Toluca
Torreon
Tuxtla Gutierrez
Uruapan
Veracruz
Villahermosa
Zacatecas
Chicago
Dallas
Denver
Fresno
Houston
Las Vegas
Los Angeles
Fort Lauderdale
New York
Ontario
Orlando
San Juan, Puerto Rico
Phoenix
Portland
Reno
Sacramento
San Antonio
San Diego
Oakland
San Jose, Costa Rica
Guatemala
Acapulco
Aguascalientes
Cancun
Chetumal
Chihuahua
Mexico City
Ciudad Juarez
Ciudad Obregon
Colima
Culiacan
Durango
Guadalajara
Hermosillo
Huatulco
La Paz
Leon
Los Cabos
Los Mochis
Mazatlan
Mexicali
Monterrey
Morelia
Merida
Oaxaca
Puebla
Puerto Vallarta
Queretaro
San Luis Potosi
Tapachula
Tepic
Tijuana

volaris

Strengthening our Network

2015 Annual Report

San Luis Potosi
Tapachula
Tepic
Tijuana
Toluca
Torreon
Tuxtla Gutierrez
Uruapan
Veracruz
Villahermosa
Zacatecas
Chicago
Dallas
Denver
Fresno
Houston
Las Vegas
Los Angeles
Fort Lauderdale
New York
Ontario
Orlando
San Juan, Puerto Rico
Phoenix
Portland
Reno
Sacramento
San Antonio
San Diego
Oakland
San Jose, Costa Rica
Guatemala
Acapulco
Aguascalientes
Cancun
Chetumal
Chihuahua
Mexico City
Ciudad Juarez
Ciudad Obregon
Colima
Culiacan
Durango
Guadalajara
Hermosillo
Huatulco
La Paz
Leon
Los Cabos
Los Mochis
Mazatlan
Mexicali
Monterrey

Contents

Volaris or "Company" (NYSE: VLRS and BMV: VOLAR), is an ultra-low cost, point-to-point service airline operating in Mexico, the United States and Central America.

Our Pillars

Safety

Compliance with safety standards is a key element for guaranteeing the market success of Volaris; therefore, we place the greatest importance on the safety of our clients and ambassadors and will do our utmost to protect their lives.

Customer Service

We create differentiating, new experiences for our internal clients and customers by listening to their needs with a positive attitude and proposing creative and efficient solutions.

Sustained Profitability

Low cost always wins. Our objective is to sustain growth and profit maximization; fulfilling this will guarantee the expansion of the Volaris family.

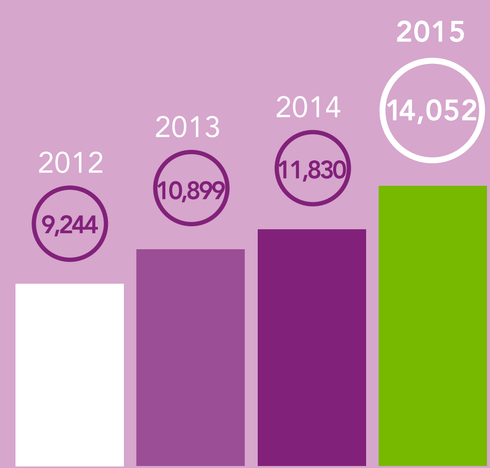
Mission

With the best people and low costs, we enable more people to travel… well!

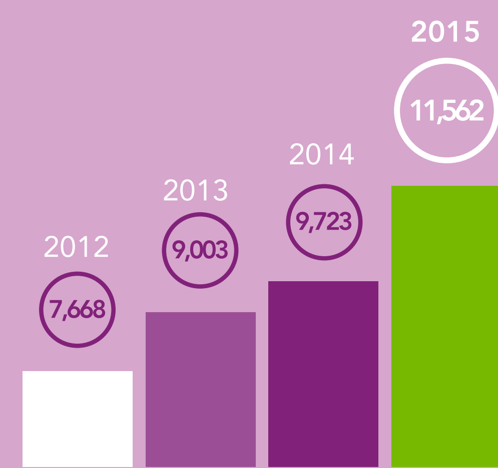
Vision

Transcend by creating and living the best travel experiences.

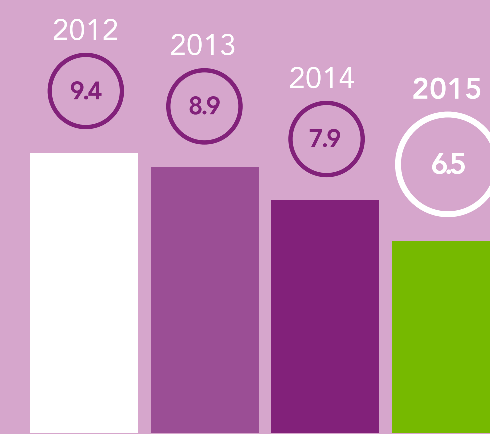
Solid Results



ASMs millions



RPMs millions



Cost per available seat mile (CASM, US cents)

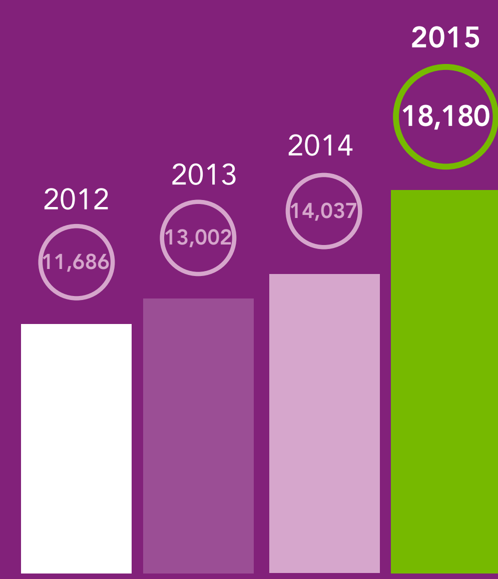
Ps.129.4

9.0% growth

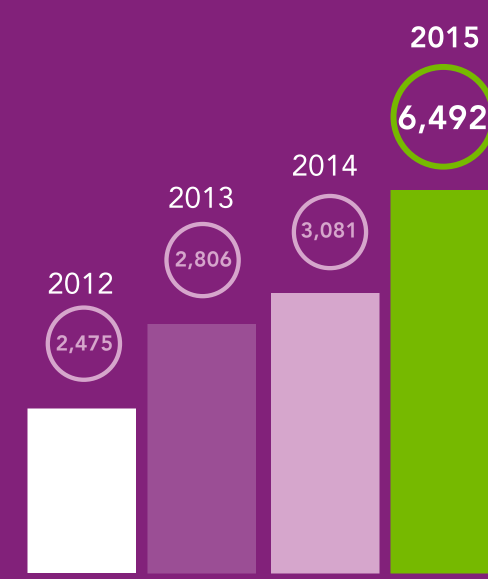
Total revenue per available seat-mile (TRASM, cents)

22% ROIC

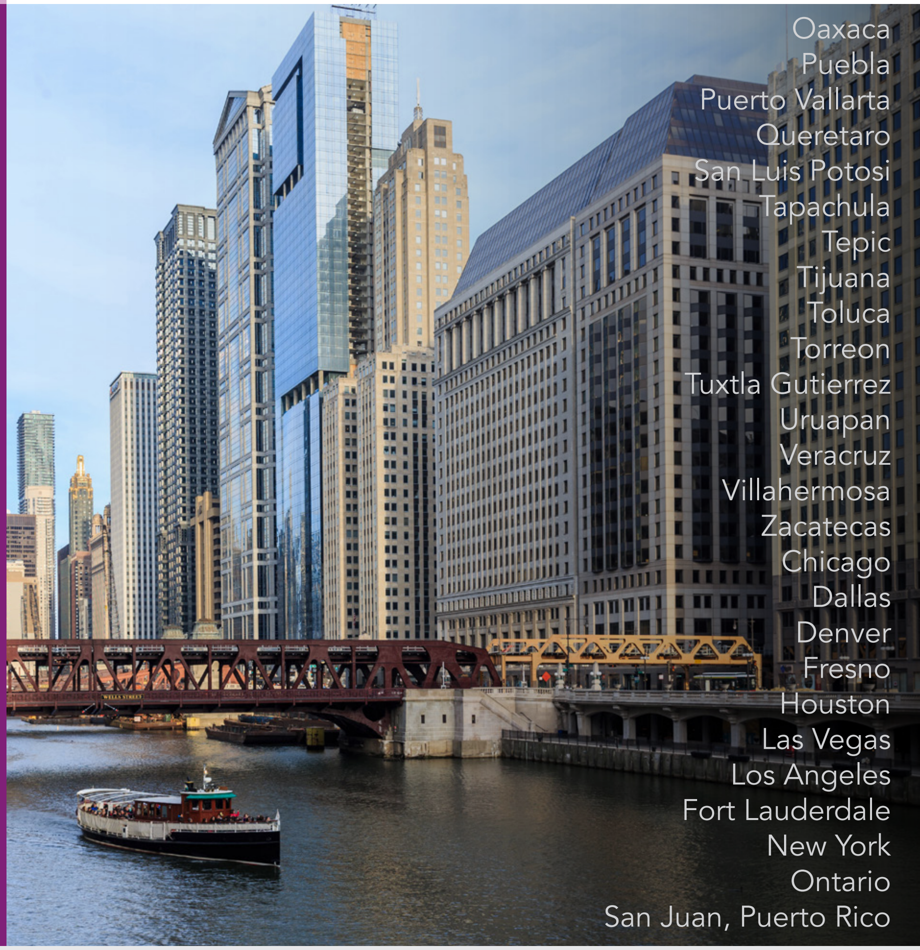
Full year pre-tax adjusted return on invested capital



Operating Revenues



Adjusted EBITDAR



Financial and Operating Metrics Summary

Unaudited figures (In Mexican pesos unless otherwise noted)	2015 ($USD)*	2015	2014	Variation (%)
Operating revenues (millions)	1,057	18,180	14,037	29.5%
Operating expenses (millions)	911	15,669	13,833	13.3%
EBIT (millions)	146	2,510	204	>100%
EBIT margin	13.8%	13.8%	1.5%	12.3 pp
Adjusted EBITDA (millions)	172	2,967	547	>100%
Adjusted EBITDA margin	16.3%	16.3%	3.9%	12.4 pp
Adjusted EBITDAR (millions)	377	6,492	3,081	>100%
Adjusted EBITDAR margin	35.7%	35.7%	22.0%	13.7 pp
Net income (millions)	143	2,464	605	>100%
Net income margin	13.6%	13.6%	4.3%	9.3 pp
Earnings per share:				
Basic (pesos)	0.14	2.43	0.60	>100%
Diluted (pesos)	0.14	2.43	0.60	>100%
Earnings per ADS:				
Basic (pesos)	1.42	24.35	5.98	>100%
Diluted (pesos)	1.42	24.35	5.98	>100%
Weighted average shares outstanding:				
Basic	–	1,011,876,677	1,011,876,677	0.0%
Diluted	–	1,011,876,677	1,011,876,677	0.0%
Available seat-miles (ASMs) (millions)(1)	–	14,052	11,830	18.8%
Domestic	–	9,845	8,749	12.5%
International	–	4,207	3,081	36.5%
Revenue passenger-miles (RPMs) (millions)(1)	–	11,562	9,723	18.9%
Domestic	–	8,125	7,128	14.0%
International	–	3,437	2,595	32.5%
Load factor(2)	–	82.3%	82.2%	0.1 pp
Domestic	–	82.5%	81.5%	1.0 pp
International	–	81.6%	84.2%	(2.6) pp
Total operating revenue per ASM (TRASM) (cents)(1)	7.5	129.4	118.7	9.0%

Unaudited figures (In Mexican pesos unless otherwise noted)	2015 ($USD)*	2015	2014	Variation (%)
Passenger revenue per ASM (RASM) (cents)(1)	5.8	100.6	95.5	5.2%
Passenger revenue per RPM (Yield) (cents)(1)	7.1	122.2	116.3	5.1%
Average fare(2)	69	1,181	1,152	2.5%
Non-ticket revenue per passenger(1)	19.6	338	279	21.3%
Non-ticket revenue excluding cargo per passenger(1)	18.7	322	256	26.0%
Operating expenses per ASM (CASM) (cents)(1)	6.5	111.5	116.9	(4.6%)
Operating expenses from ASM (CASM) (US cents)(1)	–	6.5	7.9**	(18.4%)
CASM ex fuel (cents)(1)	4.5	77.9	71.6	8.8%
CASM ex fuel (US cents)(1)	–	4.5	4.9**	(6.9%)
Booked passengers (thousands)(1)	–	11,983	9,809	22.2%
Departures(1)	–	87,931	74,659	17.8%
Block hours(1)	–	230,569	196,467	17.4%
Fuel gallons consumed (millions)	–	164.0	138.5	18.4%
Average economic fuel cost per gallon	1.7	28.8	38.7	(25.7%)
Aircraft at the end of period	–	56	50	12.0%
Average aircraft utilization (block hours)	–	12.7	12.4	2.1%
Average exchange rate	–	15.85	13.30	19.2%

* Figures in pesos have been converted at a rate of Ps.17.2065 per USD.
** The figures in pesos have been converted at a rate of Ps.14.7180 per USD.
(1) Includes schedule + charter
(2) Includes schedule

It should be noted that as of December 31, 2015, our balance sheet remained strong with Ps.5,157 million in unrestricted cash and cash equivalents, representing 28.4% of total revenues from 2015. In addition, we registered a negative net debt (or a net cash position) of Ps.3,566 million and total stockholder's equity of Ps.6,825 million.

Message from the CEO

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

Our ultra-low fare model and flexibility to adjust growth have positioned us as a strong player in the airline industry. As such, we continue to focus on offering low fares and the best flight experience for our customers through our *Tarifa Limpia* ("Clean Fare"), with a wide range of optional services for additional fees.

The year 2015 presented an ideal macroeconomic environment to promote traffic volume growth, despite exchange rate volatility. We achieved outstanding operating, commercial and financial indicators, while reaping the benefits of a favorable environment in both national and international passenger markets, for passengers visiting friends and relatives.

Driven by high demand, we improved unit revenues; we also stimulated our base fares, thus diversifying our network and increasing our service income.

Our total operating revenue was Ps.18,180 million, a 30% increase with respect to the previous year. Our non–ticket revenues and non–ticket revenue per passenger reached Ps.4,049 million and Ps.338 million, an increase of 48% and 21%, respectively, compared to 2014.

These revenues, accompanied by our tight cost controls, resulted in a net profit of $2,463,870,000.00 pesos (Two thousand four hundred sixty three million, eight hundred and seventy thousand pesos) in the year.

During the year we flew 12 million passengers, a 22% growth with respect to the previous year, and we increased our market share to 24% among Mexican airlines.

Moreover, we launched 22 new routes in 2015, consistent with our point–to–point expansion plans, and closed the year with a young and fuel–efficient fleet of 56 aircraft with an average age of 4.6 years.

Our culture of guiding our actions to operate in a socially responsible manner in both air and ground has been intrinsic to our success.

Encouraged by our productive operations, our challenge for the future is to maintain and reinforce the expansion of our point to-point network, keeping our fleet young and providing high–quality services, based on our business ethics, personal integrity and person–centered culture.

This year's success could not have been achieved without the support and commitment of our most valuable asset: our employees, which are called Ambassadors among ourselves, who everyday give their finest efforts to obtain the best results. We are deeply grateful to all of those who are part of the great Volaris family.

Enrique J. Beltranena Mejicano
CEO
April 21, 2016.

Market Dynamics

- GDP growth in 2015 was 2.5% with respect to the previous year, and the change in consumer confidence for December 2015 was -0.6% vs. 2014.

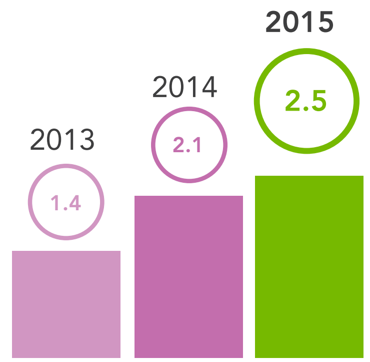
- According to the report of the Civil Aviation Directorate (*Dirección General de Aeronáutica Civil*), the aviation market expanded by 12.9%. Meanwhile, Mexico's domestic market grew 12.4% with respect to 2014 to a total of 37.1 million passengers.

2012	2013	2014	2015
28.1	30.5	32.9	37.1

- The international market grew by 11.7%, reaching 37.5 million passengers. Passenger volume grew 12.1%, for travelers between Mexico and the United States, with respect to the previous year.

2012	2013	2014	2015
28.5	30.9	33.6	37.5

General Economic Activity Indicator Growth (1) (%)



(1) IGAE (Mexican General Economic Activity Indicator)
Source: INEGI

Volaris
the Ultra-Low Cost Airline

Our ultra-low cost model allowed us to benefit from the strength of Mexico's aviation market and to achieve excellent results in 2015. We managed to do this by expanding our network, increasing the number of routes and point-to-point services we offer, reducing costs, combining our "Clean Base Fares" and "You decide" promotions. Similarly, we focused on campaigning to transition bus customers to air travel.

Market Expansion

We have added more point-to-point routes, focusing on our VFR (travelers visiting family and friends) client base, both, in the national market and the Mexico–U.S. market.

Launching of new routes:
We diversified our network over the year, by launching 22 new routes –10 domestic and 12 international– and 9 new destinations, reinforcing our national network and growing our international network. Moreover, we carried out an expansion into San Jose, Costa Rica; Guatemala, Guatemala and San Juan, Puerto Rico.

