call options contracts. These instruments also qualify for hedge accounting. As a result, during 2019, their intrinsic value loss of Ps. 70.5 million was recycled to the cost of fuel.

Landing, Take-off and Navigation Expenses. The 11.7% increase in landing, take-off and navigation expenses in 2019 was primarily due to an increase in our operations as measured by number of departures by 17.1%. These increases were partially offset by a decrease in the number of airports where we operated during the year and incentives received from certain airport groups as a result of the growth of our operations.

Depreciation of right of use assets. The 16.3% increase in depreciation of right of use assets in 2019 was primarily due to an increase in our fleet, as we incorporated five new net aircraft and four new net engine leases during 2019.

Salaries and Benefits. The 15.2% increase in salaries and benefits in 2019 was primarily the result of the annual salary increase and an increase of 7.6% in our total number of employees during the year. Additionally, the variable compensation of our workforce increased also due to higher operations recorded during 2019, as well as the accounting accrual impact related to our management retention plans. See Item 6: “Directors, Senior Management and Employees—Employees.”

Sales, Marketing and Distribution Expenses. The 3.6% decrease in sales, marketing and distribution expenses was mainly due to efficiencies in our marketing and distribution expenses related to our efficiency and cost reduction plan.

Maintenance Expenses. The 0.6% decrease in maintenance expenses in 2019 was mainly due to the receipt of credit notes from some maintenance suppliers. This decrease was partially offset by the 6.5% increase in our fleet size as a result of the addition of five new net aircraft received during the year and the depreciation of approximately 0.1% in the average exchange rate of the peso against the U.S. dollar during 2019 since some of these maintenance expenses are denominated in U.S. dollars.

Aircraft and engine variable lease expenses. The 0.6% increase in aircraft and engine variable expenses in 2019 was primarily due to the depreciation in the average exchange rate of the peso against the U.S. dollar, since the majority of these expenses are denominated in U.S. dollars.

Other Operating Expenses. The 5.1% increase in other operating expenses in 2019 was primarily the result of our purchase of additional insurance to cover flight equipment and an increase in other administrative expenses. Additionally, during 2019, other operating expenses on a dollar basis increased due to the depreciation of approximately 0.1% in the average exchange rate of the peso against the U.S. dollar during 2019, since some of these expenses are denominated in U.S. dollars.

Depreciation and Amortization. The 34.9% increase in depreciation and amortization in 2019 was primarily due to higher amortization of major maintenance events associated with the aging of our fleet. The cost of the major maintenance events is accounted for under the deferral method. During 2018 and 2019, we recorded amortization of major maintenance leasehold improvements of Ps .313.5 million and Ps. 450.4 million, respectively.

Operating Results

2019 compared to 2020

	For the years ended December 31,			
	2019	2020	Variation	
	(In thousands of pesos, except for%)			
Operating Results				
Total operating revenues	Ps.34,752,672	Ps.22,159,591	Ps.(12,593,081)	36.2%
Total operating expenses, net	30,397,249	25,413,187	(4,984,062)	(16.4)%
Operating income	**Ps.4,355,423**	**Ps.(3,253,596)**	**Ps.(7,609,019)**	**(100)%**

Operating Income (loss). As a result of the factors outlined above, our operating loss was Ps. (3,254) million in 2020, as compared to our operating income of Ps. 4,355 million in 2019.

2018 compared to 2019

	For the years ended December 31,			
	2018 Adjusted [(1)]	2019	Variation	
	(In thousands of pesos, except for%)			
Operating Results				
Total operating revenues	Ps.27,305,150	Ps.34,752,672	Ps.7,447,522	27.3%
Total operating expenses, net	26,770,353	30,397,249	3,626,896	13.5%
Operating income	**Ps.534,797**	**Ps.4,355,423**	**Ps.3,820,626**	**>100%**

[(1)] As of January 1, 2019, we adopted IFRS 16 using the full retrospective method of adoption in order to provide comparative results in all periods presented, recognizing the effect in retained earnings as of January 1, 2017.

Operating Income. As a result of the factors outlined above, our operating income was Ps. 4,355 million in 2019, a greater than 100% increase compared to our operating income of Ps. 534.8 million in 2018. As a consequence of the adoption of IFRS 16, operating expenses decreased and our operating income increased.

Financial Results

2019 compared to 2020

	2019	2020	Variation	
	For the years ended December 31, (In thousands of pesos, except for%)			
Financing Results				
Finance income	Ps.207,799	Ps.101,511	Ps.(106,288)	(51.1%)
Finance cost	(2,269,829)	(3,018,484)	(748,655)	(33.0%)
Exchange gain, net	1,440,501	470,594	(969,907)	(67.3%)
Total financing results	**Ps.(621,529)**	**Ps.(2,446,379)**	**Ps.(1,824,850)**	**>100%**

Total Financing Results. The greater than 100% increase in our total financing loss in 2020 was primarily due to the increase in our finance cost, year over year.