New Routes

	National	International
Cancun	+2	+3
Guadalajara	+1	+5
Mexico City	+2	
Other	+3	+3
Tijuana	+2	+1
Total	**+10**	**+12**

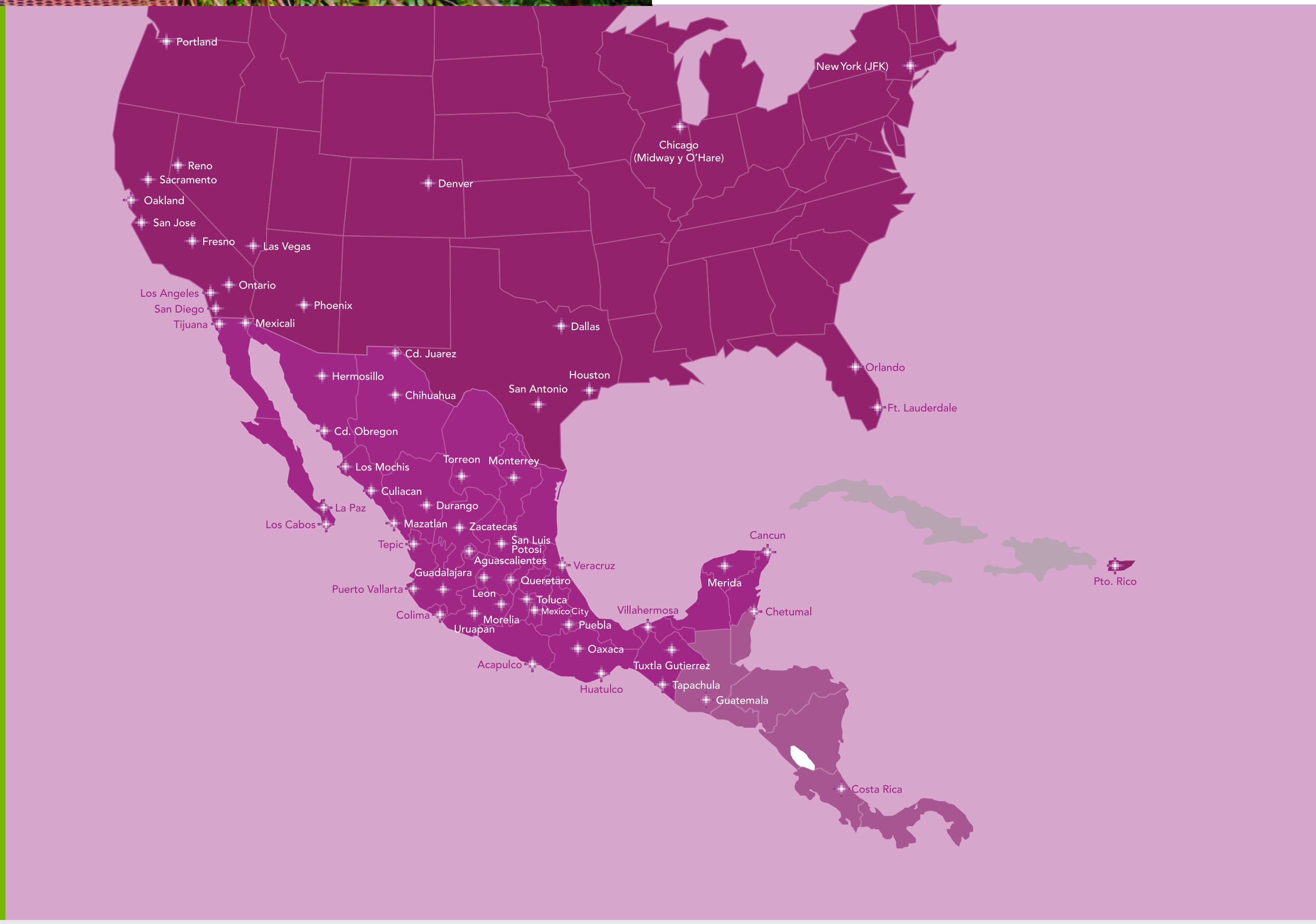
New Airports

USA	Mexico	Central America
Dallas	Durango	Guatemala
Houston	Chetumal	San Jose, Costa Rica
New York	Torreon	
San Juan, PR		

Over
143 routes
in operation

18.8%
growth in available seat-miles (ASMs)

12 million transported passengers, Growth of 22.2% vs 2014



"Precios que te hacen viajar" ("Get out of town prices"):

Low costs are the basis for continuing to migrate people from bus travel to air travel; "We want everyone to fly" has become our slogan. For everyone to fly, we must continue offering low fares while also stimulating the market and increasing load factor, always focusing on total revenue per available seat-mile (TRASM) and other revenues.

We continued implementing our strategy *Tarifa Limpia* ("Clean fare") under the *Tú decides* ("You decide") scheme, which offer our clients a variety of optional flight services.

Other revenues:

We experienced significant growth in other revenues, mainly by improving packages that complement management of extra luggage and seat choice charges, as well as to new product offerings, including:

- Price of seat choice according to season
- Travel Insurance
- Premium rows
- Hotels, car rental and tours (separate, not as bundle)
- Deferred monthly payments, up to 18 and 24

Non-ticket revenues
Ps.4,049 million
48.1% growth

Non-ticket revenues per passenger
Ps.338 million
21.3% growth

In 2015 we paid special attention to increasing the efficiency of our client communication channels. In particular, we focused on our company website to improve the purchase experience. We also developed an end-user user mobile device app to buy tickets, check-in and obtain boarding passes using a smartphone.

Furthermore, we put in place various advertising campaigns throughout the year, in order to better promote our products and services.

"One month of sales" for our anniversary

A young and fuel-efficient fleet

We have one of the youngest fleets in Mexico with an average age of 4.6 years and a greater number of seats. Most of our aircraft have the most advanced eco-efficient technology, having integrated aerodynamic devices on their wingtips, called sharklets, which reduce fuel consumption by up to 4%, among other advantages. Integrating sharklets into our fleet reduces CO_2 emissions by approximately 1,000 tons per year, minimizing the environmental impact. It should be noted that in 2016 we will be introducing the Airbus NEOS in our fleet, which represent the new airplane technology.

56 Airbus aircraft

18 A319 aircraft

36 A320 aircraft

2 A321 aircraft

3,304

Ambassadors

Social Responsibility

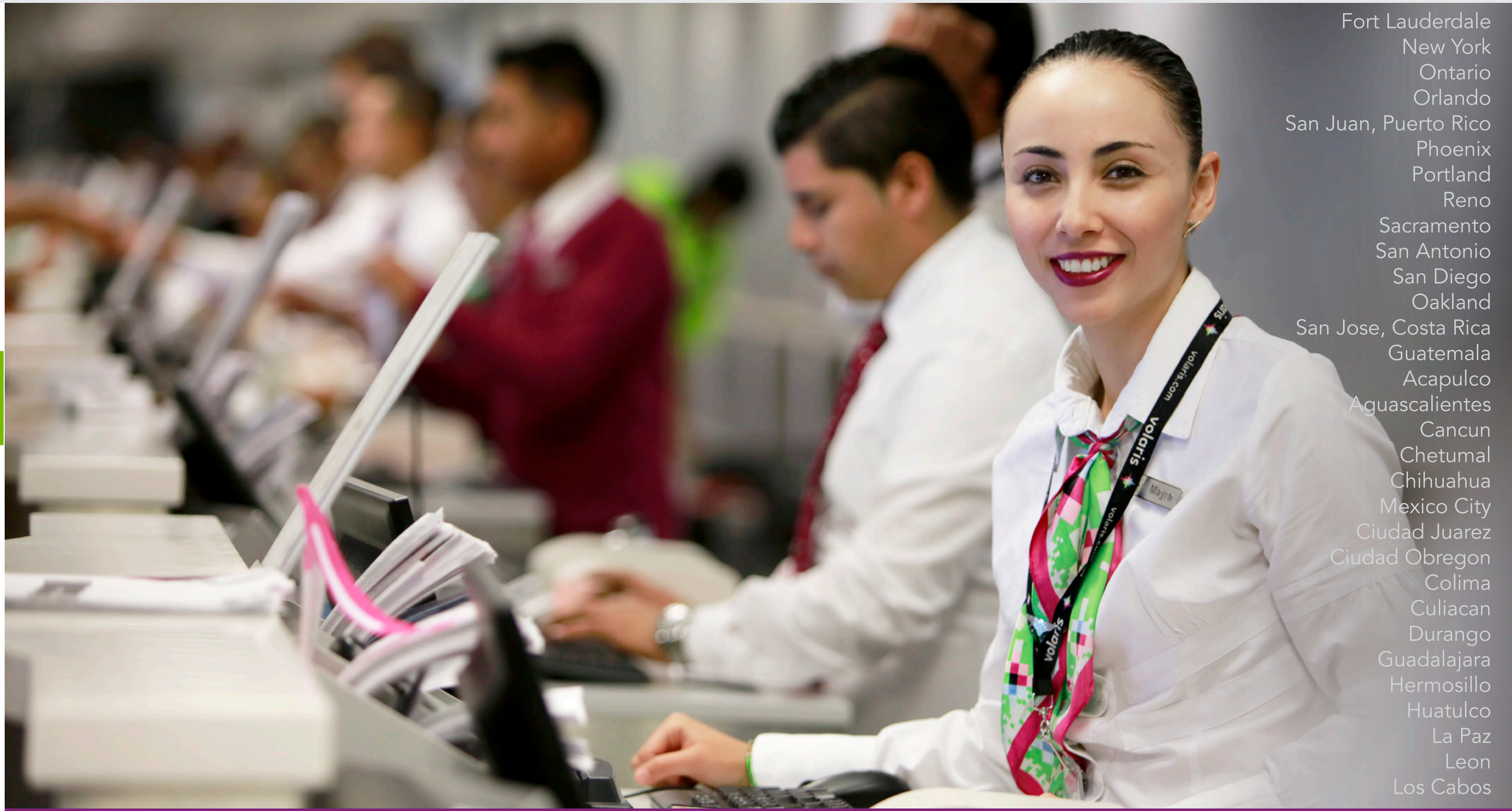
We are a company committed to social responsibility and sustainable development in all operations at all levels.

In 2015, we continued our participation in diverse environmental projects and initiatives, striving to create value for all our stakeholders.

Some of our 2015 highlights are:

- Socially Responsible Company (ESR) distinction for sixth consecutive year.
- Gender Equality Model certification (GEM) for third consecutive year.
- *Top Member* for third consecutive year in the implementation of *The Code* (ECPAT).
- New membership in the Sustainable IPC of the Bolsa Mexicana de Valores.
- ISO 14001 Environmental Management Systems and ISO 9000 Quality Control certification.
- 138 organ and tissue transfers together with CENATRA.
- Launching of the *VFundación* membership.
- Raising of Ps.1,339,025 through our #Cielitolimpio online campaign, destined for the Sierra Gorda Ecological Reserve and the purchase of carbon bonds certified by the Mexican Carbon Platform.

For more information, please see or Annual Sustainability Report under Investor Relations in the Volaris website.



Code of Ethics

Our Code of Ethics sets forth our values, standards, behaviors and Volaris culture.

This code has been adopted by all our Board members, Executives and Ambassadors. It includes our position in favor of non-discrimination, equal opportunities, customer service, free market competition and regulatory compliance, as well as the statements of potential conflicts of interest and giving / receiving gifts and presents.

96.28% of all Ambassadors were certified in the Code in 2015.

Supplementary policies:

- Antifraud Compliance Policy: Aligned with the guidelines set by the FCPA, it states that anticorruption activities include bribery, fraud, extortion and embezzlement; prohibits giving and receiving bribes, restricts facilitation payments, bans donations to political parties, among others.
- Administration of Gifts and Benefits to Third Parties Policy and Administration of Gifts and Benefits from Suppliers or Third Parties Policy; through which we avoid potential cases of corruption and bribery.
- Conflict of interest by kinship Policy, which dictates the procedures to follow in order to prevent these situations.

Board of Directors

Alfonso González Migoya
Independent member and Chairman of the Board

Carlos Miguel Mendoza Valencia
Board member

Harry F. Krensky
Board member

Rodolfo Montemayor Garza
Board member

Roberto José Kriete Ávila
Board member

William A. Franke
Board member

Brian H. Franke
Board member

John A. Slowik
Independent member

Jorge Antonio Vargas Diez Barroso
Board member

José Luis Fernández Fernández
Independent Board member

Joaquín Alberto Palomo Déneke
Independent Board member

Ricardo Maldonado
Secretary (Not member)

Audit and Corporate Practices Committee

José Luis Fernández Fernández
Chairman

John Slowik
Member

Joaquín Alberto Palomo Deneke
Member

Compensation and Nominating Committee

Roberto José Kriete Ávila
Chairman

Brian H. Franke
Member

Harry F. Krensky
Member

Rodolfo Montemayor Garza
Member

Comments and Analysis
from the Board on Operating Results and Financial Situation

Operating and Financial Review and Prospects

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

Passenger Revenue. We derive our operating revenues primarily from transporting passengers on our aircraft. Approximately 78% of our total operating revenues were derived from passenger fares in 2015. 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.

Non–ticket Revenue. We derived approximately 22% of our total operating revenues in 2015 from non–ticket revenue. The most significant non–ticket revenues include revenues generated from (i) air travel–related services (ii) revenues from non–air–travel related services and (iii) cargo services.

Air travel–related services include, but are not limited to, fees charged for excess baggage, bookings through our call center or third–party agencies, advanced seat selection, itinerary changes, charters and passenger charges for no–show tickets. They are recognized as revenue when the related transportation service is provided.

Non–air–travel–related services include commissions charged to third parties for the sale of hotel rooms, trip insurance and rental cars. They are recognized as revenue at the time the service is provided. Additionally, services not directly related to air transportation include Volaris' sale of VClub membership and the sale of advertising spaces to third parties. VClub membership fees are recognized as revenues over the life of the membership. Revenue from the sale of advertising spaces is recognized over the period in which the space is provided.

Revenues from cargo services are recognized when the cargo transportation is provided (upon delivery of the cargo to 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,		
	2013	2014	2015
Operating revenues:			
Passenger	86%	81%	78%
Non–ticket [1]	14%	19%	22%
Total operating revenues	**100%**	**100%**	**100%**
Other operating income	(1%)	0%	(1%)
Fuel	39%	38%	26%
Aircraft and engine rent expense	17%	18%	19%
Landing, take–off and navigation expenses	15%	15%	14%
Salaries and benefits	12%	11%	10%
Sales, marketing and distribution expenses	5%	6%	6%
Maintenance expenses	4%	5%	5%
Other operating expenses	4%	3%	4%
Depreciation and amortization	2%	2%	3%
Total operating expenses, net	**98%**	**99%**	**86%**
Operating income	2%	1%	14%
Finance income	0%	0%	0%
Finance cost	(1%)	0%	0%
Exchange gain, net	1%	3%	5%
Income before income tax	2%	5%	19%
Income tax expense	0%	0%	(6%)
Net income	**2%**	**4%**	**14%**

(1) NTD: Volaris as a reminder the SEC wants you to open up this line item. This should be done in the notes to the financial statements.

Revenues from our international operations represented 26.0%, 27.2% and 30.8% of our total revenues in 2013, 2014 and 2015, respectively, and revenues from our domestic operations represented 74.0%, 72.8% and 69.2% of our total revenues in 2013, 2014 and 2015, respectively.

Revenue Recognition. Revenues from the air transportation of passengers and commissions from ground transportation services 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 liabilities under the caption unearned transportation revenue and, upon provision of the corresponding transportation service or expiration of the ticket, the earned revenue is credited to operations as revenues and the liability account is reduced by the same amount. All of our tickets are non–refundable, and subject to change upon the payment of a fee. Additionally, we do not operate a frequent flier program. Our most significant non–ticket revenues include revenues generated from (i) air travel–related services, (ii) non–air–travel related services, and (iii) cargo services:

Air travel–related services include, but are not limited to, fees charged for excess baggage, bookings through our call center or third–party agencies, advanced seat selection, itinerary changes, charters and passenger charges for no–show tickets. They are recognized as revenue when the related transportation service is provided.

Non–air–travel–related services include commissions charged to third parties for the sale of hotel rooms, trip insurance and rental cars. They are recognized as revenue at the time the service is provided. Additionally, services not directly related to air transportation include Volaris' sale of VClub membership and the sale of advertising spaces to third parties. VClub membership fees are recognized as revenues over the life of the membership. Revenue from the sale of advertising spaces is recognized over the period in which the space is provided. Revenue from cargo services are recognized when the cargo transportation is provided (upon delivery of the cargo to destination).

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. 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.

Aircraft and Engine Rent Expense. Aircraft rent expense consists of monthly lease rents for our 56 aircraft and six spare engines, as of December 31, 2015, under the terms of the related operating leases and is recognized on a straight line basis. Aircraft rent expense also includes gains and losses related to our interest rate swap contracts that qualify for hedge accounting. Additionally, if we determine that we will probably not recover partially or completely the maintenance deposits we pay to the lessor as maintenance deposits, we record these amounts in the results of operations as additional aircraft rent (supplemental and contingent rent) from the time we make the determination over the remaining term of the lease.

Salaries and Benefits. Salaries and benefits expense includes 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.

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.

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.

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.

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); (iv) outsourced ground services and the cost of snacks and beverages that we serve on board to our passengers; and (v) rent expense associated with the lease of our maintenance warehouse and hangar.

Depreciation and Amortization. Depreciation and amortization expense includes the depreciation of all rotable spare parts, 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,

	2013	2014	2015	2015
		(In Ps.cents)		(In U.S. $ cents) (1)
Other operating income	(1.0)	(0.2)	(1.4)	(0.1)
Fuel	46.7	45.3	33.6	1.9
Aircraft and engine rent expense	20.1	21.4	25.1	1.5
Landing, take–off and navigation expenses	17.6	17.5	18.5	1.1
Salaries and benefits	14.3	13.3	13.5	0.8
Sales, marketing and distribution expenses	6.5	6.9	7.7	0.4
Maintenance expenses	5.2	5.6	6.2	0.4
Other operating expenses	4.2	4.1	5.0	0.3
Depreciation and amortization	2.8	2.9	3.3	0.2
Total operating expenses, net	**116.4**	**116.9**	**111.5**	**6.5**

(1) Peso amounts were converted to U.S. dollars solely for the convenience of the reader at the rate of Ps.17.2065 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, 2015. 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.

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.

Economic Conditions in Mexico. Mexico's GDP is expected to grow by 3% to 4% per year for the next ten years according to the Mexican Central Bank, which is 1 basis point to 2 basis points above the expected annual growth for the United States during the same period as reported by the U.S. Federal Reserve. Mexico's projected GDP growth is expected to result in the number of middle–income homes continuing their growth trend, having already grown from 5.1 million in 1992 to 15.8 million in 2008. Regarding population dynamics as of 2010, around 39% 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 2015 was 2.13% according to the INEGI. As of December 31, 2015, international reserves were at U.S. $1.77 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.111.5 cents (U.S. $6.5 cents) we believe was the lowest CASM in Latin America in 2015, compared to Avianca at U.S. $15.0 cents, Copa at U.S. $9.2 cents, Gol at U.S. $9.7 cents, Grupo Aeroméxico at U.S. $10.2 cents and LATAM at U.S. $11.5 cents. We also have lower costs than our publicly traded target market competitors in the United States, including Alaska Air at U.S. $10.8 cents, American at U.S. $12.9 cents, Delta at U.S. $13.3 cents, JetBlue at U.S. $10.6 cents and Soutwest Airlines at U.S. $11.2 cents and United at U.S. $13.1 cents.

Our principal competitors for the domestic market are Grupo Aeroméxico, Interjet and VivaAerobus, Interjet and VivaAerobus are low–cost carriers in Mexico. In 2015, the Mexican low–cost carriers (including us) combined had 61.1% of the domestic market based on passenger flight segments. We had 24.76% of the domestic market which placed us second, according to the DGAC.

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 2.9 billion in 2015, of which approximately 79 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, Delta and United. We have grown rapidly in the international market since we started international operations in 2009, reaching 34.3% market share on the routes that we operate and 6.3% market share considering all routes between Mexico and the United States in 2015, according to the DGAC.

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.

Fuel. Fuel costs represent the single largest operating expense for most airlines, including ours, accounting for 40%, 39% and 30% of our total operating expenses for 2013, 2014 and 2015. 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 years ended December 31, 2013, 2014 and 2015 we entered into US Gulf Coast Jet fuel 54 swap contracts to hedge approximately 11%, 20% and 5% of our fuel consumption, respectively. These instruments were formally designated and qualified for hedge accounting and accordingly, the effective portion is allocated within other comprehensive income, while the effects of transforming into a fixed jet fuel prices by these hedges are presented as part of jet fuel costs when recognized in the consolidated statements of operations. Our fuel hedging practices are dependent upon many factors, including our assessment of market conditions for fuel, our access to the capital necessary to support margin requirements under swap agreements and the pricing of hedges and other derivative products in the market.

Additionally, during the year ended December 31, 2015, we also entered into US Gulf Coast Jet fuel 54 Asian call options designated to hedge approximately 55% and 23% of our 2016 and 2017 projected fuel consumption, respectively.

As of December 31, 2015, we purchased our domestic fuel under the ASA fuel service contract, and the international fuel under the WFS, Air BP and Shell fuel service contracts. The cost and future availability of fuel cannot be predicted with any degree of certainty.

Foreign Exchange Gains and Losses. We receive all of our revenue in pesos and U.S. dollars. U.S. dollar denominated collections accounted for 31% and 36% of our total collections for each year of 2014 and 2015, which provides a natural partial hedge against a portion of our U.S. dollar costs. However, the majority of our operating costs are denominated in or indexed to U.S. dollars, constituting 68% and 67% of our total operating costs in 2014 and 2015. Our key U.S. dollar–denominated operating costs include fuel, aircraft rentals, maintenance, and material and repair 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 a result of the significant depreciation and appreciation of the peso against the U.S. dollar in the last three years, we recorded a foreign exchange gain, net of Ps.66.4 million in 2013, Ps.448.7 million in 2014 and Ps.966.6 million in 2015.

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 eight 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 statement of operations.

Due to the young age of our fleet (approximately 4.6 years on average as of December 31, 2015), maintenance expense in 2014 and 2015 remained relatively low. For the years ended December 31, 2013, 2014 and 2015 we capitalized major maintenance events as part of leasehold improvements to the flight equipment in the amount of Ps.309.4 million, Ps.585.7 million and Ps.415.0 million, respectively. For the years ended December 2013, 2014 and 2015 the amortization of these deferred major maintenance expenses was Ps.210.5 million, Ps.253.4 million and Ps.352.9 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 2014 and 2015, total maintenance costs amounted to Ps.664.6 million and Ps.874.6 million, 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.2.2 billion (U.S. $131.0) million in 2016.

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. In late 2010 and 2011, we took advantage of the opportunity to start operating 15 routes that had been primarily operated by Grupo Mexicana before it ceased operations. This allowed us to, among other things, obtain access to six bi–lateral routes from the Mexico City international airport to the United States that were otherwise unavailable. It also meant additional costs and operational challenges as we had to change certain routes in Mexico City from the Toluca airport to the busier and more complex Mexico City international airport. We launched the new routes on short notice. Since then and after a ramp–up period, we have regularized our performance–related customer service measures and load factor. We have requested the DGAC to permanently grant us the six routes from the Mexico City international airport to the United States that we have been operating since late 2010 and 2011, which had been primarily operated by Grupo Mexicana prior to ceasing its operations. However, we cannot be certain that the DGAC will permanently grant us such routes. See Item 3: "Key Information—Risk Factors—Airline consolidations and reorganizations could adversely affect the industry."

During 2013 we opened 27 new routes, added 38 more in 2014 and 22 more in 2015. 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.

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 contingent 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.544.3 million, Ps.834.9 million and Ps.1.4 billion in maintenance deposits, net of reimbursements, to our lessors for the years ended December 31, 2013, 2014 and 2015, 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.38.4 million in 2013, Ps.43.0 million in 2014 and Ps.73.3 million of maintenance deposits as supplemental rent.

As of December 31, 2013, 2014 and 2015 we had prepaid maintenance deposits of Ps.2.6 billion, Ps.3.4 billion and Ps.4.9 billion, respectively, recorded in our consolidated statement of financial position. We have concluded 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.

Our lease agreements also provide that all maintenance deposits held by the lessor at the expiration of the lease are nonrefundable to us and will be retained by the lessor. Consequently, we have determined that any usage–based maintenance deposit payments after the last major maintenance event are not substantively related to the maintenance of the leased asset and therefore are accounted for as contingent rent in our consolidated statement of operations. We accrue contingent rent beginning when it becomes probable and reasonably estimable we will incur such nonrefundable maintenance deposit payments. Maintenance deposits held by lessors that are refundable to us at the expiration of the lease are accounted for as prepaid maintenance deposits on the consolidated statement of financial position when they are paid to the lessors. For the years ended December 31, 2013, 2014 and 2015, we expensed as contingent rent Ps.102.7 million, Ps.110.7 million and Ps.290.9 million respectively.

During the year ended December 31, 2011, we extended the lease terms of six aircraft lease agreements, which made available to us maintenance deposits that were recognized in prior periods in the consolidated statement of operations as supplemental rent of Ps.163.0 million. The maintenance event for which the maintenance deposits were previously expensed was scheduled to occur after the original lease term and, as such, the contingent rental payments were expensed, as they were not substantially and contractually related to maintenance. When the leases were amended, however, 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 were recognized as a guarantee deposit and a deferred liability in our consolidated statements of financial position at the time of lease extension.

During the years ended December 31, 2013, 2014 and 2015 we extended the lease term of two spare engine agreements, one and three aircraft agreement, respectively. These extensions made available maintenance deposits that were recognized in prior periods in the consolidated statements of operations as contingent rent of Ps.22.9 million, Ps.47.4 million and Ps.92.6 million during 2013, 2014 and 2015, respectively.

Because the lease extension benefits are considered lease incentives, the benefits are deferred in the caption other liabilities and are being amortized on a straight–line basis over the remaining revised lease terms. For the years ended December 31, 2013, 2014 and 2015, we amortized Ps.25.6 million, Ps.26.9 million and Ps.45.3 million respectively, of this amount which was recognized as a reduction of rent expenses in the consolidated statements of operations.

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 DGAC 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 2012, 2013 and 2015, we capitalized costs of major maintenance events of Ps.309.4 million, Ps.585.7 million, and Ps.415.0 million recognized amortization expenses of Ps.210.5 million, Ps.253.4 million Ps.352.9 million, respectively. The amortization of deferred maintenance expenses is included under the caption depreciation and amortization expense in our consolidated statement of operations. If the amortization of major maintenance expenditures were classified as maintenance expense, they would amount to Ps.782.6 million, Ps.918.0 million and Ps.1,227.5 million for the years ended December 31, 2013, 2014 and 2015, 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. For aircraft acquired through a sale and leaseback transaction, any profit or loss is accounted for as follows: (i) profit or loss is recognized immediately when it is clear that the transaction is established at fair value; (ii) if the sale price is below fair value, any profit or loss is recognized immediately; however, if the loss is compensated for by future lease payments at below market price, such loss is recognized as an asset on the consolidated statements of financial position and loss recognition is deferred and amortized to the consolidated statements of operations in proportion to the lease payments over the contractual lease term; and (iii) if the sale price is above fair value, the excess is deferred and amortized to the consolidated statements of operations over the asset's expected lease term, including probable renewals, with the amortization recorded as a reduction of rent expense.

During the year ended December 31, 2013, 2014 and 2015 we sold and transferred aircraft and engines to third parties, giving rise to a gain of approximately Ps.106.6 million, Ps.14.2 million and Ps.181.7 million respectively, that was recorded as other operating income in the consolidated statement of operations.

Additionally, during the year ended December 31, 2011, we entered into sale and leaseback transactions, which resulted in a loss of Ps.30.1 million. This loss was deferred in the consolidated statements of financial position and is being amortized over the contractual lease term. At December 31, 2014 and 2015, the current portion of Ps.3.0 million and Ps.3.0 million was recorded as prepaid expenses and other current assets, and the non–current portion amounts of Ps.20.6 million and Ps.17.5 million was recorded as other assets, respectively.

For the years ended December 31, 2013, 2014 and 2015, we amortized a loss of Ps.3.0 million, Ps.3.0 million and Ps.3.0 million, respectively, as additional aircraft rental expense.

In August 2012, we entered into a total support agreement with Lufthansa Technik AG (LHT) for a six–year term, 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. Additionally, this transaction includes a sale and leaseback agreement for certain components. As part of this total support agreement, we received credit notes of Ps.46.5 million, which was deferred on the consolidated statement of financial position and is being amortized on a straight line basis, prospectively during the term of the agreement.

During 2013, 2014 and 2015, we amortized a corresponding benefit from these credit notes of, Ps.9.3 million, Ps.9.3 million and Ps.9.3 million, respectively, which is recognized in the consolidated statements of operations as a reduction of maintenance expenses.

During 2013 and 2014, we applied Ps.11.2 million and Ps.21.1 million, respectively, to outstanding LHT invoices. Additionally, as of December 31, 2013, we also recorded an account receivable of Ps.10 million for the unused portion of the credit notes. The credit notes were used during the year ended December 31, 2014.

Equity–settled Transactions. Equity–settled transactions are measured at fair value at the date the equity benefits are conditionally granted to employees. The Equity–settled Transactions include a share purchase plan and a management incentive plan.

Long–term Incentive Plans

Share Purchase Plan

In November 2014, we have established a share purchase 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. 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.

(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 share purchase plan approved in November 2014 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 will end in November 2018. During 2014 and 2015, we recognized Ps.1.1 million and Ps.6.0 million, respectively, as compensation expense associated with this share purchase plan in our consolidated statement of operations.

Movements during the year

The following table illustrates the number of shares associated with our share purchase plan during the year:

	Number of Series A shares
Outstanding as of November 11, 2014	594,081
Purchased during the year	–
Granted during the year	–
Exercised during the year	–
Forfeited during the year	–
Outstanding as of December 31, 2014	594,081 *
Purchased during the year	22,920
Granted during the year	–
Exercised during the year	–
Forfeited during the year	–
Outstanding as of December 31, 2015	**617,001 ***

* These shares were presented as treasury shares in the consolidated statement of financial position as of December 31, 2015 and 2014.

At December 31, 2015, the shares held in trust to satisfy this share purchase plan were recorded as treasury shares and all are considered outstanding for diluted earnings per share purposes.

Vesting Period

The vesting period of the shares granted under the Company's share purchase plan is as follows:

Number of Series A shares	Vesting period
205,667*	November 2014 – 2015
205,667*	November 2015 – 2016
205,667*	November 2016 – 2017
617,001	

* Includes the shares acquired during November 2015.

During the year ended December 31, 2015, certain of these key employees left the Company. Therefore the vesting conditions were not fulfilled. 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, 2015, 86,419 shares did not meet the vesting terms. As of December 31, 2015, these shares remain deposited in the Administrative Trust.

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 will end on December 31, 2015. During 2012, we did not recognize any compensation expense associated with the management incentive plan in our consolidated statement 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 statement 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 Mexican 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 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.

Movements during the year

The following table illustrates the number of share options and fixed exercise prices during the year:

	Number		Exercise price in Mexican pesos		Total in thousands of Mexican 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		5.31		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**

At December 31, 2012, 2013, 2014 and 2015, the shares held in trust to satisfy the management options were considered as treasury shares. As of December 31, 2015, 15,857,856 share options were vested. As of December 31, 2014, the total number of vested and unvested shares amounted to 17,246,405 and 3,026,311, respectively. As of December 31, 2013, the total number of vested and unvested shares amounted to 14,228,364 and 6,044,352, respectively.

Cash–settled Transactions. Cash–settled transactions include a share–appreciation rights ("SARs") plan.

Long–term Retention Plan

During 2010, we adopted an employee long–term retention 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 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 long term incentive plan, which consists in a share purchase plan (equity–settled) and share appreciation rights plan (cash settled).

Long–term incentive plan

Share Appreciation Rights

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 continues to be employed with us at the end of each anniversary date, 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.

The fair value of these SARs is estimated at the grant date and at each reporting date using the Black-Sholes option pricing model, which takes into account the terms and conditions on which the SARs were granted (vesting schedule included in the table below). 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, 2014 and 2015 was Ps.1.7 million and Ps.14.5 million, respectively.

Number of SARs (Grant date: November 6, 2014)	Exercisable date
1,959,065	November 2015
1,312,953	November 2016
1,043,246	November 2017
4,315,264	

During the year ended December 31, 2015, we made a cash payment to key employees related to the SARs plan of Ps.31.1 million. This amount was determined based on the increase in the share price of the Company between the grant date and the exercisable date of November 2015.

Derivative Financial Instruments and Hedge Accounting. We mitigate certain financial risks, such as volatility in the price of aircraft 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. During 2015, all derivative financial instruments held qualified for hedge accounting. 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, 2015 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 statement of financial position as an asset or liability. The cost of aircraft fuel consumed in 2013, 2014 and 2015 represented 40%, 39% and 30% of our operating expenses, respectively. To manage aircraft fuel price risk, we periodically enter into derivatives financial instruments. During 2013, 2014 and 2015, we entered into aircraft fuel swap hedges (further described in the paragraph immediately below) that gave rise to a gain of Ps.6.7 million, a loss of Ps.85.7 million and Ps.128.3 million, respectively. Since these instruments qualify as accounting hedges, the cost and related gains or losses are considered a portion of the fuel cost in the consolidated statement of operations. As of December 31, 2013 and 2014, the fair value of these fuel swap instruments was a net asset position of Ps.11.1 million, and a net liability position of Ps. 169.6 million, respectively. All of the Company's US Gulf Coast Jet fuel 54 swaps positions matured on June 30, 2015, and therefore there is no balance outstanding as of December 31, 2015.

During the years ended December 31, 2013, 2014 and 2015 we entered into US Gulf Coast Jet fuel 54 swap contracts to hedge approximately 11%, 20% and 5% of our fuel consumption, respectively. These instruments were formally designated and qualified for hedge accounting and accordingly, the effective portion is allocated within other comprehensive income, while the effects of transforming into a fixed jet fuel prices by these hedges are presented as part of jet fuel costs when recognized in the consolidated statements of operations. Our fuel hedging practices are dependent upon many factors, including our assessment of market conditions for fuel, our access to the capital necessary to support margin requirements under swap agreements and the pricing of hedges and other derivative products in the market.

Additionally, during the year ended December 31, 2015, we entered into US Gulf Coast Jet fuel 54 Asian call options designated to hedge approximately 55% and 23% of our 2016 and 2017 fuel consumption.

We have elected to adopt IFRS 9 (2013), 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 (2013) 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 (2013). The hedged item (jet fuel consumption) of the Jet fuel 54 Asian call options contracted by us represent a nonfinancial 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 other comprehensive income (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, 2015, the fair value of our outstanding U.S. Gulf Coast Jet fuel 54 Asian call options was Ps.78.7 million, which was presented as part of the financial assets line item of our consolidated statement of financial position. As of December 31, 2015, the hedging costs attributable to extrinsic value changes in these options as recognized in other comprehensive income totaled Ps.365.0 million. They were, and will be, recycled to our fuel cost throughout 2016 and until 2017, as these options expire on a monthly basis.

(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.

During the years ended on December 31, 2013, 2014 and 2015 the Company did not enter into exchange rate derivatives financial instruments.

Our foreign exchange exposure as of December 31, 2013, 2014 and 2015 was a net asset position of U.S. $376.5 million, U.S. $339.0 million and U.S. $498.9 million, respectively.

(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 and lease obligations with floating interest rates. As of December 31, 2013, 2014 and 2015, we had outstanding hedging contracts in the form of interest rate swaps with fair value of Ps.106.2 million, Ps.83.5 million and Ps.55.8 million, respectively. These instruments are included as liabilities in our consolidated statement of financial position. In 2013, 2014 and 2015, the reported loss on the instruments wasPs.36.8 million, Ps.39.6 million and Ps.46.5 million, respectively, which was recognized as a portion of the rental expense in the consolidated statements of operations.