During 2020, we recorded a net exchange loss of Ps. (1.1) billion, which resulted from the 5.8% depreciation of the peso against the U.S. dollar at year-end, since we maintained a net monetary liability position of U.S. $1.7 billion in 2020. Our U.S. dollar net monetary liability position mainly resulted from the value of our lease liabilities and financial debt. This net exchange loss was partially offset by the Ps. 1.6 billion gain on our non-derivative financial instruments recorded during 2020. Additionally, our finance income decreased by Ps. 106.3 million, mainly due to a decrease in our short-term investments. Our finance cost increased by Ps. 748.7 million, mainly due to our lease finance costs and interest paid on our asset backed trust notes.

2018 compared to 2019

	2018 (Adjusted) [1]	2019	Variation	
	For the years ended December 31, (In thousands of pesos, except for%)			
Financing Results				
Finance income	Ps.152,603	Ps.207,799	Ps.55,196	36.2%
Finance cost	(1,876,312)	(2,269,829)	(393,517)	21.0%
Exchange (loss) gain, net	(103,790)	1,440,501	1,544,291	n.a.
Total financing results	**Ps.(1,827,499)**	**Ps.(621,529)**	**Ps.1,205,970**	**(66.0)%**

[1] As of January 1, 2019, we adopted IFRS 16 using the full retrospective method of adoption in order to provide comparative results in all periods presented, recognizing the effect in retained earnings as of January 1, 2017.

Total Financing Results. The 66.0% decrease in our total financing loss in 2019 was primarily due to the increase in our foreign exchange gain, year over year.

During 2019, we recorded an exchange gain of Ps. 1.4 billion, which resulted from the 4.3% appreciation of the peso against the U.S. dollar at year-end, since we maintained a net monetary liability position of U.S. $1.7 billion in 2019. Our U.S. dollar net monetary liability position mainly resulted from the value of our lease liabilities and financial debt. Additionally, our finance income increased by Ps. 55.2 million, mainly due to an increase in our short-term investments as a result of a higher level of Cash during 2019. Our finance cost increased by Ps. 393.5 million, mainly due to an increase in our lease financial cost related to the recognition of IFRS 16 and interest paid on our asset backed trust notes.

Income Tax Expense and Net Income

2019 compared to 2020

	For the years ended December 31,			
	2019	2020	Variation	
	(In thousands of pesos, except for%)			
Net (loss) income				
(Loss) income before income tax	Ps.3,733,894	Ps.(5,699,975)	Ps.(9,433,869)	>100%
Income tax benefit (expense)	(1,094,831)	1,406,184	2,501,015	>100%
Net (loss) income	**Ps.2,639,063**	**Ps.(4,293,791)**	**Ps.(6,932,854)**	**>100%**

We recorded a net loss of Ps. 4.3 billion in 2020 compared to a net gain of Ps. 2.6 billion in 2019. During the years ended December 31, 2020 and 2019, we recorded a tax benefit (expense) of Ps. 1.4 billion and Ps. (1.1 billion), respectively. At December 31, 2020, our tax loss carry-forwards amounted to Ps. 1.9 billion (Ps. 1.3 billion of December 31, 2019).

During the year ended December 31, 2020, we did not use any available tax loss carry-forwards, whereas during the year ended December 31, 2019, we used Ps. 214.5 million in available tax loss carry-forwards. The effective tax rate during 2020 and 2019 was of 24.7% and 29.3%, respectively.

2018 compared to 2019

	For the years ended December 31,			
	2018 (Adjusted) [1]	2019	Variation	
	(In thousands of pesos, except for%)			
Net (loss) income				
(Loss) income before income tax	Ps.(1,292,702)	Ps.3,733,894	Ps.5,026,596	n.a
Income tax benefit (expense)	349,820	(1,094,831)	(1,444,651)	n.a
Net (loss) income	**Ps.(942,882)**	**Ps.2,639,063**	**Ps.3,581,945**	**n.a**

[1] As of January 1, 2019, we adopted IFRS 16 using the full retrospective method of adoption in order to provide comparative results in all periods presented, recognizing the effect in retained earnings as of January 1, 2017.

We recorded net gain of Ps. 2.6 billion in 2019 compared to a net loss of Ps. 942.9 million in 2018. During the years ended December 31, 2019 and 2018, we recorded a tax (expense) benefit of Ps. (1.1 billion) and Ps. 349.8 million, respectively. At December 31, 2019, our tax loss carry-forwards amounted to Ps. 1.3 billion (Ps. 1.6 billion of December 31, 2018).

During the years ended December 31, 2019 and 2018, we used Ps. 214.5 million and Ps. 154.4 million, in available tax loss carry-forwards, respectively. The effective tax rate during 2019 and 2018 was of 29.3% and 27.1% respectively.

B. Liquidity and Capital Resources

Liquidity

Our primary source of liquidity is cash provided by operations, with our primary uses of liquidity being working capital and capital expenditures.

	For the years ended December 31,		
	2018 (Adjusted) [1]	2019	2019
	(In thousands of pesos)		
Net cash flows provided by operating activities	6,276,707	9,509,643	4,359,445
Net cash flows used in investing activities	(1,389,395)	(1,879,341)	(67,757)
Net cash flows used in financing activities	(5,946,059)	(5,238,840)	(3,040,840)

[1] On adoption of IFRS 16 we apply the new standard on the required effective date as of January 1, 2019, using the full retrospective method of adoption in order to provide for comparative results in all periods presented, recognizing the effect in retained earnings as of January 1, 2017.

In recent years, we have been able to meet our working capital requirements through cash from our operations. Our capital expenditures consist primarily of the acquisition of flight equipment, including pre-delivery payments for aircraft acquisitions. From time to time, we finance pre-delivery payments related to our aircraft with revolving lines of credit with the commercial banks. We have obtained committed financing for pre-delivery payments in respect of all the aircraft to be delivered through 2022.

Our cash and cash equivalents increased by Ps. 2.1 billion, from Ps. 8.0 billion at December 31, 2019 to Ps. 10.1 billion at December 31, 2020. At December 31, 2020 our credit lines totaled Ps. 9.3 billion, of which Ps. 6.9 billion were related to financial debt and Ps. 2.4 billion were related to letters of credit (and of which Ps. 1.7 billion were undisbursed). At December 31, 2019, we had available credit lines totaling Ps. 9.0 billion, of which Ps. 6.6 billion were related to financial debt and Ps. 2.4 billion were related to letters of credit (Ps. 1.7 billion were undisbursed).

We have an investment policy to optimize the performance and ensure availability of, and minimize the risk associated with, the investment of cash, cash equivalents and short-term investments. Such policy provides for guidelines regarding minimum balance, currency mix, instruments, deadlines, counterparties and credit risk. At December 31, 2020, 98% of our cash, cash equivalents and short-term investments were denominated in U.S. dollars and 2% were denominated in pesos. See note 3 to our audited consolidated financial statements included elsewhere in this annual report.

Net cash flows provided by operating activities. We rely primarily on cash flows from operating activities to provide working capital for current and future operations. Net cash flows provided by operating activities totaled Ps. 4.4 billion and Ps. 9.5 billion in 2020 and 2019, respectively. Our net operating cash flows decreased primarily due to the negative impact of the COVID-19 pandemic on our operating activities as described above.

Net cash flows provided by operating activities totaled Ps. 9.5 billion and Ps. 6.3 billion in 2019 and 2018, respectively. Our net cash flows increased primarily due to a significant increase in unearned transportation revenue as compared to 2018.

Net cash flows used in investing activities. During 2020, net cash flow used in investing activities totaled Ps. 0.1 billion, which consisted primarily of pre-delivery payments for aircraft and engine acquisitions totaling Ps. 2.2 billion, partially offset by pre-delivery payments reimbursements totaling Ps. 1.7 billion. Additionally, we recorded other capital expenditures relating to engine, aircraft parts and rotable spare parts acquisitions, intangible assets and major maintenance costs, which were offset by the receipt of net proceeds from disposals. The net amount of proceeds was Ps. 0.4 billion.

During 2019, net cash flow used in investing activities totaled Ps. 1.9 billion, which consisted primarily of pre-delivery payments for aircraft and engine acquisitions, partially offset by pre-delivery payments reimbursements totaling Ps. 0.7 billion. Additionally, we recorded other capital expenditures relating to aircraft parts and rotable spare parts acquisitions, intangible assets and major maintenance costs, net of disposals of Ps. 1.2 billion.

During 2018, net cash flow used in investing activities totaled Ps. 1.4 billion, which consisted primarily of pre-delivery payments for aircraft and engine acquisitions totaling Ps. 1.2 billion, partially offset by pre-delivery payments reimbursements totaling Ps. 0.6 billion. Additionally, we recorded other capital expenditures relating to aircraft parts and rotable spare parts acquisitions, intangible assets and major maintenance costs, net of disposals of Ps. 0.8 billion.

Net cash flow used in financing activities. During 2020, net cash flows used in financing activities totaled Ps. 3.0 billion, which consisted primarily of payments of the principal portion of lease liabilities of Ps. 6.1 billion (aircraft and spare engine rent payment), payments of financial debt related to the aircraft financing pre-delivery payments for a net amount of Ps. 1.9 billion, payments of working capital credit lines of Ps. 0.2 billion, payments of treasury shares of Ps. 0.1 billion and interest paid of Ps. 0.3 billion, which were partially offset by proceeds from our SEC-registered follow-on equity offering of Ps. 3.3 billion, proceeds from disbursements under our revolving credit facility with Banco Santander and Bancomext of Ps. 2.1 billion and proceeds from additional short-term working capital facilities with Banco Sabadell, S.A. of Ps. 0.2 billion.

During 2019, net cash flows used in financing activities totaled Ps. 5.2 billion, which consisted primarily of payments of the principal portion of lease liabilities of Ps. 6.4 billion (aircraft and spare engine rent payment), payments of financial debt related to the aircraft financing pre-delivery payments for a net amount of Ps. 0.7 billion, payments of working capital credit lines of Ps. 0.5 billion and interest paid of Ps. 0.3 billion, which were partially offset by proceeds from disbursements under our revolving credit facility with Banco Santander and Bancomext of Ps. 1.1 billion, proceeds from our asset backed trust notes (CEBUR) of Ps. 1.4 billion, which take into account amortized transaction costs, and proceeds from additional short-term working capital facilities with Banco Sabadell, S.A. of Ps. 0.2 billion.