The table below presents the payments required by our financial liabilities:

	Year ended December 31, 2015			
	Within one Year	One to five Years	In five Years or more	Total
	(In thousands of pesos)			
Interest–bearing borrowings				
Pre–delivery payment facilities	1,363,861	219,817	—	1,583,678
Derivative financial instruments				
Interest rate swaps	44,301	11,473	—	55,774
Total	**1,408,162**	**231,290**	**—**	**1,639,452**

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, 2013, 2014 and 2015 we had tax loss carry–forwards amounting to Ps.2.1 billion, Ps.1.7 billion, and Ps.194.5 million, 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 ten years and may not be used to offset taxable income elsewhere in our consolidated group. During the years ended December 31, 2013, 2014 and 2015 we used tax–loss carry–forwards of Ps.204.4 million, Ps.424.5 million and Ps.1.6 billion respectively. During 2015, the Company recognized a deferred tax asset for an amount of Ps. 194,512 (Ps. 58,354 tax effect), based on the positive evidence of utilization of available tax losses of Controladora to generate taxable temporary differences which will result in taxable amounts against which the available tax losses can be utilized before they expire. This evidence was based on the corporate structure that the Company requires for its expansion into Central America.

Impairment of Long–Lived Assets. The carrying value of rotable spare parts, furniture and equipment 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 rotable spare parts, furniture and equipment.

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, 2013, 2014 and 2015, no impairment charges were recorded in respect of our long–lived assets.

Allowance for Doubtful Accounts. An allowance for doubtful accounts receivables is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. At December 31, 2013, 2014 and 2015, the allowance for doubtful accounts was, Ps.29.8 million, Ps.27.8 million and Ps.24.6 million respectively.

Operating Revenues

2014 compared to 2015

	For the years ended December 31,			
	2014	2015	Variation	
	(In thousands of pesos, except for % and operating data)			
Operating Revenues				
Passenger	11,303,327	14,130,365	2,827,038	25.0%
Non–ticket	2,733,415	4,049,339	1,315,924	48.1%
Total operating revenues	**14,036,742**	**18,179,704**	**4,142,962**	**29.5%**
Operating Data				
Capacity (in ASMs in thousands)	11,829,865	14,052,298	2,222,433	18.8%
%Load factor booked	82%	82%	—	0.1pp
Booked passengers (in thousands)	9,809	11,983	2,174	22.2%
Average ticket revenue per booked passenger	1,152	1,181	29	2.5%
Average non–ticket revenue per booked passenger	279	338	59	21.3%
Revenue passenger miles (RPMs in thousands)	9,722,538	11,561,859	1,839,321	18.9%

Passenger Revenue. The 25.0% increase in passenger revenue in 2015 was primarily due to growth in ASM capacity resulting from the incorporation of six new net aircraft. Our traffic as measured in terms of RPMs increased by 18.9% in 2015, also resulted from the increase in our fleet size. Additionally, our average ticket revenue per booked passenger increased 2.5%.

Non–ticket Revenue. The 48.1% increase in non–ticket revenue in 2015 was primarily due to the higher volume of passengers electing to purchase non ticket items. Additionally, we continue implementing with dynamic pricing strategies and launch of new products, such as a fast pass and rental car on board.

2013 compared to 2014

	For the years ended December 31,			
	2013	2014	Variation	
	(In thousands of pesos, except for % and operating data)			
Operating Revenues				
Passenger	11,117,327	11,303,327	186,000	1.7%
Non–ticket	1,885,144	2,733,415	848,271	45.0%
Total operating revenues	**13,002,471**	**14,036,742**	**1,034,271**	**8.0%**
Operating Data				
Capacity (in ASMs in thousands)	10,899,486	11,829,865	930,379	8.5%
Load factor booked	83%	82%	(1%)	(1.0%)
Booked passengers (in thousands)	8,942	9,809	867	9.7%
Average ticket revenue per booked passenger	1,243	1,152	(91)	(7.3%)
Average non–ticket revenue per booked passenger	211	279	68	32.1%
Revenue passenger miles (RPMs in thousands)	9,002,831	9,722,538	719,707	8.0%

Passenger Revenue. The 1.7% increase in passenger revenue in 2014 was primarily due to growth in ASM capacity resulting from the incorporation of six new net aircraft. Our traffic as measured in terms of RPMs increased by 8.0% in 2014, also resulting from the increase in our fleet size. These increases were partially offset by a 7.3% decrease in the average ticket revenue per booked passenger attributable to a competitive environment during the first half of the year ended December 31, 2014, new market openings and ram–up of new routes.

Non–ticket Revenue. The 45.0% increase in non–ticket revenue in 2014 was primarily driven by an increase in our booked passengers of 9.7% during 2014, which resulted in a higher volume of passengers electing to purchase non ticket items. During 2014 we also implemented ancillary bundles and new travel related products in the booking process. The increase was also driven by a 32.1% increase in the average non–ticket revenue per booked passenger, mainly resulting from increased customer acceptance of our unbundled fare strategy, which we have continued to implement during 2014.

Operating Expenses, net

2014 compared to 2015

	For the years ended December 31,			
	2014	2015	Variation	
	(In thousands of pesos, except for %)			
Other operating income	(22,107)	(193,155)	(171,048)	>100%
Fuel	5,363,864	4,721,108	(642,756)	(12.0%)
Aircraft and engine rent expense	2,534,522	3,525,336	990,814	39.1%
Landing, take–off and navigation expenses	2,065,501	2,595,413	529,912	25.7%
Salaries and benefits	1,576,517	1,902,748	326,231	20.7%
Sales, marketing and distribution expenses	817,281	1,088,805	271,524	33.2%
Maintenance expenses	664,608	874,613	210,005	31.6%
Other operating expenses	489,938	697,786	207,848	42.4%
Depreciation and amortization	342,515	456,717	114,202	33.3%
Total operating expenses, net	**13,832,639**	**15,669,371**	**1,836,732**	**13.3%**

Total operating expenses, net increased 13.3% in 2015 primarily as a result of the growth of our operations and higher fuel costs and the other factors described below.

Other Operating Income. Other operating income increased Ps.171.0 million or >100% in 2015, primarily because of higher profit margins from sale and lease back transactions compared to 2014.

Fuel. Fuel expense decreased 12.0% in 2015 as a result of a decrease in the average fuel cost per gallon of 25.7%. This decrease was partially offset by an increase 18.4% in the fuel gallons consumed due to the increase in our fleet.

During the years ended December 31, 2015 and 2014, we entered into fuel swap contracts that gave rise to a loss of Ps.128.3 million and Ps.85.7 million, respectively. These instruments qualify for hedge accounting. Accordingly, the effects of the hedges were presented as part of the cost of the fuel.

Additionally, during the years ended December 31, 2015 and 2014, we entered into Asian Call options contracts. These instruments also qualify for hedge accounting. As a result, during 2015, their extrinsic value of Ps.112.7 million was recycled to the cost of fuel.

Aircraft and Engine Rent Expense. Aircraft and engine rent expense increased 39.1%. This increase was primarily driven by: (i) an increase of Ps.246.9 million in rent expense relating to seven new A–320 aircraft, (ii) an increase of Ps.279.4 relating to the full year operation of the new A–320 aircraft received during the year ended December 31, 2015, (iii) the depreciation of approximately 19.22% of the average exchange rate of the peso against the U.S. dollar, negatively affecting our aircraft rent in peso terms in an amount of Ps.353.6 million, and (iv) an increase in our supplemental and contingent rent of Ps.192.1 million. These increases were partially offset by: (i) a Ps.74.0 million decrease related to the redelivery of one aircraft to the lessors, and (ii) other rent expenses of Ps.7.2 million.

Landing, Take–off and Navigation Expenses. The 25.7% increase in landing, take–off and navigation expenses in 2015 was primarily due to a 15.1% increase in the number of airports served. In addition, our operations as measured by number of departures decreased by 17.8%.

Salaries and Benefits. The 20.7% increase in salaries and benefits in 2015 was primarily the result of 17.8% increase in our total employees, which were required for our increased operations and fleet size. Additionally, the variable compensation of our workforce increased also due to the increased operations recorded during 2015. See Item 6: "Directors, Senior Management and Employees—Employees".

Sales, Marketing and Distribution Expenses: The 33.2%. increases in sales, marketing and distribution expenses was primarily due to the increase of 29.5% in operating revenues and additional marketing expenses related to our efforts to promote the new routes.

Maintenance Expenses. The 31.6% increase in maintenance expenses in 2015 was the result of a 12% increase in the size of our fleet due to the addition of six net aircraft in 2015. Additionally, maintenance expenses also increased as a result of the aging of our fleet (4.6 years as of December 31, 2015), which requires more comprehensive work during routine scheduled maintenance, as well as the timing of the maintenance checks performed during 2015 as compared to 2014. During 2015 our maintenance expenses on a peso basis increased due to the depreciation of approximately 19.2% in the average exchange rate of the peso against the U.S. dollar during 2015.

Other Operating Expenses. Other operating expenses increased 42.4%. This increase was primarily the result of (i) additional administrative support expenses related to the expansion of our flight operations and (ii) additional technical and communication support required to the growth of our operations.

Depreciation and Amortization. Depreciation and amortization increased 33.3% in 2015 primarily due to the amortization of major maintenance events associated with the aging of our fleet, the cost of which is accounted for under the deferral method. During 2015 and 2014, we recorded as amortization of major maintenance leasehold improvement costs Ps.352.9 million and Ps.253.4 million, respectively.

2013 compared to 2014

	For the years ended December 31,			
	2013	**2014**	**Variation**	
	(In thousands of pesos, except for %)			
Other operating income	(111,277)	(22,107)	89,170	(80.1%)
Fuel	5,085,829	5,363,864	278,035	5.5%
Aircraft and engine rent expense	2,187,339	2,534,522	347,183	15.9%
Salaries and benefits	1,563,239	1,576,517	13,278	0.8%
Landing, take–off and navigation expenses	1,923,673	2,065,501	141,828	7.4%
Sales, marketing and distribution expenses	704,146	817,281	113,135	16.1%
Maintenance expenses	572,114	664,608	92,494	16.2%
Other operating expenses	458,500	489,938	31,438	6.9%
Depreciation and amortization	301,531	342,515	40,984	13.6%
Total operating expenses, net	**12,685,094**	**13,832,639**	**1,147,545**	**9.0%**

Total operating expenses, net increased 9.0% in 2014 primarily as a result of the growth in our operations, measured in terms of departures, and the other factors described below.

Other Operating Income. Other operating income decreased Ps.89.2 million or 80.1% in 2014, primarily due to a decrease in the number of aircraft sale and leaseback operations recorded during 2014, which resulted in lower profits compared to 2013.

Fuel. Fuel expense increased 5.5% in 2014 as a result of an increase in fuel gallons consumed of 7.3% which, in turn, was due to more aircraft in operation and an 8.6% increase in our departures. Additionally, during the years ended December 31, 2014 and 2013, we entered into fuel swap contracts that gave rise to a loss of Ps.85.7 million and a gain of Ps.6.7 million, respectively. These instruments qualify for hedge accounting. Accordingly, the effects of the hedges were presented as part of the cost of the fuel. These increases were partially offset by a 1.7% decrease in our average economic fuel cost per gallon.

Aircraft and Engine Rent Expense. Aircraft and engine rent expense increased 15.9%. This increase was primarily driven by: (i) an increase of Ps.229.2 million in rent expenses relating to eight new A–320 aircraft received in 2014, (ii) an increase of Ps.209.8 relating to the full year operation of the new A–320 aircraft received during the year ended December 31, 2013, and (iii) an increase in peso terms in the aircraft and engine rent expenses of Ps.53.8 million, resulting from the depreciation of approximately 4.2% in the average exchange rate of the peso against the U.S. dollar during 2014. These increases were partially offset by a decrease of Ps.115.4 million related to the redelivery of two aircraft to our lessors.

Salaries and Benefits. The 0.8% increase in salaries and benefits in 2014 was primarily the result of an 8.6% increase in our operations, measured in terms of departures, which increased the variable compensation of our workforce. Additionally, we required an increase in the number of pilots and flight attendants to operate the six new net aircraft deliveries in 2014 (see Item 6: "Directors, Senior Management and Employees—Employees"). This increase was partially offset by a decrease in our travel expenses resulting from our new per day payment plan adopted during 2014.

Landing, Take–off and Navigation Expenses. The 7.4% increase in landing, take–off and navigation expenses was primarily due to an 8.6% increase in our operations, measured in terms of departures, during 2014. Additionally, the number of airports served increased 15.2% during 2014. These increases were partially offset by incentives received from certain airport groups as a result of our increased operations.

Sales, Marketing and Distribution Expenses. The 16.1% increase in salaries, marketing and distribution expenses was primarily due to the increase of 8.0% in operating revenues and additional marketing expenses related to the our efforts to promote the new routes.

Maintenance Expenses. The 16.2% increase in maintenance expenses in 2014 was the result of a 13.6% increase in the size of our fleet due to the addition of six net aircraft in 2014. Additionally, maintenance expenses also increased as a result of the aging of our fleet (4.3 years as of December 31, 2014), which requires more comprehensive work during routine scheduled maintenance, as well as the timing of the maintenance checks performed during 2014 as compared to 2013. During 2014, our maintenance expenses on a peso basis increased due to the depreciation of approximately 4.2% in the average exchange rate of the peso against the U.S. dollar during 2014.

Other Operating Expenses. Other operating expenses increased 6.9%. This increase was primarily the result of additional administrative support expenses related to the expansion of our flight operations and additional technical and communication support required due to the growth of our operations. Additionally, during 2013 we recorded penalty costs for cancelling an information technology contract and equity transaction costs related to our initial public offering transaction in September 2013.

Depreciation and Amortization. Depreciation and amortization increased 13.6% in 2014 primarily due to the amortization of major maintenance events associated with the aging of our fleet, which are accounted for under the deferral method. During 2014 and 2013, we recorded as amortization of major maintenance leasehold improvement costs Ps.253.4 million and Ps.210.5 million, respectively.

Operating Results

2014 compared to 2015

	For the years ended December 31,			
	2014	2015	Variation	
	(In thousands of pesos, except for %)			
Operating Results				
Total operating revenues	14,036,742	18,179,704	4,142,962	29.5%
Total operating expenses, net	13,832,639	15,669,371	1,836,732	13.3%
Operating income	**204,103**	**2,510,333**	**2,306,230**	**>100%**

Operating Income. As a result of the factors outlined above, our operating income was Ps.2.5 billion in 2015, a >100% increase compared to our operating income of Ps.204.1 million in 2014.

2013 compared to 2014

	For the years ended December 31,			
	2013	2014	Variation	
	(In thousands of pesos, except for %)			
Operating Results				
Total operating revenues	13,002,471	14,036,742	1,034,271	8.0%
Total operating expenses, net	12,685,094	13,832,639	1,147,545	9.0%
Operating income	**317,377**	**204,103**	**(113,274)**	**(35.7%)**

Operating Income. As a result of the factors outlined above, our operating income was Ps.204.1 million in 2014, a 35.7% decrease compared to our operating income of Ps.317.4 million in 2013.

Financial Results

2014 compared to 2015

	For the years ended December 31,			
	2014	2015	Variation	
	(In thousands of pesos, except for %)			
Financing Results				
Finance income	23,464	47,034	23,570	>100%
Finance cost	(32,335)	(21,703)	10,632	(32.9%)
Exchange gain, net	448,672	966,554	517,882	>100%
Total financing results	**439,801**	**991,885**	**552,084**	**>100%**

Total Financing Results. The variation in financing results was primarily due to our exchange gain. This exchange gain resulted from the significant 16.91% depreciation of the peso against the U.S. dollar since we maintained a net asset position of U.S. 498.9 million in 2015. Our U.S. dollar net asset position mainly resulted from our aircraft maintenance deposits paid to the lessors. Additionally, our finance income increased Ps.23.6 million, due to higher short–term investments.

2013 compared to 2014

	For the years ended December 31,			
	2013	2014	Variation	
	(In thousands of pesos, except for %)			
Financing Results				
Finance income	24,774	23,464	(1,310)	(5.3%)
Finance cost	(125,737)	(32,335)	93,402	(74.3%)
Exchange gain, net	66,428	448,672	382,244	n.a.
Total financing results	**(34,535)**	**439,801**	**474,336**	**>100%**

Total Financing Results. The variation in financing results was primarily due to our net exchange gain of Ps.448.7 million. This exchange gain resulted from the significant 12.6% depreciation of the peso against the U.S. dollar since we maintained a net asset position of U.S. $339.0 million in 2014. Our U.S. dollar net asset position mainly resulted from our aircraft maintenance deposits paid to the lessors. Additionally, our finance cost decreased 74.3% during 2014, primarily due to the fact that we recorded a debt prepayment premium of Ps.65.2 million during 2013.

Income Tax Expense and Net Income

2014 compared to 2015

	For the years ended December 31,			
	2014	2015	Variation	
	(In thousands of pesos, except for %)			
Net income				
Income before income tax	643,904	3,502,218	2,858,314	>100%
Income tax expense	(38,720)	(1,038,348)	(999,628)	>100%
Attribution of net income				
Equity holders of the parent	605,184	2,463,870	1,858,686	>100%
Non–controlling interest	—	—	—	n.a.
Net income	**605,184**	**2,463,870**	**1,858,686**	**>100%**

We recorded net income of Ps.2.4 billion in 2015 compared to a net income of Ps.605.2 million in 2014. At December 31, 2015 and 2014, we had tax loss carry–forwards amounting to Ps.194.5 million and Ps.1.7 billion, respectively. These losses relate to our operations, which in conformity with current Mexican Income Tax Law may be carried forward and used to offset taxable income generated in the succeeding ten years. The effective tax rate during 2014 and 2015 was of 6.0% and 29.7%, respectively.

The increase in the effective tax rate was due to a higher tax profit recorded during the year, which was partially offset by the amortization of tax losses by an amount of Ps. 2,500 million. Up to December 2014, tax losses had been considered as a deferred tax asset.

During the years ended December 31, 2015 and 2014 we used Ps.1.6 billion and Ps.424.5 million, respectively, in available tax loss carry–forwards.