During 2018, net cash flows used in financing activities totaled Ps. 5.9 billion, which consisted primarily of payments of the principal portion of lease liabilities of Ps. 5.7 billion (aircraft and spare engine rent payments), payments of financial debt related to the aircraft financing pre-delivery payments for a net amount of Ps. 0.7 billion, payments of working capital credit lines of Ps. 0.5 billion and interest paid of Ps. 0.2 billion, which were partially offset by proceeds from disbursements under our revolving credit facility with Banco Santander and Bancomext of Ps. 1.2 billion.

Loan Agreements

The revolving credit facility with Banco Santander México and Bancomext, dated July 27, 2011 as amended and restated on August 1, 2013 and as further amended on February 28, 2014 and November 27, 2014, under which we are a guarantor, provides financing for pre-delivery payments in connection with our purchase of nineteen A320 aircraft. On August 25, 2015, we entered into an additional amendment to such loan agreement to finance pre-delivery payments of eight additional A320 aircraft. In November 2016, we entered into an additional amendment to such loan agreement to finance the pre-delivery payments for the twenty-two remaining A320 aircraft under the Airbus purchase agreement. In December 2017, we entered an additional amendment to extend the term of the loan agreement to November 2021. In November 2018, we entered an amendment to extend the term of the loan agreement to May 2022. Finally, we entered into one further amendment to this loan agreement in October 2020 to extend the term to October 2022.

The aggregate principal amount of this revolving line is for up to U.S. $183.0 million, of which U.S. $103.7 million is provided by Banco Santander México and U.S. $79.3 million by Bancomext. This revolving credit facility bears annual interest at three-month LIBOR plus 260 basis points. The maturity is on October 31, 2022, but it could be extended to November 2022. This revolving line of credit may limit our ability to, among others, declare and pay dividends in the event that we fail to comply with the payment terms thereunder, dispose of certain assets, incur indebtedness and create certain liens.

On June 20, 2019, our subsidiary Volaris Opco issued 15,000,000 asset backed trust notes under the ticker VOLARCB 19 in the amount of Ps. 1.5 billion through Irrevocable Trust number CIB/3249 created by Volaris Opco. This issuance is part of a program approved by the CNBV for an amount of up to Ps. 3.0 billion. The notes mature in five years, have principal amortizations of Ps. 250,000, Ps. 500,000, Ps. 500,000 and Ps. 250,000 in 2021, 2022, 2023 and 2024, respectively, and bear annual interest at TIIE 28 days plus 175 basis points.

In December 2019, we entered into a short-term working capital facility with Banco Sabadell, S.A., Institución de Banca Multiple ("Sabadell") with Concesionaria as our obligor in the amount of Ps. 200 million and bearing annual interest at TIIE 28 days plus 300 basis points. As of December 31, 2020, we were current with principal and interest payments as well as in compliance with the covenants under our revolving credit facility and short-term working capital facilities.

C. Research and Development, Patents and Licenses, Etc.

We have registered the trademark "Volaris" with the trademark office in Mexico, the United States and in the countries in which operate in Central America. We have also registered several additional trademarks and slogans with the trademark office in Mexico, the United States and in the countries in which we operate in Central America. On April 16, 2021, the Mexican authorities recognized the trademark "Volaris" in the category of famous brand.

We operate software products under licenses from our vendors, including Jeppesen Systems AB, Navitaire LLC and Juniper Technologies Corporation. Under our agreements with Airbus, we use Airbus' proprietary information to maintain our aircraft.

D. Trend Information

See Item 5: "Operating and Financial Review and Prospects—Operating Results—Trends and Uncertainties Affecting our Business."

E. Off-Balance Sheet Arrangements

None of our operating lease obligations are reflected on our statements of financial position. We are responsible for all maintenance, insurance and other costs associated with operating these aircraft; however, we have not made any residual value guarantee to our lessors.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth certain contractual obligations as of December 31, 2020:

Contractual Obligations* Payments due by Period	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
	(In thousands of pesos, except for%)				
Debt[1]	Ps.5,370,175	Ps.1,566,106	Ps.3,554,069	Ps.250,000	Ps. –
Lease liabilities[2]	44,130,542	6,484,092	11,235,142	8,677,232	17,734,076
Future lease liabilities[3]	15,134,381	193,901	2,218,176	2,522,394	10,199,910
Flight equipment, spare engines and spare parts purchase obligations[4]	87,213,622	802,197	8,074,336	30,971,314	47,365,775
future payments on contractual obligations	**Ps.151,848,720**	**Ps.9,046,296**	**Ps.25,081,723**	**Ps.42,420,940**	**Ps.75,299,761**

(1) Includes scheduled interest payments.
(2) Does not include maintenance deposit payments because they depend on the utilization of the aircraft.
(3) Our sale and leaseback agreements consist primarily of future lease payments with the lessors.
(4) Our contractual purchase obligations consist primarily of aircraft and engine acquisitions through manufacturers and aircraft leasing companies. In December 2017, we signed an amendment to our purchase agreement with Airbus to purchase 80 aircraft which we are committed to receive from 2022 to 2026.
* Disclosure of contractual obligations does not include obligations relating to our post-employment benefits which totaled Ps. 50.6 million at December 31, 2020.

Committed expenditures for these aircraft, spare engines, spare parts and related flight equipment, including estimated amounts for contractual price escalations of pre-delivery payments, will be approximately Ps. 18.6 billion from 2021 to 2026 and thereafter.

In 2021, we expect our capital expenditures, excluding pre-delivery payments, to be Ps. 87.2 billion, consisting primarily of aircraft parts and rotable spare parts, construction and improvements to leased assets, and major maintenance costs (leasehold improvements to flight equipment recorded into rotable spare parts furniture and equipment, net).

G. Safe Harbor

Not applicable.

6 About this **Report**

Content

6.1. Materiality Assessment
6.2. GRI and SASB Content Index

About this **Report**

GRI 102-12, 102-45, 102-46, 102-48, 102-49, 102-50, 102-54

Through our 2020 Annual Integrated Report we share with our stakeholders the economic, corporate governance, labor, social, environmental and financial results, as well as the actions implemented to respond to the health crisis caused by COVID-19, for the period from January 1st to December 31, 2020.

We compiled the information reported based on the data analyzed from our operations in the countries and regions where we are present, i.e., Mexico, the United States of America and Central America.

This report was prepared in accordance with the Global Reporting Initiative (GRI) Standards: Essential option. The contents used were defined based on our 2018 Materiality Assessment. The information provided has not been restated in any manner.

Likewise, we maintain our commitment to contribute to the Sustainable Development Goals (SDG) of the United Nations 2030 Agenda. Our Corporate Sustainability Program contributes directly to the goals of 11 SDG related to the industry.

Striving to improve how we manage ESG issues, in addition to the GRI contents and our contributions to the Sustainable Development Goals, for the first time we include information to meet the Sustainability Accounting Standards Board (SASB) standards applicable to Airlines.

The Sustainability Accounting Standards Board (SASB) is an independent body that develops specific standards for numerous sectors, and whose mission is to inform businesses and investors about the financial impacts of sustainability by promoting the reporting of material ESG issues (environmental, social and governance).