2013 compared to 2014

	For the years ended December 31,			
	2013	2014	Variation	
	(In thousands of pesos, except for %)			
Net income				
Income before income tax	282,842	643,904	361,062	>100%
Income tax expense	(17,550)	(38,720)	(21,170)	>100%
Attribution of net income (loss)				
Equity holders of the parent	268,678	605,184	336,506	>100%
Non–controlling interest	(3,386)	—	3,386	n.a
Net income	**265,292**	**605,184**	**339,892**	**>100%**

We recorded net income of Ps.605.2 million in 2014 compared to a net income of Ps.265.3 million in 2013. At December 31, 2014 and 2013, we had tax loss carry–forwards amounting to Ps.1.7 billion and Ps.2.1 billion, respectively. These losses relate to our operations, which in conformity with current Mexican Income Tax Law may be carried forward and used to offset taxable income generated in the succeeding ten years by the entity. The effective tax rate during 2013 and 2014 was of 6.2% and 6.0%, respectively.

During the years ended December 31, 2014 and 2013 we used Ps.424.5 million and Ps.204.4 million, respectively, in available tax loss carry–forwards.

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,		
	2013	2014	2015
	(In thousands of pesos)		
Net cash flows provided by operating activities	38,757	333,783	3,069,613
Net cash flows used in investing activities	(311,926)	(1,184,968)	(601,277)
Net cash flows provided by financing activities	1,860,504	524,704	65,086

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 rotable spare parts, furniture and 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 and/or aircraft leasing companies. We have obtained committed financing for pre–delivery payments in respect of all the aircraft to be delivered in 2016, 2017 and 2018.

Our cash and cash equivalents increased by Ps.2.8 billion, from Ps.2.3 billion at December 31, 2014 to Ps.5.2 billion at December 31, 2015. At December 31, 2015, we had available credit lines totaling Ps.3.0 billion, of which Ps.1.8 billion were related to financial debt and Ps.1.2 billion were related to letters of credit (Ps.680.4 million were undisbursed). At December 31, 2014, we had available credit lines totaling Ps.2.0 billion, of which Ps.1.4 billion were related to financial debt and Ps.587.3 million were related to letters of credit (Ps.365.7 million 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, 2015, 33% of our cash, cash equivalents and short–term investments were denominated in pesos and 67% were denominated in U.S. dollars. 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.333.8 million and Ps.3.1 billion in 2014 and 2015, respectively. The increase was primarily due to an increase in our operating profits in 2015 as compared to 2014.

Net cash flows provided by operating activities totaled Ps.333.8 million and Ps.38.8 million in 2014 and 2013, respectively. The increase was primarily due to an increase in our operating profits in 2014 as compared to 2013. In addition, a higher account receivable collection during 2014 led to higher cash inflows at the end of 2014.

Net cash flows used in investing activities. During 2015, net cash flow used in investing activities totaled Ps.601.3 million, which consisted primarily of pre–delivery payments for aircraft acquisitions totaling Ps.835.5 million, partially offset by pre–delivery payments reimbursements totaling Ps.669.7 million. 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.435.5 million.

During 2014, net cash flow used in investing activities totaled Ps.1.2 billion, which consisted primarily of pre–delivery payments for aircraft acquisitions totaling Ps.906.1 million, partially offset by pre–delivery payments reimbursements totaling Ps.395.6 million. Additionally, we recorded other capital expenditures relating to aircraft parts and rotable spare parts acquisitions and major maintenance costs, net of disposals of Ps.674.5 million.

During 2013, the cash flow used in investing activities totaled Ps.311.9 million, which consisted in pre–delivery payments for aircraft acquisitions of Ps.719.2 million, partially offset by pre–delivery payments reimbursements of Ps.698.2 million. Additionally, we recorded additional capital expenditures of Ps.290.9 million.

Net cash flows provided by financing activities. During 2015, net cash flows provided by financing activities totaled Ps.65.1 million, which consisted primarily of proceeds from disbursements under our revolving credit facility with Banco Santander and Bancomext totaling Ps.924.6 million and proceeds from exercised treasury shares of Ps.23.5 million, partially offset by payments of aircraft financing pre–delivery payments for an aggregate net amount of Ps.801.3 million, interest paid of Ps.41.5 million and other minor financing payments totaling Ps.40.1 million.

During 2014, net cash flows provided by financing activities totaled Ps.524.7 million, which consisted primarily of proceeds from new disbursements under our revolving credit facility with Banco Santander and Bancomext totaling Ps.965.9 million, partially offset by payments of aircraft financing pre–delivery payments for an aggregate net amount of Ps.399.8 million, interest paid of Ps.23.2 million and other minor financing payments totaling Ps.18.2 million.

Financing activities during 2013 consisted primarily of the initial public offering net proceeds of Ps.2.5 billion, proceeds from exercised treasury shares of Ps.26.0 million, and additional finance of pre–delivery payments of Ps.444.1 million. These inflows were partially offset by the debt prepayments and payments of aircraft financing pre–delivery payments. In September 2013, we made prepayments on the loan agreements with Banco Inbursa (the Inbursa loan) and with Pasprot, S.A. de C.V. (the Pasprot loan), each dated May 12, 2009, in a total amount of Ps.260.4 million and 25% debt prepayment premium of Ps.65.2 million, according to the prepayment conditions established in the respective loan agreements. Additionally, in September 2013, we made prepayments on tranche C of the loan agreement with the IFC, dated June 23, 2006 (the IFC loan agreement) in a total amount of U.S.$10 million (Ps.130.1 million) with an unwinding cost premium of Ps.50 thousand due to the fact that the payment was not made on an interest payment date.

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 Airbus 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.

The aggregate principal amount of this revolving line is for up to U.S. $105.2 million, of which U.S. $59.6 million is provided by Banco Santander México and U.S. $45.6 million by Bancomext. Since February 28, 2014, interest has been payable at an annual rate of three–month LIBOR plus 2.50% (2.65% before February 28, 2014).

The final maturity is on December 1, 2016. Any principal repaid may be re–borrowed until September 30, 2016. 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. As of December 31, 2015, we were current with principal and interest payments as well as in compliance with the covenants under our loan agreements and revolving line of credit.

See "Comments and Analysis from the Board on Operating Results and Financial Situation of Volaris – trends and uncertainties related to our business.

volaris

Controladora Vuela Compañía de Aviación, S.A.B. de C.V. and Subsidiaries
(d.b.a. VOLARIS)

Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013 with Report of Independent Auditors

Contents:

Report of independent registered public accounting firm

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

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, 2015 and 2014, and 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, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Controladora Vuela Compañía de Aviación, S.A.B. de C.V. and subsidiaries as of December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, 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), Controladora Vuela Compañía de Aviación, S.A.B. de C.V. and subsidiaries' internal control over financial reporting as of December 31, 2015, 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 27, 2016 expressed an unqualified opinion thereon.

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

Luis F. Ortega Sinencio

Mexico City, Mexico
April 27, 2016

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)

		2015 (Thousands of U.S. dollars*)		At December 31, 2015		2014
Assets						
Current assets:						
Cash and cash equivalents (Note 6)	US$	299,731	Ps.	5,157,313	Ps.	2,264,857
Accounts receivable:						
Other accounts receivable, net (Note 8)		15,286		263,022		214,103
Recoverable taxes		11,705		201,394		234,457
Inventories (Note 9)		9,477		163,073		139,673
Prepaid expenses and other current assets (Note 10)		34,015		585,276		227,708
Financial instruments (Notes 3 and 5)		588		10,123		62,679
Guarantee deposits (Note 11)		50,053		861,236		545,192
Total current assets		420,855		7,241,437		3,688,669
Non-current assets:						
Rotable spare parts, furniture and equipment, net (Note 12)		148,179		2,549,650		2,223,312
Intangible assets, net (Note 13)		5,501		94,649		72,566
Financial instruments (Notes 3 and 5)		3,987		68,602		5,454
Deferred income taxes (Note 19)		31,651		544,598		327,785
Guarantee deposits (Note 11)		273,408		4,704,389		3,540,969
Other assets		3,350		57,640		46,285
Total non-current assets		466,076		8,019,528		6,216,371
Total assets	US$	886,931	Ps.	15,260,965	Ps.	9,905,040
Liabilities and equity						
Short-term liabilities:						
Unearned transportation revenue	US$	113,751	Ps.	1,957,254	Ps.	1,420,935
Suppliers		45,395		781,094		505,604
Related parties (Note 7)		832		14,316		567
Accrued liabilities (Note 15a)		85,507		1,471,273		1,121,541
Other taxes and fees payable (Note 1q)		64,320		1,106,726		659,749
Income taxes payable (Note 19)		19,643		337,997		17,345
Financial instruments (Notes 3 and 5)		2,575		44,301		210,650
Financial debt (Note 5)		79,691		1,371,202		823,071
Other liabilities (Note15c)		1,085		18,670		8,905
Total short-term liabilities		412,799		7,102,833		4,768,367
Long-term liabilities:						
Financial instruments (Notes 3 and 5)		667		11,473		42,468
Financial debt (Note 5)		12,775		219,817		424,799
Accrued liabilities (Note 15b)		9,144		157,331		144,061
Other liabilities (Note 15c)		2,855		49,131		20,986
Employee benefits (Note 16)		584		10,056		7,737
Deferred income taxes (Note 19)		51,465		885,493		26,842
Total long-term liabilities		77,490		1,333,301		666,893
Total liabilities		490,289		8,436,134		5,435,260
Equity (Note 18):						
Capital stock		172,816		2,973,559		2,973,559
Treasury shares		(5,308)		(91,328)		(114,789)
Contributions for future capital increases		-		1		1
Legal reserve		2,223		38,250		38,250
Additional paid-in capital		104,091		1,791,040		1,786,790
Retained earnings (accumulated losses)		139,952		2,408,087		(55,783)
Accumulated other comprehensive losses		(17,132)		(294,778)		(158,248)
Total equity		396,642		6,824,831		4,469,780
Total liabilities and equity	US$	886,931	Ps.	15,260,965	Ps.	9,905,040

* Convenience translation to U.S. dollars (Ps.17.2065) – 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)

		2015 (Thousands of U.S. dollars*, except for earnings per share)		For the years ended December 31, 2015		2014		2013
Operating revenues (Notes 1d and 24):								
Passenger	US$	821,223	Ps.	14,130,365	Ps.	11,303,327	Ps.	11,117,327
Non-ticket (Note 1d)		235,338		4,049,339		2,733,415		1,885,144
		1,056,561		18,179,704		14,036,742		13,002,471
Other operating income (Note 20)		(11,226)		(193,155)		(22,107)		(111,277)
Fuel		274,379		4,721,108		5,363,864		5,085,829
Aircraft and engine rent expenses (Note 14c)		204,884		3,525,336		2,534,522		2,187,339
Landing, take-off and navigation expenses		150,839		2,595,413		2,065,501		1,923,673
Salaries and benefits		110,583		1,902,748		1,576,517		1,563,239
Sales, marketing and distribution expenses		63,279		1,088,805		817,281		704,146
Maintenance expenses		50,830		874,613		664,608		572,114
Other operating expenses (Note 20)		40,554		697,786		489,938		458,500
Depreciation and amortization (Notes 12 and 13)		26,543		456,717		342,515		301,531
Operating income		145,896		2,510,333		204,103		317,377
Finance income (Note 21)		2,734		47,034		23,464		24,774
Finance cost (Note 21)		(1,261)		(21,703)		(32,335)		(125,737)
Exchange gains, net		56,174		966,554		448,672		66,428
Income before income tax		203,543		3,502,218		643,904		282,842
Income tax expense (Note 19)		(60,346)		(1,038,348)		(38,720)		(17,550)
Net income	US$	143,197	Ps.	2,463,870	Ps.	605,184	Ps.	265,292
Attribution of net income (loss):								
Equity holders of the parent	US$	143,197	Ps.	2,463,870	Ps.	605,184	Ps.	268,678
Non-controlling interest		–		–		–		(3,386)
Net income	US$	143,197	Ps.	2,463,870	Ps.	605,184	Ps.	265,292
Earnings per share basic:	US$	0.142	Ps.	2.435	Ps.	0.598	Ps.	0.310
Earnings per share diluted:	US$	0.142	Ps.	2.435	Ps.	0.598	Ps.	0.310

* Convenience translation to U.S. dollars (Ps.17.2065) – 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)

		2015 (Thousands of U.S. dollars*)		For the years ended December 31, 2015		2014		2013
Net income for the year	US$	143,197	Ps.	2,463,870	Ps.	605,184	Ps.	265,292
Other comprehensive income (loss):								
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:								
Net (loss) gain on cash flow hedges (Note 22)		(11,267)		(193,869)		(129,506)		47,819
Income tax effect (Note 19)		3,380		58,161		38,852		(14,346)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:								
Remeasurement (loss) gain of employee benefits (Note 16)		(68)		(1,174)		(1,581)		11,026
Income tax effect (Note 19)		20		352		474		(3,076)
Other comprehensive (loss) income for the year, net of tax	US$	(7,935)	Ps.	(136,530)	Ps.	(91,761)	Ps.	41,423
Total comprehensive income for the year, net of tax	US$	135,262	Ps.	2,327,340	Ps.	513,423	Ps.	306,715
Attributable to:								
Equity holders of the parent	US$	135,262	Ps.	2,327,340	Ps.	513,423	Ps.	310,101
Non-controlling interest		–		–		–		(3,386)
	US$	135,262	Ps.	2,327,340	Ps.	513,423	Ps.	306,715

* Convenience translation to U.S. dollars (Ps.17.2065) – 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, 2015, 2014 and 2013
(In thousands of Mexican pesos)

	Capital Stock	Treasury Shares	Contributions for future capital increases	Legal Reserve	Additional paid-in capital	Retained earnings (Accumulated losses)	Remeasurements of employee benefits	Cash flow hedges	Equity attributable to Equity Holders of the Parent	Non-controlling interest	Total equity
Balance as of January 1, 2013	Ps. 2,376,098	Ps. (133,723)	Ps. 1	Ps. 38,250	Ps. (190,850)	Ps. (929,645)	Ps. (8,325)	Ps. (99,585)	Ps. 1,052,221	Ps. 22,446	Ps. 1,074,667
Net proceeds from initial public offering	508,614	–	–	–	2,044,313	–	–	–	2,552,927	–	2,552,927
Capital stock increase	88,847	–	–	–	–	–	–	–	88,847	–	88,847
Acquisition of non-controlling interests	–	–	–	–	(69,787)	–	–	–	(69,787)	(19,060)	(88,847)
Exercise of stock options (Note 17)	–	25,993	–	–	–	–	–	–	25,993	–	25,993
Management incentive plan cost (Note 17)	–	–	–	–	2,068	–	–	–	2,068	–	2,068
Net income for the period	–	–	–	–	–	268,678	–	–	268,678	(3,386)	265,292
Other comprehensive income items	–	–	–	–	–	–	7,950	33,473	41,423	–	41,423
Total comprehensive income	–	–	–	–	–	268,678	7,950	33,473	310,101	(3,386)	306,715
Balance as of December 31, 2013	Ps. 2,973,559	Ps. (107,730)	Ps. 1	Ps. 38,250	Ps. 1,785,744	Ps. (660,967)	Ps. (375)	Ps. (66,112)	Ps. 3,962,370	Ps. –	Ps. 3,962,370
Treasury shares	–	(7,059)	–	–	–	–	–	–	(7,059)	–	(7,059)
Long-term incentive plan cost (Note 17)	–	–	–	–	1,046	–	–	–	1,046	–	1,046
Net income for the period	–	–	–	–	–	605,184	–	–	605,184	–	605,184
Other comprehensive loss items	–	–	–	–	–	–	(1,107)	(90,654)	(91,761)	–	(91,761)
Total comprehensive income (loss)	–	–	–	–	–	605,184	(1,107)	(90,654)	513,423	–	513,423
Balance as of December 31, 2014	Ps. 2,973,559	Ps. (114,789)	Ps. 1	Ps. 38,250	Ps. 1,786,790	Ps. (55,783)	Ps. (1,482)	Ps. (156,766)	Ps. 4,469,780	Ps. –	Ps. 4,469,780
Treasury shares	–	–	–	–	–	–	–	–	–	–	–
Exercise of stock options (Note 17)	–	23,461	–	–	–	–	–	–	23,461	–	23,461
Long-term incentive plan cost (Note 17)	–	–	–	–	4,250	–	–	–	4,250	–	4,250
Net income for the period	–	–	–	–	–	2,463,870	–	–	2,463,870	–	2,463,870
Other comprehensive loss items	–	–	–	–	–	–	(822)	(135,708)	(136,530)	–	(136,530)
Total comprehensive income (loss)	–	–	–	–	–	2,463,870	(822)	(135,708)	2,327,340	–	2,327,340
Balance as of December 31, 2015	Ps. 2,973,559	Ps. (91,328)	Ps. 1	Ps. 38,250	Ps. 1,791,040	Ps. 2,408,087	Ps. (2,304)	Ps. (292,474)	Ps. 6,824,831	Ps. –	Ps. 6,824,831
	US$ 172,816	US$ (5,308)	US$ –	US$ 2,223	US$ 104,091	US$ 139,952	US$ (134)	US$ (16,998)	US$ 396,642	US$ –	US$ 396,642