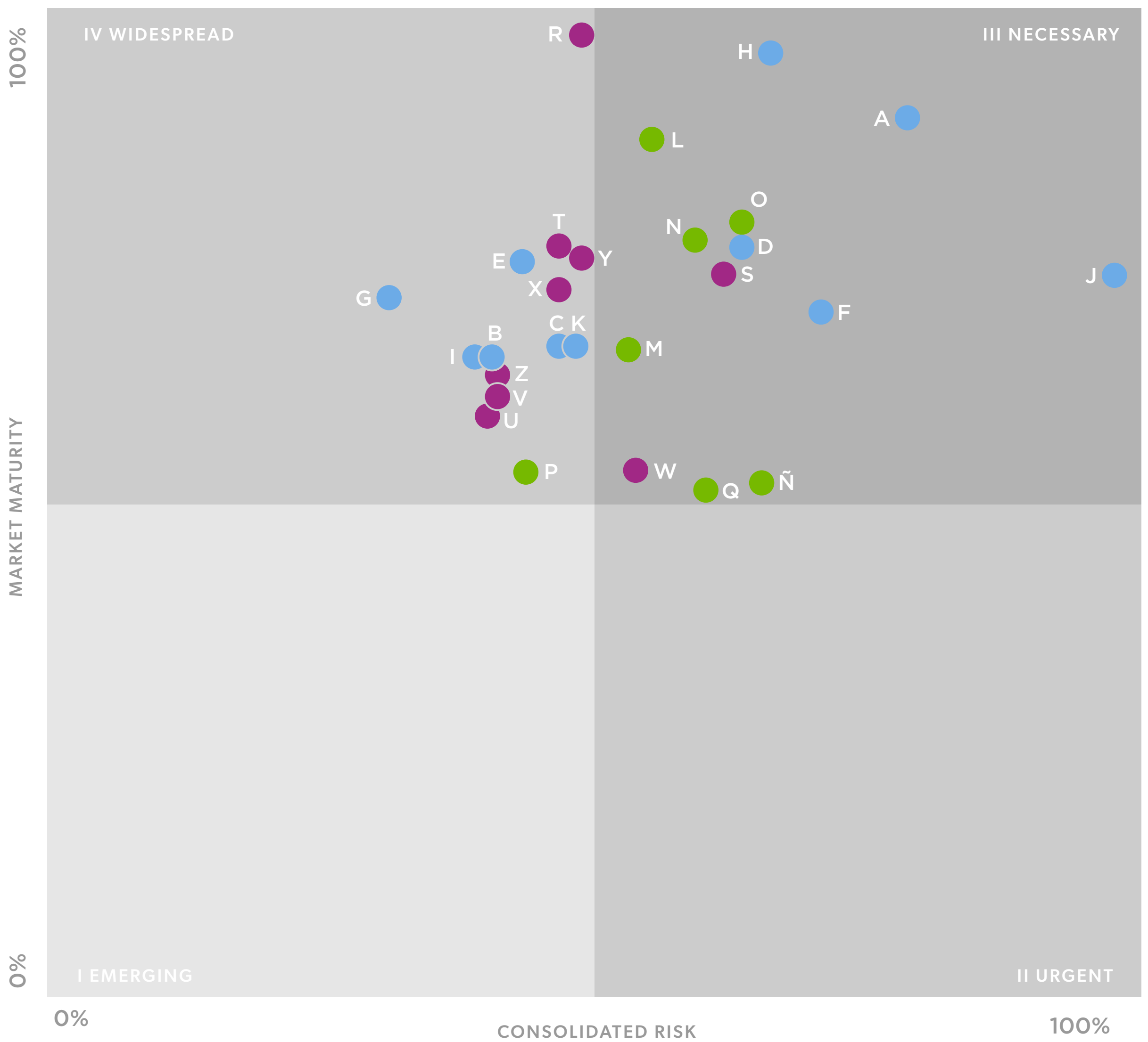
6.1. Materiality **Assessment**

In 2021, we will update our materiality assessment and stakeholder engagement to identify risks, opportunities, performance indicators and strategic goals regarding our impact within the airline industry, especially in the current context due to the COVID-19 pandemic.

GRI 102-46, 102-47

The materiality assessment and the stakeholder engagement that we conducted in 2018, as well as the True Value exercise conducted with KPMG in 2019, were essential for our restatement of the Volaris Corporate Sustainability Program and the Volaris Value Creation Model defined in 2019 and submitted in this report.

We supplemented this methodology in order to obtain comparable results on significant issues according to the updates made under the Global Reporting Initiative (GRI) Standards, and taking into account the Dow Jones Sustainability Index (DJSI) items addressed to the aviation industry.



Consolidated Risk (X)	Adjusted to 100%
J. Research, development and innovation	100%
A. Corporate social responsibility (CSR) management	80%
F. Brand management	72%
H. Operations	67%
Ñ. Biodiversity	66%
O. Climate change and other atmospheric emissions	65%
D. Ethics and integrity	64%
S. Employee satisfaction	63%
Q. Waste management	61%
N. Energy	60%
L. Environmental policies/management	57%
W. Human rights	55%
M. Materials	54%
R. Talent attraction and retention	50%
Y. Stakeholder relations	50%
K. Customer relation management	49%
C. Risk management	48%
X. Social impacts on Communities	48%
T. Human capital development	47%
P. Water resource management	45%
E. Corruption/transparency	44%
V. Occupational health and safety	42%
Z. Standards with Suppliers	42%
B. Corporate governance	41%
U. Labor practices	41%
I. Service Responsibility	40%
G. Financial issues	32%

High Medium Low

GRI 102-55

6.2. GRI and SASB **Content Index**

GRI or SASB Standard	Disclosure	Description	Page / Answer
GRI 102: General disclosures 2016		**1. Organizational profile**	
	102-1	Name of the organization	9
	102-2	Activities, brands, products, and services	31, 34
	102-3	Location of headquarters	182
	102-4	Location of operations	34
	102-5	Ownership and legal form	9
	102-6	Markets served	9, 31, 34, 36
	102-7	Scale of the organization	28, 31, 34, 36
	102-8	Information on employees and other workers	28
	102-9	Supply chain	62
	102-10	Significant changes to the organization and its supply chain	30, 34
	102-11	Precautionary principle or approach	21, 24
	102-12	External initiatives	10, 40, 173
	102-13	Membership of associations	21, 60
		2. Strategy	
	102-14	Statement from senior decision-maker	4
	102-15	Key impacts, risks, and opportunities	4, 21, 24
		3. Ethics and integrity	
	102-16	Values, principles, standards, and norms of behavior	25, 27
	102-17	Mechanisms for advice and concerns about ethics	25
		4. Governance	
	102-18	Governance structure	12
	102-19	Delegating authority	17
	102-20	Executive-level responsibility for economic, environmental, and social topics	10, 17
	102-21	Consulting stakeholders on economic, environmental, and social topics	17, 40
	102-22	Composition of the highest governance body and its committees	12
	102-23	Chair of the highest governance body	12

GRI or SASB Standard	Disclosure	Description	Page / Answer
GRI 102: General disclosures 2016	102-24	Nominating and selecting the highest governance body	12
	102-25	Conflicts of interest	12, 25
	102-26	Role of highest governance body in setting purpose, values, and strategy	12, 17
	102-27	Collective knowledge of highest governance body	12
	102-28	Evaluating the highest governance body's performance	12
	102-29	Identifying and managing economic, environmental, and social impacts	17, 21
	102-30	Effectiveness of risk management processes	21
	102-31	Review of economic, environmental, and social topics	17
	102-32	Highest governance body's role in sustainability reporting	17
	102-33	Communicating critical concerns	12
	102-35	Remuneration policies	12
	102-36	Process for determining remuneration	12
	5. Stakeholder engagement		
	102-40	List of stakeholder groups	40
	102-41	Collective bargaining agreements	77
	102-42	Identifying and selecting stakeholders	40
	102-43	Approach to stakeholder engagement	40, 43
	102-44	Key topics and concerns raised	40, 43
	6. Reporting practices		
	102-45	Entities included in the consolidated financial statements	173
	102-46	Defining report content and topic boundaries	173, 174
	102-47	List of material topics	174
	102-48	Restatements of information	173
	102-49	Changes in reporting	173
	102-50	Reporting period	173
	102-51	Date of most recent report	2019
	102-52	Reporting cycle	Annual
	102-53	Contact point for questions regarding the report	182