* Convenience translation to U.S. dollars (Ps.17.2065) – 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* 2015	For the years ended December 31, 2015	2014	2013
Operating activities				
Income before income tax	US$ 203,543	Ps. 3,502,218	Ps. 643,904	Ps. 282,842
Non-cash adjustment to reconcile income before tax to net cash flows from operating activities:				
Depreciation and amortization (Notes 12 and 13)	26,543	456,717	342,515	301,531
Provision for doubtful accounts (Note 8)	513	8,825	9,964	8,515
Finance income (Note 21)	(2,734)	(47,034)	(23,464)	(24,774)
Finance cost (Note 21)	1,261	21,703	32,335	125,737
Foreign exchange gains	(28,090)	(483,329)	(294,966)	(56,652)
Financial instruments (Notes 3 and 5)	16,712	287,550	125,339	30,075
Net gain on disposal of rotable spare parts, furniture and equipment and gain on sale of aircraft (Note 20)	(10,486)	(180,433)	(13,908)	(94,968)
Employee benefits (Note 16)	148	2,549	1,764	1,527
Aircraft and engine lease extension benefit and other benefits from service agreements	(3,610)	(62,122)	(40,234)	(45,376)
Management incentive and long-term incentive plans (Note 17)	247	4,250	1,046	2,068
Cash flows from operating activities before changes in working capital	204,047	3,510,894	784,295	530,525
Changes in operating assets and liabilities:				
Related parties	799	13,749	(1,584)	2,371
Other accounts receivable	(3,031)	(52,157)	41,570	(41,113)
Recoverable taxes	1,978	34,038	97,276	(181,562)
Inventories	(1,360)	(23,400)	(25,838)	(16,685)
Prepaid expenses	(20,542)	(353,451)	55,234	(86,007)
Other assets	1,671	28,758	2,928	4,832
Guarantee deposits	(67,702)	(1,164,911)	(694,566)	(619,663)
Suppliers	17,461	300,447	(16,717)	13,210
Accrued liabilities	21,169	364,253	134,915	226,171
Taxes payable	26,927	463,324	73,185	44,722
Unearned transportation revenue	31,170	536,319	27,466	134,799
Financial instruments	(37,072)	(637,879)	(164,877)	(32,585)
Other liabilities	2,062	35,472	8,144	49,837
	177,577	3,055,456	321,431	28,852
Interest received	2,734	47,034	23,490	24,774
Income tax paid	(1,911)	(32,877)	(11,138)	(14,869)
Net cash flows provided by operating activities	178,400	3,069,613	333,783	38,757

	Thousands of U.S. dollars* 2015	For the years ended December 31, 2015	2014	2013
Investing activities				
Acquisitions of rotable spare parts, furniture and equipment (Note12)	(81,589)	(1,403,863)	(1,574,137)	(1,119,442)
Acquisitions of intangible assets (Note 13)	(3,035)	(52,228)	(28,457)	(41,558)
Pre-delivery payments reimbursements	38,922	669,718	395,639	698,233
Proceeds from disposals of rotable spare parts, furniture and equipment (Note 12)	10,757	185,096	21,987	150,841
Net cash flows used in investing activities	(34,945)	(601,277)	(1,184,968)	(311,926)
Financing activities				
Net proceeds from initial public offering	–	–	–	2,578,161
Transaction costs on issue of shares	–	–	–	(38,352)
Proceeds from exercised treasury shares (Note 17)	1,363	23,461	–	25,993
Treasury shares	–	–	(7,059)	–
Interest paid	(2,414)	(41,538)	(23,151)	(65,468)
Other finance interest paid (Note 21)	(2,331)	(40,113)	(11,216)	–
Debt prepayment premium	–	–	–	(65,206)
Payments of financial debt	(46,572)	(801,335)	(399,815)	(1,018,722)
Proceeds from financial debt	53,736	924,611	965,945	444,098
Net cash flows provided by financing activities	3,782	65,086	524,704	1,860,504
Increase (decrease) in cash and cash equivalents	147,237	2,533,422	(326,481)	1,587,335
Net foreign exchange differences on cash balance	20,866	359,034	140,565	41,362
Cash and cash equivalents at beginning of year	131,628	2,264,857	2,450,773	822,076
Cash and cash equivalents at end of year	US$ 299,731	Ps. 5,157,313	Ps. 2,264,857	Ps. 2,450,773
Non-cash investing and financing transactions:				
Acquisition of non-controlling interest with parent shares	US$ –	Ps. –	Ps. –	Ps. 69,787

* Convenience translation to U.S. dollars (Ps.17.2065) – 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)

Notes to Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(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 D.F.

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.

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 (Note 18b).

On November 16, 2015, certain shareholders of the Company completed a secondary follow-on equity offering on the NYSE (Note 18c).

The accompanying financial statements and notes were authorized for issuance by the Company's Chief Executive Officer Enrique Beltranena and Chief Financial Officer Fernando Suarez on March 3, 2016. Those consolidated financial statements and notes were then approved by the Company's Board of Directors and by the Shareholders on April 21, 2016. The accompanying consolidated financial statements were approved for issuance in the Company's annual report on Form 20-F by the Company's Chief Executive Officer and Chief Financial Officer on April 27, 2016, and subsequent events were considered through that date (Note 25).

a) Relevant events

Operations in Central America

During the year ended December 31, 2015, the Company through its subsidiary Concesionaria, began operations in Central America (Guatemala and Costa Rica).

Secondary follow-on equity offering

On November 16, 2015 the Company completed a secondary follow-on equity offering, in which certain shareholders sold 108,900,000 of the Company's Ordinary Participation Certificates (*Certificados de Participación Ordinarios* or "CPOs"), in the form of American Depositary Shares or "ADSs", in the United States and other countries outside Mexico. No CPOs or ADSs were sold by the Company and the selling shareholders received all of the proceeds from this offering.

Acquisition of additional interest in Concesionaria

On December 21, 2012 the shareholders of the Company through unanimous resolutions, approved the issuance of an aggregate of 16,719,261 Series A shares (the "Company Swap Shares") to be held in the treasury until the Swap was exercised at a total price of Ps.88,847.

Although the creation of the Swap and the issuance of the Company Swap Shares were approved on December 21, 2012, the Trust implementing the transaction was created on February 22, 2013, and the Company became a party to such trust (Irrevocable Administrative and Safeguarding Trust denominated "DAIIMX/VOLARIS", identified administratively under number F/1405, on April 10, 2013.

On April 19, 2013, the option of Fideicomiso Irrevocable de Emisión de Certificados Bursátiles F/262374 ("FICAP"), to receive payment in kind with shares from Concesionaria was exercised and it was equity-settled on April 22, 2013.

The Company does not legally own all of the shares of Concesionaria as they are owned by the Trust, however, the Company is the beneficiary of those shares pursuant to the guidelines of IFRS 10, beginning April 22, 2013; for accounting purposes the Company has control over the shares of Concesionaria in accordance with the Trust agreement. Pursuant to IFRS 10, *Consolidated Financial Statements*, the foregoing represented for accounting purposes a 2.04% increase in the Company's direct control of the outstanding shares of Concesionaria, thus increasing it to 99.99% with a corresponding decrease in the non-controlling interest.

In April 2013, the Company recognized the capital increase of Ps.88,847, and the difference between the consideration paid and the carrying value of the non-controlling interest acquired, as additional paid-in capital, for an amount of Ps.69,787.

b) Basis of preparation

Statement of compliance

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries at December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015, and were prepared in accordance with *International Financial Reporting Standards* as issued by the *International Accounting Standards Board* ("IFRS"), using Mexican pesos as the functional and reporting currency.

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, 2015 and 2014, for accounting purposes the companies included in the consolidated financial statements are as follows:

Name	Principal Activities	Country	% Equity interest 2015	2014
Concesionaria	Air transportation services for passengers, cargo and mail throughout Mexico and abroad	Mexico	100%	100%
Vuela Aviación, S.A. ("Vuela Aviación")*	Air transportation services for passengers, cargo and mail in Costa Rica and abroad	Costa Rica	100%	–
Vuela, S.A. ("Vuela")*	Air transportation services for passengers, cargo and mail in Guatemala and abroad	Guatemala	100%	–
Comercializadora Volaris, S.A. de C.V.	Merchandising of services	Mexico	100%	100%
Servicios Earhart, S.A.	Recruitment and payroll	Guatemala	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%
Servicios Operativos Terrestres Volaris, S.A. de C.V ("Servicios Operativos")	Recruitment and payroll	Mexico	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 and Safeguard Trust, denominated F/1405 "DAIIMX/VOLARIS"	Share administration trust (Note 18)	Mexico	100%	100%
Irrevocable Administrative Trust number F/745291	Share administration trust (Note 17)	Mexico	100%	100%

* The Company has not started operations in Central America.

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.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Company and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

Non-controlling interests represent the portion of profits or losses and net assets representing ownership interests in subsidiaries not held by the Company. Non-controlling interests are presented separately in the consolidated statements of operations, consolidated statements of comprehensive income and consolidated statements of changes in equity, separately from the Company's own interest.

Acquisitions of non-controlling interest are recognized as equity transactions (transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid are recognized directly in equity and attributed to the owners of the parent (Note 1a).

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

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 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 of 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.

Non–ticket revenues:

The most significant non-ticket revenues include revenues generated from: (i) air travel-related services (ii) revenues from non-air travel-related services and (iii) cargo services. Air travel-related services include but are not limited to fees charged for excess baggage, bookings through the call center or third-party agencies, advanced seat selection, itinerary changes, charters and airport passenger facility charges for no-show tickets. They are recognized as revenue when the related transportation service is provided by the Company.

Revenues from non-air travel-related services include commissions charged to third parties for the sale of hotel rooms, trip insurance and rental cars. They are recognized as revenue at the time the service is provided. Additionally, services not directly related to air transportation include Volaris' sale of VClub membership and the sale of advertising spaces to third parties. VClub membership fees are recognized as revenues over the term of the membership. Revenue from the sale of advertising spaces is recognized over the period in which the space is provided.

Revenues from cargo services are recognized when the cargo transportation is provided (upon delivery of the cargo to destination).

The breakdown of our non-ticket revenues for the years ended December 31, 2015, 2014 and 2013 is as follows:

	For the years ended December 31,					
		2015		2014		2013
Air travel-related services	Ps.	3,418,654	Ps.	2,234,175	Ps.	1,307,736
Non-air travel-related services		441,393		274,404		214,192
Cargo		189,292		224,836		363,216
Total non-ticket revenues	Ps.	4,049,339	Ps.	2,733,415	Ps.	1,885,144

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 purpose of the consolidated statements of cash flows, cash and cash equivalents consist of cash and short-term investments as defined above.

f) Financial instruments

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.

Adoption of IFRS 9 (2013)

On October 1, 2014 the Company elected to early adopt IFRS 9 (2013) *Financial Instruments*, which comprises aspects related to classification and measurement of financial assets and financial liabilities, as well as hedge accounting treatment. This early adoption of IFRS 9 (2013) did not require retrospective adjustments to the Company. Additional disclosures are presented in Note 3.

Under IFRS 9 (2013), the FVTPL category used under IAS 39 remains permissible, although new categories of financial assets are introduced. These new categories are based on the characteristics of the instruments and the business model under which these are held, to either be measured at fair value or at amortized cost. For financial liabilities, categories provided under IAS 39 are kept. As a result, there was no difference in valuation and recognition of the financial assets under IFRS 9 (2013), since those financial assets categorized under IAS 39 as FVTPL remain in that same category under IFRS 9 (2013). In the case of trade receivables, these were not affected in terms of valuation model by this version of IFRS 9 (2013), since they are carried at amortized cost and continued to be accounted for as such.

Also, the hedge accounting section of IFRS 9 (2013) requires for options that qualify and are formally designated as hedging instruments, the intrinsic value of the option to be defined as the hedging instrument, thus allowing for the exclusion of changes in fair value attributable to extrinsic value (time value and volatility), to be accounted, under the transaction-related method, separately as a cost of hedging that needs to be initially recognized in OCI and accumulated in a separate component of equity, since the hedged item is a portion of the forecasted jet fuel consumption. The extrinsic value is recognized in the consolidated statement of operations when the hedged item is recognized in income.

i) Financial assets

Classification of financial assets

The Company determines the classification and measurement of financial assets, in accordance with the new categories introduced by IFRS 9 (2013), 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.

Initial recognition

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. Derivative financial instruments are designated for hedging purposes under the cash flow hedge ("CFH") accounting model and are measured at fair value.

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

c) 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 of 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. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred "loss event") and that loss event 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 interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future 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 2vi) and Note 8.

Financial assets carried at amortized cost

Accounts receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market which meet the SPPI characteristics and are held to collect their cash flows. Therefore, after initial recognition at fair value, such financial assets are subsequently measured at amortized cost using the Effective Interest Rate ("EIR") method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statements of operations. The losses arising from impairment are recognized in the consolidated statements of operations as sales, marketing and distribution expenses (Note 8).

For trade receivables, the Company first assesses whether objective evidence of impairment exists individually for receivables that are individually significant, or collectively for receivables that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed receivable, whether significant or not, it includes the receivable in a group of receivables with similar credit risk characteristics and collectively assesses them for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

For the years ended December 31, 2015, 2014 and 2013, the Company recorded an impairment on accounts receivable of Ps.8,825, Ps.9,964 and Ps.8,515, respectively (Note 8).

iii) Financial liabilities

Classification of financial liabilities

Financial liabilities under IFRS 9 (2013) are classified at amortized cost or at FVTPL.

Derivative financial instruments are also considered financial liabilities when these represent contractual obligations to deliver cash or another financial asset.

Initial recognition

The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value.

The Company's financial liabilities include accounts payable to suppliers, unearned transportation revenue, other accounts payable, financial debt and financial instruments.

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.

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

FVTPL include financial liabilities designated upon initial recognition at fair value through profit or loss. Financial liabilities under the fair value option 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 (2013). During the years ended December 31, 2015, 2014 and 2013 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 and provision for doubtful receivables

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 doubtful accounts, which approximates fair value given their short-term nature.

An allowance for doubtful receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable through risk analysis and taking into account the historical analysis of the recovery of arrears.

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) Intangibles assets

Cost related to the purchase or development of computer software that is separable from an item of related hardware is capitalized separately 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, 2015, 2014 and 2013, there were no indicators of impairment and therefore no impairment charges were recorded in respect of the Company's value of 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 of 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. The portion of prepaid maintenance deposits that is deemed unlikely to be recovered, primarily relating to the rate differential between the maintenance deposits and the expected cost for the next related maintenance event that the deposits serve to collateralize, is recognized as supplemental rent in the consolidated statements of operations. Thus, any excess of the required deposit over the expected cost of the major maintenance event is recognized as supplemental rent in the consolidated statements of operations starting from the period the determination is made.

For the years ended December 31, 2015, 2014 and 2013, the Company expensed as supplemental rent Ps.73,258, Ps.42,961 and Ps.38,426, respectively.

Any usage-based maintenance deposits to be paid to the lessor, related with a major maintenance event that (i) is not expected to be performed before the expiration of the lease agreement, (ii) is nonrefundable to the Company and (iii) is not substantively related to the maintenance of the leased asset, is accounted for as contingent rent in the consolidated statements of operations. The Company records lease payment as contingent rent when it becomes probable and reasonably estimable that the maintenance deposits payments will not be refunded.

For the years ended December 31, 2015, 2014 and 2013, the Company expensed as contingent rent Ps.290,857 Ps.110,736 and Ps.102,740, respectively.

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.

In the event that lease extensions are negotiated, any extension benefit is recognized as a liability. The aggregate benefit of extension is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

During the years ended December 31, 2015 and 2014, the Company extended the lease term of three and one aircraft agreement, respectively. These extensions made available to the Company maintenance deposits that were recognized in prior periods in the consolidated statements of operations as contingent rent of Ps.92,599 and Ps.47,353 during 2015 and 2014, respectively. The maintenance event for which the maintenance deposits were previously expensed was scheduled to occur after the original lease term and as such the contingent rental payments were expensed as they were not substantially and contractually related to maintenance. 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 were recognized as a guarantee deposit and a deferred liability in the consolidated statements of financial position at the time of lease extension.

Because the lease extension benefits are considered lease incentives, the benefits are deferred in the caption other liabilities and are being amortized on a straight-line basis over the remaining revised lease terms. For the years ended December 31, 2015, 2014 and 2013, the Company amortized Ps.45,313, Ps.26,938 and Ps.25,627, respectively, of lease incentives which was recognized as a reduction of rent expenses in the consolidated statements of operations.

During the year ended December 31, 2015, the Company added seven new aircraft to its fleet. The lease agreements of some of these aircraft do not require the obligation to pay maintenance deposits in advance to lessors in order to ensure major maintenance activities, so the Company does not record guarantee deposits regarding these aircraft. However, these agreements provide the obligation to make a maintenance adjustment payment to the lessors at the end of the contract period. This adjustment covers major maintenance events that are not expected to be made before the termination of the contract. The Company recognizes this cost as a supplemental rent during the lease term of the related aircraft, in the consolidated statement of operations.

k) Aircraft and engine maintenance

The Company is required to conduct diverse 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 consists in 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. This type of maintenance events are currently serviced by the 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 consist of a series of more complex tasks that can take up to eight 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 Civil Aeronautic Authority (*Dirección General de Aeronáutica Civil*, or "DGAC") 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, 2015 and 2014, the Company capitalized major maintenance events as part of leasehold improvements to flight equipment for an amount of Ps.415,023 and Ps.585,696, respectively (Note 12).

For the years ended December 31, 2015, 2014 and 2013, the amortization of major maintenance leasehold improvement costs was Ps.352,932, Ps.253,381 and Ps.210,495, respectively (Note 12). 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-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 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 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.

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, 2015, 2014 and 2013, the Company capitalized borrowing costs which amounted to Ps.90,057, Ps.42,572 and Ps.25,197, respectively. The rate used to determine the amount of borrowing cost was 2.80%, 2.82% and 2.93%, for the years ended December 31, 2015, 2014 and 2013, respectively.

Depreciation rates are as follows:

	Annual depreciation rate
Aircraft parts and rotable spare parts	8.3–16.7%
Standardization	Remaining contractual lease term
Computer equipment	25%
Communications equipment	10%
Office furniture and equipment	10%
Electric power equipment	10%
Workshop machinery and equipment	10%
Service carts on board	20%
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 and salvage values of these assets and any changes are accounted for prospectively.

The Company records impairment charges on rotable spare parts, furniture and equipment 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 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, 2015, 2014 and 2013, there were no indicators of impairment and therefore no impairment charges were recorded in respect of the Company's rotable spare parts, furniture and equipment.

m) Foreign currency transactions and exchange differences

The Mexican peso is the functional currency of the Company and its subsidiaries.

Transactions in foreign currencies are translated into the Company's functional currency at the exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are subsequently translated at the exchange rate at the consolidated statement of financial position date. Any differences resulting from the currency translation are recognized in the consolidated statements of operations.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not subject to remeasurement after the dates of the initial recognition.