GRI or SASB Standard	Disclosure	Description	Page / Answer
GRI 102: General disclosures 2016	102-54	Claims of reporting in accordance with the GRI Standards	173
	102-55	GRI content index	175
	102-56	External assurance	This report has no external assurance.
SASB Airlines: Activity metrics	TR-AL-000.A	Available seat kilometers (ASK)	58
	TR-AL-000.B	Passenger load factor	58
	TR-AL-000.C	Revenue passenger kilometers (RPK)	58
	TR-AL-000.D	Revenue ton kilometers (RTK)	
	TR-AL-000.E	Number of departures	58
	TR-AL-000.F	Average age of fleet	30
GRI 200: Economic Standards			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundary	4, 21, 24, 30
	103-2	The management approach and its components	4, 21, 24, 30
	103-3	Evaluation of the management approach	4, 21, 24, 30
GRI 201: Economic performance 2016	201-1	Direct economic value generated and distributed	45, 48
	201-2	Financial implications and other risks and opportunities due to climate change	Volaris plans to use the TCFD framework for managing risks and opportunities related to climate change in the next two years.
	201-3	Defined benefit plan obligations and other retirement plans	Retirement plans are granted in accordance with the law's guidelines and through the IMSS.
	201-4	Financial assistance received from government	We collaborate with the Tourism Departments from all states to promote the destinations of the new routes, through several means of advertising such as the website, social networks and the advertising spaces in the aircraft.
"SASB Competitive behavior"	TR-AL-520a.1	Total amount of monetary losses as a result of legal proceedings associated with anticompetitive behavior regulation	25 In 2020, we had no fines or sanctions related to anticompetitive behavior. "

GRI or SASB Standard	Disclosure	Description	Page / Answer
GRI 300: Environmental Standards			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundary	64, 69
	103-2	The management approach and its components	64, 69
	103-3	Evaluation of the management approach	64, 69
GRI 301: Materials 2016	301-2	Recycled input materials used	69
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundary	64, 65
	103-2	The management approach and its components	64, 65
	103-3	Evaluation of the management approach	64, 65
GRI 302: Energy 2016	302-1	Energy consumption within the organization	65
	302-3	Energy intensity	65
	302-4	Reduction of energy consumption	65
	302-5	Reductions in energy requirements of products and services	65
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundary	64, 69
	103-2	The management approach and its components	64, 69
	103-3	Evaluation of the management approach	64, 69
GRI 304: Biodiversity 2016	304-3	Habitats protected or restored	We do not directly restore habitats; however, we support initiatives and associations that are responsible for protecting natural areas and endangered species, as well as raising awareness about their preservation.
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundary	64, 72
	103-2	The management approach and its components	64, 72
	103-3	Evaluation of the management approach	64, 72
GRI 305: Emissions 2016	305-1	Direct (Scope 1) GHG emissions	72
	305-2	Energy indirect (Scope 2) GHG emissions	72
	305-4	GHG emissions intensity	65, 72
	305-5	Reduction of GHG emissions	65, 72

GRI or SASB Standard	Disclosure	Description	Page / Answer
GRI 300: Environmental Standards			
GRI 305: Emissions 2016	305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	This specific type of gas (NOx) is not monitored, as it is considered the equivalent emission factor for aviation established through the International Civil Aviation Organization (ICAO), according to Annex VI, volume IV, of the Chicago Convention.
"SASB Greenhouse gas emissions"	TR-AL-110a.1	Gross global Scope 1 emissions	72
	TR-AL-110a.2	Discussion of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets	65 Volaris plans to use the TCFD framework for managing risks and opportunities related to climate change in the next two years.
	TR-AL-110a.3	Total fuel consumed, percentage alternative, percentage sustainable	58 Volaris does not use alternative fuel in its aircraft.
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundary	64, 69
	103-2	The management approach and its components	64, 69
	103-3	Evaluation of the management approach	64, 69
GRI 306: Waste 2020	306-3	Waste generated	73
	306-4	Waste diverted from disposal	69
	306-5	Waste directed to disposal	73
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundary	64, 72
	103-2	The management approach and its components	64, 72
	103-3	Evaluation of the management approach	64, 72
GRI 307: Environmental compliance 2016	307-1	Non-compliance with environmental laws and regulations	During 2020, we had no fines or sanctions related to environmental non-compliances.
GRI 400: Social Standards			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundary	28
	103-2	The management approach and its components	28
	103-3	Evaluation of the management approach	28
GRI 402: Labor / management relations 2016	402-1	Minimum notice periods regarding operational changes	All notice periods established by the Federal Labor Law are respected.

GRI or SASB Standard	Disclosure	Description	Page / Answer
GRI 400: Social Standards			
SASB Labor practices	TR-AL-310a.1	Percentage of active workforce covered under collective bargaining agreements	77
	TR-AL-310a.2	Number of work stoppages and total days idle	In 2020, there were no work stoppages or days of inactivity due to strikes or labor disputes.
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundary	92
	103-2	The management approach and its components	92
	103-3	Evaluation of the management approach	92
GRI 410: Security practices 2016	410-1	Security personnel trained in human rights policies or procedures	92
SASB Accident & safety management	TR-AL-540a.1	Description of implementation and outcomes of a Safety Management System	93-94
	TR-AL-540a.2	Number of aviation accidents	93
	TR-AL-540a.3	Number of governmental enforcement actions of aviation safety regulations	In 2020, the competent authorities did not impose any measures against Volaris related to aviation security.
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundary	92
	103-2	The management approach and its components	92
	103-3	Evaluation of the management approach	92
GRI 412: Human rights assessment 2016	412-1	Operations that have been subject to human rights reviews or impact assessments	92
	412-2	Employee training on human rights policies or procedures	25, 92
	412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	92
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its boundary	93, 95
	103-2	The management approach and its components	93, 95
	103-3	Evaluation of the management approach	93, 95
GRI 419: Socioeconomic compliance 2016	419-1	Non-compliance with laws and regulations in the social and economic area	Derived from the case we have with Profeco, we have pending resolution and in litigation the defense means filed against a fine amounting Ps. $200,000.00.

Except otherwise stated, all figures in this document are as of December, 31, 2020.

This integrated annual report contains various forward-looking statements, which represent the Company's expectations, beliefs or projections concerning future events and financial trends affecting the financial condition of our business. When used in this annual report, the words "expects," "intends," "estimates," "predicts," "plans," "anticipates," "indicates," "believes," "forecast," "guidance," "potential," "outlook," "may," "continue," "will," "should," "seeks," "targets" and similar expressions are intended to identify forward-looking statements. Similarly, statements that describe the Company's objectives, plans or goals, or actions the Company may take in the future, are forward-looking statements. Forward-looking statements include, without limitation, statements regarding the Company's intentions and expectations regarding the delivery schedule of aircraft on order, announced new service routes and customer savings programs. Forward-looking statements should not be read as a guarantee or assurance of future performance or results and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made and/or management's good faith belief as of that time with respect to future events and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Forward-looking statements are subject to a number of factors that could cause the Company's actual results to differ materially from the Company's expectations, including the competitive environment in the airline industry; the Company's ability to keep costs low; changes in fuel costs; the impact of worldwide economic conditions on customer travel behavior; the Company's ability to generate non-ticket revenues; and government regulation. Additional information concerning these and other factors is contained in the Company's Securities and Exchange Commission filings. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth above.

Any investor should not put undue reliance on any forward-looking statements. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except to the extent required by applicable law. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements. Important factors that could cause such differences include, but are not limited to:

- the competitive environment in our industry
- ability to keep costs low
- changes in our fuel cost, the effectiveness of our fuel cost hedges and our ability to hedge fuel costs
- the impact of worldwide economic conditions, including the impact of the economic recession on customer travel behavior
- actual or threatened terrorist attacks, global instability, geopolitical risks and potential U.S. military actions or activities
- ability to generate non-ticket revenues
- external conditions, including air traffic congestion, weather conditions and outbreak of disease and pandemics
- ability to maintain slots in the airports that we operate and service provided by airport operators
- ability to operate through new airports that match our operative criteria;
- air travel substitutes
- labor disputes, employee strikes and other labor-related disruptions, including in connection with our negotiations with our union
- ability to attract and retain qualified personnel
- loss of key personnel
- aircraft-related fixed obligations
- dependence on cash balances and operating cash flows;
- our aircraft utilization rate
- maintenance costs
- our reliance on automated systems and the risks associated with changes made to those systems
- use of personal data
- lack of marketing alliances
- government regulation, changes in law and interpretation and supervision of compliance with applicable law
- maintaining and renewing our permits and concessions
- our ability to execute our growth strategy
- operational disruptions
- our indebtedness
- currency fluctuations or the devaluation and depreciation of the peso
- our liquidity
- our reliance on third-party vendors and partners
- our reliance on a single fuel provider in Mexico
- an aircraft accident or incident
- our aircraft and engine suppliers
- changes in the Mexican and VFR (passengers who are visiting friends and relatives) markets
- insurance costs
- environmental regulations
- cyber-attacks
- our ability to respond to global health crises, such as the ongoing COVID-19 pandemic

Readers are encouraged to jointly review this integrated annual report with our 2020 Annual Report presented to the National Banking and Securities Commission and the Mexican Stock Exchange S.A.B. de C.V., on April 30, 2021, as well as our future reports presented to said institutions.

The information in this report is subject to change without notice, and we are not obligated to publish updates or revise statements about future acts after the date of this report or to reflect the anticipated or unanticipated occurrence of certain events or circumstances.

GRI 102-3, 102-53

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2020 Integrated Annual Report

volaris

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