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

Exchange differences from translation for the year ended 2015 are immaterial.

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.

For the operating leases, the Company is contractually obligated to return the leased aircraft in a specific return condition. The Company accrues for restitution costs related to aircraft held under operating leases throughout the term of the lease, based upon the estimated cost of satisfying the return condition criteria for each aircraft. These return obligations are related to the costs to be incurred in the reconfiguration of aircraft (interior and exterior), painting, carpeting and other costs, which are estimated based on current cost adjusted for inflation. The return obligation is estimated at the inception of each leasing arrangement and recognized over the term of the lease (Note 15c).

The Company records aircraft lease return obligation reserves based on the best estimate of the return obligation costs under each aircraft lease agreement.

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 as a component of supplementary rents.

o) Employee benefits

i) Personnel vacations

The Company recognizes 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, the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal.

For the years ended December 31, 2015, 2014 and 2013, no termination benefits provision has been recognized.

iii) Seniority premiums

In accordance with Mexican Labor Law, the Company provides seniority premium benefits to its employees 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, 2015.

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 (*Certificados de la Tesorería de la Federación*, or "CETES" in Mexico), less the fair value of plan assets out of which the obligations are to be settled.

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, 2015, 2014 and 2013 the Company expensed Ps.50,558 and Ps.18,424 and Ps.29,978, respectively, as quarterly incentive bonuses, recorded in the caption salaries and benefits.

During the year ended December 31, 2015, the Company adopted a new 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, Employee Benefits. A provision is recognized based on the estimated amount of the incentive payment. During the year ended December 31, 2015, the Company recorded an expense and provision in an amount of Ps.70,690, recorded in the caption salaries and benefits.

v) Long-term retention plan ("LTRP")

During 2010, the Company adopted an employee LTRP, the purpose of which is to retain high performing employees within the organization by paying incentives contingent on meeting certain Company's performance targets. Incentives under this plan were payable in three equal annual installments, following the provisions for other long-term benefits under IAS 19.

During 2014, this plan was restructured and it was named Long-term incentive plan ("LTIP"). This new plan consists in a share purchase plan (equity-settled) and a share appreciation rights plan (cash settled). See below for accounting for share-based payments.

During the years ended December 31, 2015 and 2014 the Company expensed Ps.51,044 and Ps.3,037, respectively, recorded in the caption salaries and benefits.

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, 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).

– Share appreciation rights plan (cash settled)

The Company granted share appreciation rights ("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 compensation cost is recognized in the consolidated statement of operations under the caption of salaries and benefits, over the requisite service period (Note 17).

b) Management incentive plan ("MIP")

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).

vii) Employee profit sharing

For the years ended December 2015 and 2014, 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 year ended December 31, 2013, employee profit sharing was computed at the rate of 10% of the individual Company's taxable income, except for depreciation of historical rather than restated values, foreign exchange gains and losses, which are not included until the asset is disposed of or the liability is due, and other effects of inflation are also excluded. The cost of employee profit sharing earned for the current-year is presented as an expense in the consolidated statements of operations.

p) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Property and equipment lease agreements are recognized as finance leases if the risks and benefits incidental to ownership of the leased assets have been transferred to the Company when (i) the ownership of the leased asset is transferred to the Company upon termination of the lease; (ii) the agreement includes an option to purchase the asset at a reduced price; (iii) the term of the lease is for the major part of the economic life of the leased asset; (iv) the present value of minimum lease payments is at least substantially all of the fair value of the leased asset; or (v) the leased asset is of a specialized nature for the Company.

When the risks and benefits incidental to the ownership of the leased asset remain mostly with the lessor, they are classified as operating leases and rental payments are charged to results of operations on a straight-line over the term of the lease.

The Company's lease contracts for aircraft, engines and components parts are classified as operating leases.

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. Leases under sale and leaseback agreements meet the conditions for treatment as operating leases.

Profit or loss related to a sale transaction followed by an operating lease, is accounted for as follows:

(i) Profit or loss is recognized immediately when it is clear that the transaction is established at fair value.

(ii) If the sale price is at or below fair value, any profit or loss is recognized immediately. However, if the loss is compensated for by future lease payments at below market price, such loss is recognized as an asset in the consolidated statements of financial position, and amortized to the consolidated statements of operations in proportion to the lease payments over the contractual lease term.

(iii) If the sale price is above fair value, the excess of the price above the fair value is deferred and amortized to the consolidated statements of operations over the asset's expected lease term, including probable renewals, with the amortization recorded as a reduction of rent expense.

q) 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 and not in the income statement. 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.

Deferred tax assets are recognized for all deductible temporary differences, the carry-forward of unused tax credits and any available tax losses. Deferred tax assets are recognized 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.

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 at the date of the consolidated statement of financial position.

s) 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.

In accordance with IFRS 9 (2013), 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 actually have been effective throughout the financial reporting periods for which they were designated, hedge accounting treatment can be used.

Under the cash flow hedges ("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. During the years ended December 31, 2015 and 2014, 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.

The realized gain or loss of derivative financial instruments that qualify as CFH is 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 (2013), 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 is recognized in income.

Outstanding derivative financial instruments may require collateral to guarantee a portion of the unsettled loss prior to maturity. The amount of collateral delivered in pledge, is presented as part of non-current assets under the caption guarantee deposits, and the amount of the collateral is reviewed and adjusted on a daily basis based on the fair value of the derivative position (Note 11).

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

The Company is managed as a single business unit that provides air transportation and related services, according 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

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2015. 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 impact of each new standard and amendment are described below

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service required under the plan's benefit formula. This amendment is effective for annual periods beginning on or after July 1, 2014. This amendment is not relevant to the Company, since the Company does not have a benefit plan with contributions from employees or third parties.

Annual Improvements 2010-2012 Cycle

With the exception of the improvement relating to IFRS 2 Share-based Payment applied to share-based payment transactions with a grant date on or after July 1, 2014, all other improvements are effective for accounting periods beginning on or after July 1, 2014. These improvements are not expected to have a material impact on the Company. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. The clarifications do not change the classification for the Company's awards of performance and service conditions which are vesting conditions in previous periods. Thus, these amendments did not impact the Company's financial statements or accounting policies.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

(i) An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are "similar".
(ii) The reconciliation of segments assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

This amendment is not relevant to the Company, since the Company has not applied the aggregation criteria in IFRS 8.12 and does not reconcile segment assets to total assets.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. This amendment does not have any impact in the Company's financial statements, since the Company does not use the revaluation model included in IAS 16 and IAS 38.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

This amendment is not relevant for the Company as it does not receive any management services from other entities.

Annual Improvements 2011-2013 Cycle

These improvements are effective from July 1, 2014 and the Company has applied these amendments for the first time in these consolidated financial statements. They include:

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Company does not apply the portfolio exception in IFRS 13.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange to transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases under IAS 17, Leases. The lessee is required to recognize the present values of future lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment, and also recognizing a financial liability representing its obligation to make future lease payments. IFRS 16 does not require a company to recognize assets and liabilities for (a) short-term leases (i.e. leases of 12 months or less), and (b) leases of low-value assets.

IFRS 16 is effective starting January 1, 2019 and it may be applied before the effective date if IFRS 15 is also applied at the same time.

The Company has many leases as disclosed in Note 14. As a result, IFRS 16 will change the manner of accounting for those leases. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements and plans to adopt the new standard on the required effective date.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively. The Company is currently evaluating the impact of IAS 19 on its consolidated financial statements.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify: (a) the materiality requirements in IAS 1; (b) that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated; (c) that entities have flexibility as to the order in which they present the notes to financial statements; and (d) that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. This amendment is not expected to have any impact on the Company.

y) Convenience translation

U.S. dollar amounts at December 31, 2015 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.17.2065 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, 2015. 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 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.

i) Aircraft maintenance deposits paid to lessors

The Company makes certain assumptions at the inception of a lease and at each reporting date to determine the recoverability of maintenance deposits. The key assumptions include the estimated time between the maintenance events, the costs of future maintenance , the date the aircraft is due to be returned to the lessor and the number of flight hours the aircraft is estimated to be flown before it is returned to the lessor (Note 11).

ii) LTIP and management incentive plan (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 other capital reserves in equity, 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).

Share appreciation rights (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.

iii) 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.

At December 31, 2015, the Company's tax loss carry-forwards amount to Ps.194,512 (Ps.1,736,853 at December 31, 2014). These losses relate to operations of the Company on a stand-alone basis, which in conformity with current MITL may be carried forward against taxable income generated in the succeeding ten years and may not be used to offset taxable income elsewhere in the Company's consolidated group (Note 19).

During the years ended December 31, 2015, 2014 and 2013, the Company used Ps.1,618,850, Ps.424,463 and Ps.204,403, respectively, of the available tax loss carry-forwards (Note 19).

iv) Fair value 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).

v) Impairment of long-lived assets

The Company assesses whether there are any indicators of impairment for long-lived assets annually and at other times when such indicators exist. 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. The value-in-use calculation is based on a discounted cash flow model, using the Company's 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.

vi) Allowance for doubtful accounts

An allowance for doubtful accounts receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

3. Financial instruments and risk management

Financial risk management

The Company's activities are exposed to different financial risks derived from exogenous variables which are not under their control but whose effects might be potentially adverse: (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 the net earnings and working capital requirements. The Company uses derivative financial instruments to hedge part of these risks. The Company does not engage 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. Also, since adverse movements also erode the value of recognized financial assets and liabilities, as well some other off-balance sheet financial exposures such as operating leases, there is a need for value preservation, by transforming the profiles of these fair value exposures.

The Company has a Finance and Risk Management unit, which identifies and measures financial risk exposures, as well as 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 and its fuel price risk on its forecasted consumption volumes. The Company's jet fuel risk management policy aims to provide the Company with protection against increases in fuel prices. In pursuing this objective, the risk management policy allows the use of derivative financial instruments available on the over the counter ("OTC") markets with approved counterparties and within approved limits. Aircraft jet fuel consumed in the years ended December 31, 2015, 2014 and 2013 represented 30%, 39% and 40%, of the Company's operating expenses, respectively.

During the years ended December 31, 2015, 2014 and 2013, the Company entered into US Gulf Coast Jet Fuel 54 swap contracts to hedge approximately 5%, 20% and 11% of its fuel consumption, respectively; they were accounted for as CFH that gave rise to a loss of Ps.128,330, Ps.85,729, and gains of Ps.6,694, respectively. These instruments were formally designated and qualified for hedge accounting and accordingly, the effective portion is allocated within OCI while the effects of transforming into a fixed jet fuel prices by these hedges are presented as part of fuel costs when recognized in the consolidated statements of operations.

As of December 31, 2014, the fair value of the outstanding US Gulf Coast Jet Fuel 54 swaps designated to hedge a percentage of the Company's projected consumption, was (Ps.169,622), and is presented as derivative financial instruments as current financial liabilities. All of the Company's position in US Gulf Coast Jet Fuel 54 swaps position matured on June 30, 2015, and therefore there is no balance outstanding as of December 31, 2015.During the year ended on December 31, 2015, the Company entered into US Gulf Coast Jet fuel 54 Asian call options designated to hedge 162,189 thousand gallons (54,148 thousand gallons in 2014), respectively, which represent a portion of the 2016 and 2017 projected consumption.

The Company decided to early adopt IFRS 9 (2013), beginning on October 1, 2014, which allows the Company 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. Because the external value (time value) of the 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 (2013). The hedged item (jet fuel consumption) of the options contracted by the Company represents a non-financial asset (energy commodity), which is not in the Company's inventory. Instead, it is directly consumed by the Company's aircraft 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 during 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. The adoption of IFRS 9 (2013) does not impact the interest rate swaps or jet fuel swaps as those instruments do not incorporate a portion of time value (attributable to external value), such as is the case with options.

As of December 31, 2015 and 2014, the fair value of the outstanding US Gulf Coast Jet Fuel Asian call options was a gain of Ps.78,725 and Ps.68,133, respectively, and is presented as part of the financial assets in the consolidated statement of financial position.

The amount of cost of hedging derived from the extrinsic value changes of these options as of December 31, 2015 recognized in other comprehensive income totals Ps.365,028 (Ps.26,934 in 2014), and will be recycled to the fuel cost during 2016 and 2017, as these options expire on a monthly basis. During the year ended December 31, 2015, the extrinsic value of these options recycled to the fuel cost was Ps.112,675.

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, 2015
Jet fuel Asian call option contracts maturities

Jet fuel risk	1 Half 2016	2 Half 2016	2016 Total	1 Half 2017	2 Half 2017	2017 Total
Notional volume in gallons (thousands)*	51,840	55,647	107,487	42,450	12,252	54,702
Strike price agreed rate per gallon (U.S. dollars)**	US$ 1.9451	US$ 1.9867	US$ 1.9666	US$1.7142	US$ 1.5933	US$ 1.6871
Approximate percentage of hedge (of expected consumption value)	59%	53%	55%	38%	10%	23%

* US Gulf Coast Jet 54 as underlying asset

** Weighted average

Jet fuel risk	Position as of December 31, 2014 Jet fuel Asian call option contracts maturities 1Q 2015		2Q 2015		Total 2015	
Notional volume in gallons (thousands)*		6,504		2,045		8,549
Future agreed rate per gallon (U.S. dollars)**	US$	2.7009	US$	2.4623	US$	2.6439
Total in thousands of Mexican pesos ***	Ps.	258,546	Ps.	74,111	Ps.	332,667
Approximate percentage of hedge (of expected consumption value)		19%		5%		12%

* US Gulf Coast Jet 54 as underlying asset
** Weighted average
*** Exchange rate at December 31, 2014 was Ps.14.7180

Jet fuel risk	Position as of December 31, 2014 Jet fuel Asian call option contracts maturities 1Q 2015		2Q 2015 to 4Q 2015		2015 Total		1Q 2016	
Notional volume in gallons (thousands)*		3,450		48,800		52,250		1,898
Strike price agreed rate per gallon (U.S. dollars)**	US$	2.2050	US$	2.1113	US$	2.1174	US$	1.9700
Approximate percentage of hedge (of expected consumption value)		10%		40%		33%		5%

* US Gulf Coast Jet 54 as underlying asset
** Weighted average

b) 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. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities; when revenue or expense is denominated in a different currency from the Company's functional currency (including the amounts payable arising from U.S. dollar denominated expenses and U.S. dollars linked expenses and payments). To mitigate this risk, the Company may use foreign exchange derivative financial instruments.

Most of the Company's revenue is generated in Mexican pesos, although 31% of its revenues came from operations in the United States of America and Central America for the year ended at December 31, 2015 (27% at December 31, 2014) and U.S. dollar denominated collections accounted for 36% and 31% of the Company's total collections in 2015 and 2014, respectively. However, certain of its expenditures, particularly those related to aircraft leasing and acquisition, are also U.S. dollar denominated. In addition, although jet fuel for those flights originated in Mexico are paid in Mexican pesos, the price formula is impacted by the Mexican Pesos /U.S. dollars exchange rate. The Company's foreign exchange on and off-balance sheet exposure as of December 31, 2015 and 2014 is as set forth below:

	Thousands of U.S. dollars 2015		2014	
Assets:				
Cash and cash equivalents	US$	202,022	US$	89,563
Other accounts receivable		5,286		3,613
Aircraft maintenance deposits paid to lessors		286,012		233,875
Pre-delivery payments*		108,779		105,056
Deposits for rental of flight equipment		36,331		37,796
Collateral of derivative financial instruments		–		2,290
Derivative financial instruments		4,575		4,630
Total assets		643,005		476,823
Liabilities:				
Financial debt (Note 5)		92,466		84,786
Foreign suppliers		40,673		30,179
Taxes and fees payable		7,705		5,587
Derivative financial instruments		3,242		17,264
Total liabilities		144,086		137,816
Net foreign currency position	US$	498,919	US$	339,007

* These assets are included as part of rotable, spare parts, furniture and equipment, and therefore are not remeasured.

The exchange rates used to translate the above amounts to Mexican pesos at December 31, 2015 and 2014 were Ps.17.2065 pesos and Ps.14.7180 pesos, respectively, per U.S. dollar. At April 27, 2016, date of issuance of these financial statements, the exchange rate was Ps.17.5866 per U.S. dollar.

	Thousands of U.S. dollars 2015		2014	
Off-balance sheet transactions exposure:				
Aircraft operating lease payments (Note 14)	US$	1,216,799	US$	1,131,064
Aircraft and engine commitments (Note 23)		353,528		406,347
Total foreign currency	US$	1,570,327	US$	1,537,411

During the year ended on December 31, 2015 and 2014, the Company did not enter into foreign exchange rate derivatives financial instruments.

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 operating 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 general, when a derivative can be defined within the terms and cash flows of a leasing agreement, this may be designed 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 operation.

At December 31, 2015 and 2014, the Company had outstanding hedging contracts in the form of interest rate swaps with notional amount of US$70,000 and fair value of Ps.55,774 and Ps.83,496, respectively, recorded in liabilities. For the years ended December 31, 2015, 2014 and 2013, the reported loss on the interest rate swaps was Ps.46,545, Ps.39,610 and Ps.36,769, respectively, which was recognized as part of rental expense in the consolidated statements of operations.

The following table illustrates the sensitivity of financial instruments on the Company's accumulated other comprehensive income (due to changes in the fair value of forward contracts) to a reasonably possible change in LIBOR interest rates. The calculations are based on financial instruments held at each consolidated statement of financial position date and were made increasing (decreasing) 100 basis points to the LIBOR curve. All other variables were held constant.

	Position at December, 31, 2015 effect on equity (thousands of U.S. dollars)	
Increase (decrease) in curve		
+ 100 basis points	US$	713.13
− 100 basis points		(731.67)

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 and derivative contracts. The Company's off-balance sheet exposure represents the future obligations related to operating lease contracts and 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, 2015					
		Within one year		One to five years		Total
Interest-bearing borrowings:						
Pre-delivery payments facilities (Note 5)	Ps.	1,363,861	Ps.	219,817	Ps.	1,583,678
Derivative financial instruments:						
Interest rate swaps contracts		44,301		11,473		55,774
Total	Ps.	1,408,162	Ps.	231,290	Ps.	1,639,452

	December 31, 2014					
		Within one year		One to five years		Total
Interest-bearing borrowings:						
Pre-delivery payments facilities (Note 5)	Ps.	818,393	Ps.	424,799	Ps.	1,243,192
Derivative financial instruments:						
Jet fuel swaps contracts		169,622		–		169,622
Interest rate swaps contracts		41,028		42,468		83,496
Total	Ps.	1,029,043	Ps.	467,267	Ps.	1,496,310

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, 2015, 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.

f) Capital management

Management believes that the resources available to the Company are sufficient for its present requirements and will be sufficient to meet its anticipated requirements for capital expenditures and other cash requirements for the 2016 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, 2015 and 2014. 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 recognized at fair value on a recurring basis 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 measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a 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			
		2015		2014		2015		2014
Assets								
Derivative financial instruments	Ps.	78,725	Ps.	68,133	Ps.	78,725	Ps.	68,133
Liabilities								
Financial debt*		(1,583,678)		(1,243,192)		(1,587,889)		(1,247,713)
Derivative financial instruments		(55,774)		(253,118)		(55,774)		(253,118)
Total	Ps.	(1,560,727)	Ps.	(1,428,177)	Ps.	(1,564,938)	Ps.	(1,432,698)

* Floating rate borrowing

The following table summarizes the fair value measurements at December 31, 2015:

	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. 78,725	Ps. –	Ps. 78,725
Liabilities				
Derivatives financial instruments:				
Interest rate swap contracts**	–	(55,774)	–	(55,774)
Liabilities for which fair values are disclosed:				
Interest-bearing loans and borrowings**	–	(1,587,889)	–	(1,587,889)
Net	Ps. –	Ps. (1,564,938)	Ps. –	Ps. (1,564,938)

* Jet fuel forwards levels and LIBOR curve.
** LIBOR curve.
There were no transfers between level 1 and level 2 during the period.

The following table summarizes the fair value measurements at December 31, 2014:

	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. 68,133	Ps. –	Ps. 68,133
Liabilities				
Derivatives financial instruments:				
Jet fuel swap contracts*	–	(169,622)	–	(169,622)
Interest rate swap contracts**	–	(83,496)	–	(83,496)
Liabilities for which fair values are disclosed:				
Interest-bearing loans and borrowings**	–	(1,247,713)	–	(1,247,713)
Net	Ps. –	Ps. (1,432,698)	Ps. –	Ps. (1,432,698)

* Jet fuel forwards levels and LIBOR curve.
** LIBOR curve.
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, 2015, 2014 and 2013:

Consolidated statements of operations

Instrument	Financial statements line	2015	2014	2013
Jet fuel swap contracts	Fuel	Ps. (128,330)	Ps. (85,729)	Ps. 6,694
Jet fuel Asian call options contracts	Fuel	(112,675)	–	–
Interest rate swap contracts	Aircraft and engine rent expenses	(46,545)	(39,610)	(36,769)
Total		Ps. (287,550)	Ps. (125,339)	Ps. (30,075)

The following table summarizes the net (loss) gain on CFH before taxes recognized in the consolidated statements of comprehensive income for the years ended December 31, 2015, 2014 and 2013:

Consolidated statements of other comprehensive income

Instrument	Financial statements line	2015	2014	2013
Jet fuel swap contract	OCI	Ps. –	Ps. (125,228)	Ps. 6,257
Jet fuel Asian call options	OCI	(221,592)	(26,934)	–
Interest rate swap contracts	OCI	27,723	22,656	41,562
Total		Ps. (193,869)	Ps. (129,506)	Ps. 47,819

5. Financial assets and liabilities

At December 31, 2015 and 2014, 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

		2015		2014
Derivative financial instruments designated as cash flow hedges (effective portion recognized within OCI)				
Jet fuel Asian call options	Ps.	78,725	Ps.	68,133
Total financial assets	Ps.	78,725	Ps.	68,133
Presented on the consolidated statements of financial position as follows:				
Current	Ps.	10,123	Ps.	62,679
Non-current	Ps.	68,602	Ps.	5,454

b) Financial debt

(i) At December 31, 2015 and 2014, the Company's short-term and long-term debt consists of the following:

		2015		2014
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 May 31, 2019, bearing annual interest rate at the three-month LIBOR plus an spread according to the contractual conditions of each disbursement in a range of 1.99 to 2.65 percentage points.	Ps.	1,583,678	Ps.	1,243,192
II. Accrued interest		7,341		4,678
		1,591,019		1,247,870
Less: Short-term maturities		1,371,202		823,071
Long-term	Ps.	219,817	Ps.	424,799

(ii) The following table provides a summary of the Company's principal payments of financial debt and accrued interest at December 31, 2015:

		2016		2017		2018		Total
Finance debt denominated in foreign currency:								
Santander/Bancomext	Ps.	1,371,202	Ps.	154,025	Ps.	65,792	Ps.	1,591,019
Total	Ps.	1,371,202	Ps.	154,025	Ps.	65,792	Ps.	1,591,019

(iii) Since 2011, the Company has financed the pre-delivery payments for the acquisition of its aircraft through a revolving financing facility. During the year ended December 31, 2015, five aircraft A320 were incorporated to the Company through this revolving financing facility.

On August 1, 2013, the Company signed an amendment to the loan agreement to finance the pre-delivery payments of eight additional A320 Classic Engine Option ("CEO") aircraft to be delivered in 2015 and 2016.

On February 28, 2014 and November 27, 2014, the Company signed amendments to the loan agreement to finance pre-delivery payments of two and four additional A320 aircraft, respectively, to be delivered between 2015 and 2016.

Additionally, on August 25, 2015, the Company signed an amendment to the loan agreement to finance pre-delivery payments of eight additional A320 New Engine Option ("NEO") aircraft to be delivered between 2017 and 2018. In accordance with this amendment, the revolving line of credit with Santander and Bancomext to finance pre-delivery payments will expire on May 31, 2019.

This 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, 2015 and 2014, the Company was in compliance with the covenants under the above-mentioned loan agreement.

For purposes of financing the pre-delivery payments, Mexican trust structures 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.

(iv) At December 31, 2015, the Company had available credit lines totaling Ps.3,033,184, of which Ps.1,810,446 were related to financial debt and Ps.1,222,738 were related to letters of credit (Ps.680,413 were undrawn).

c) Other financial liabilities

		2015		2014
Derivative financial instruments designed as CFH (effective portion recognized within OCI):				
Interest rate swap contracts	Ps.	55,774	Ps.	83,496
Jet Fuel Asian swap contracts		–		169,622
Total financial liabilities	Ps.	55,774	Ps.	253,118
Presented on the consolidated statements of financial position as follows:				
Current	Ps.	44,301	Ps.	210,650
Non-current	Ps.	11,473	Ps.	42,468

6. Cash and cash equivalents

An analysis of this caption is as follows:

		2015		2014
Cash on hand	Ps.	9,878	Ps.	4,206
Cash in banks		2,796,437		837,319
Short-term investments		2,350,998		1,423,332
Total cash and cash equivalents	Ps.	5,157,313	Ps.	2,264,857

7. Related parties

a) An analysis of balances due from/to related parties at December 31, 2015 and 2014 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 transactions	Country of origin		2015		2014	Terms
Due to:							
One Link, S.A. de C.V.	Call center fees	El Salvador	Ps.	9,863	Ps.	–	30 days
Aeromantenimiento, S.A.	Aircraft and engine maintenance	El Salvador		4,453		559	30 days
Human Capital International HCI, S.A. de C.V.	Professional fees	Mexico		–		8	30 days
			Ps.	14,316	Ps.	567	

For the years ended December 31, 2015, 2014 and 2013, the Company did not recognize any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

b) During the years ended December 31, 2015, 2014 and 2013, the Company had the following transactions with related parties:

Related party transactions	Country of origin		2015		2014		2013
Revenues:							
Other commissions	Mexico	Ps.	–	Ps.	3,663	Ps.	42,206
Other	Mexico		–		–		5
Expenses:							
Maintenance	El Salvador		111,641		162,687		124,281
Fees	Mexico/El Salvador		57,809		1,038		–
Other	Mexico/El Salvador		2,516		617		1,845

c) Servprot

Servprot S.A. de C.V. ("Servprot") is a related party because Enrique Beltranena, the Company's Chief Executive Officer, and Rodolfo Montemayor, a member of the board of directors, are shareholders of such company. Servprot provides security services for Mr. Beltranena and his family, as well as for Mr. Montemayor. During the years ended December 31, 2015 and 2014 the Company expensed Ps.768 and Ps.900, respectively for this concept.

d) Directors and officers

During the years ended December 31, 2015, 2014 and 2013, all of the Company's senior managers received an aggregate compensation of short and long-term benefits of Ps.120,440, Ps.64,387 and Ps.65,452, respectively.

For the year ended December 31, 2015 and 2014 the cost of the share-based payments transactions (LTIP and management incentive plan) and the cash-settled payments transactions (share appreciation rights) was Ps.6,345 and Ps.44,699, respectively and Ps.1,385 and Ps.1,652, respectively (Note 17).

During 2015, the Company adopted a new short-term benefit plan for certain personnel whereby cash bonuses are awarded for meeting certain Company's performance target. During the year ended December 31, 2015, the Company recorded a provision in an amount of Ps.70,690.

During the year ended December 31, 2015, 2014 and 2013, the chairman and the independent members of the Company's board of directors received an aggregate compensation of approximately Ps.5,480, Ps.6,524 and Ps.4,996, respectively, and the rest of the directors received a compensation of Ps.4,183, Ps.4,669 and Ps.775, respectively.

8. Other accounts receivable, net

An analysis of other accounts receivable at December 31, 2015 and 2014, is detailed below:

		2015		2014
Credit cards	Ps.	153,989	Ps.	103,596
Cargo clients		28,687		41,268
Travel agencies and insurance commissions		24,687		40,919
Other points of sales		19,086		18,910
Insurance recovering		13,124		–
Affinity credit card		11,720		10,161
Airport services		10,435		3,682
Employees		5,955		6,601
Marketing services		2,241		6,350
Other accounts receivable		17,710		10,402
		287,634		241,889
Provision for doubtful accounts		(24,612)		(27,786)
	Ps.	263,022	Ps.	214,103

Accounts receivable have the following aging:

Days		2015 Impaired		2015 Not impaired		Total 2015		2014 Impaired		2014 Not impaired		Total 2014
00–30	Ps.	5,339	Ps.	251,183	Ps.	256,522	Ps.	–	Ps.	190,117	Ps.	190,117
31–60		–		8,376		8,376		–		9,615		9,615
61–90		–		3,463		3,463		–		14,371		14,371
91–120		19,273		–		19,273		27,786		–		27,786
	Ps.	24,612	Ps.	263,022	Ps.	287,634	Ps.	27,786	Ps.	214,103	Ps.	241,889

The movement in the allowance for doubtful accounts from January 1, 2013 to December 31, 2015 is as follows:

Balance as of January 1, 2013	Ps.	(21,722)
Write-offs		462
Increase in allowance		(8,515)
Balance as of December 31, 2013		(29,775)
Write-offs		11,953
Increase in allowance		(9,964)
Balance as of December 31, 2014		(27,786)
Write-offs		11,999
Increase in allowance		(8,825)
Balance as of December 31, 2015	Ps.	(24,612)

9. Inventories

An analysis of inventories at December 31, 2015 and 2014 is as follows:

		2015		2014
Spare parts and accessories of flight equipment	Ps.	157,304	Ps.	133,375
Miscellaneous supplies		5,769		6,298
	Ps.	163,073	Ps.	139,673

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, 2015, 2014 and 2013, the amount of consumption of inventories, recorded as an operating expense as part of maintenance expense was Ps.143,992, Ps.108,580 and Ps.139,519, respectively.

10. Prepaid expenses and other current assets

An analysis of prepaid expenses and other current assets at December 31, 2015 and 2014 is as follows:

		2015		2014
Prepaid aircraft rent	Ps.	320,358	Ps.	91,351
Prepaid major maintenance		47,307		40,131
Advances to suppliers		80,736		17,869
Sales commission to travel agencies		65,092		46,017
Prepaid insurance		40,195		6,145
Advances for constructions of aircraft and engines		28,541		23,148
Loss on sale and leaseback transactions to be amortized (Note 14)		3,047		3,047
	Ps.	585,276	Ps.	227,708

11. Guarantee deposits

An analysis of this caption at December 31, 2015 and 2014 is as follows:

		2015		2014
Current asset:				
Aircraft maintenance deposits paid to lessors (Note 1j)	Ps.	852,530	Ps.	505,744
Other guarantee deposits		8,706		39,448
		861,236		545,192
Non-current asset:				
Aircraft maintenance deposits paid to lessors (Note 1j)		4,068,732		2,936,428
Deposits for rental of flight equipment		625,132		556,275
Collateral for derivative financial instruments (Note 1s)		–		33,710
Other guarantee deposits		10,525		14,556
		4,704,389		3,540,969
	Ps.	5,565,625	Ps.	4,086,161

12. Rotable spare parts, furniture and equipment, net

	Gross value				Accumulated depreciation				Net carrying value			
		At December 31, 2015		At December 31, 2014		At December 31, 2015		At December 31, 2014		At December 31, 2015		At December 31, 2014
Aircraft parts and rotable spare parts	Ps.	285,323	Ps.	241,190	Ps.	(105,376)	Ps.	(89,247)	Ps.	179,947	Ps.	151,943
Constructions and improvements		86,067		79,481		(67,865)		(55,377)		18,202		24,104
Standardization		155,021		97,181		(71,135)		(49,559)		83,886		47,622
Computer equipment		27,075		24,106		(22,880)		(20,233)		4,195		3,873
Office furniture and equipment		28,101		27,798		(15,169)		(12,056)		12,932		15,742
Electric power equipment		19,457		15,491		(10,424)		(8,144)		9,033		7,347
Motorized transport equipment platform		5,576		4,597		(4,250)		(4,358)		1,326		239
Communications equipment		8,641		8,054		(4,877)		(3,981)		3,764		4,073
Workshop machinery and equipment		7,108		6,775		(2,929)		(2,197)		4,179		4,578
Service carts on board		5,367		5,367		(3,914)		(2,698)		1,453		2,669
Pre-delivery payments		1,583,835		1,396,008		–		–		1,583,835		1,396,008
Workshop tools		16,259		11,883		(11,444)		(9,811)		4,815		2,072
Construction and improvements in process		21,710		4,760		–		–		21,710		4,760
Leasehold improvements to flight equipment		1,602,560		1,187,914		(982,187)		(629,632)		620,373		558,282
Total	Ps.	3,852,100	Ps.	3,110,605	Ps.	(1,302,450)	Ps.	(887,293)	Ps.	2,549,650	Ps.	2,223,312

	Aircraft parts and rotable spare parts	Constructions and improvements	Standardi-zation	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	Pre-delivery payments	Construction and improvements in process	Leasehold improvements to flight equipment	Total
Net book amount as of December 31, 2013	Ps. 112,240	Ps. 28,246	Ps. 40,112	Ps. 4,884	Ps. 18,616	Ps. 9,210	Ps. 1,599	Ps. 330	Ps. 4,345	Ps. 5,250	Ps. 2,695	Ps. 879,001	Ps. 8,828	Ps. 225,967	Ps. 1,341,323
Additions	60,083	223	25,809	970	427	–	1,488	–	308	–	862	906,120	12,324	585,696	1,594,310
Disposals and transfers	(283)	–	–	–	–	–	–	–	–	–	–	(395,639)	(4,822)	–	(400,744)
Borrowing costs, net*	–	–	–	–	–	–	–	–	–	–	–	6,526	–	–	6,526
Other movements	–	10,203	–	812	355	–	–	–	200	–	–	–	(11,570)	–	–
Depreciation	(20,097)	(14,568)	(18,299)	(2,793)	(3,656)	(1,863)	(1,015)	(91)	(780)	(672)	(888)	–	–	(253,381)	(318,103)
As of December 31, 2014	151,943	24,104	47,622	3,873	15,742	7,347	2,072	239	4,073	4,578	2,669	1,396,008	4,760	558,282	2,223,312
Cost	241,190	79,481	97,181	24,106	27,798	15,491	11,883	4,597	8,054	6,775	5,367	1,396,008	4,760	1,187,914	3,110,605
Accumulated depreciation	(89,247)	(55,377)	(49,559)	(20,233)	(12,056)	(8,144)	(9,811)	(4,358)	(3,981)	(2,197)	(2,698)	–	–	(629,632)	(887,293)
Net book amount as of December 31, 2014	151,943	24,104	47,622	3,873	15,742	7,347	2,072	239	4,073	4,578	2,669	1,396,008	4,760	558,282	2,223,312
Additions	53,723	–	57,838	173	12	3,966	4,374	1,382	366	332	–	835,496	35,511	415,023	1,408,196
Disposals and transfers	(787)	–	–	(1)	(682)	–	–	(10)	(13)	–	–	(669,718)	(7,257)	–	(678,468)
Borrowing costs, net*	–	–	–	–	–	–	–	–	–	–	–	22,049	–	–	22,049
Other movements	–	6,586	–	2,878	1,567	–	–	–	273	–	–	–	(11,304)	–	–
Depreciation	(24,932)	(12,488)	(21,574)	(2,728)	(3,707)	(2,280)	(1,631)	(285)	(935)	(731)	(1,216)	–	–	(352,932)	(425,439)
As of December 31, 2015	179,947	18,202	83,886	4,195	12,932	9,033	4,815	1,326	3,764	4,179	1,453	1,583,835	21,710	620,373	2,549,650
Cost	285,323	86,067	155,021	27,075	28,101	19,457	16,259	5,576	8,641	7,108	5,367	1,583,835	21,710	1,602,560	3,852,100
Accumulated depreciation	(105,376)	(67,865)	(71,135)	(22,880)	(15,169)	(10,424)	(11,444)	(4,250)	(4,877)	(2,929)	(3,914)	–	–	(982,187)	(1,302,450)
Net book amount as of December 31, 2015	Ps. 179,947	Ps. 18,202	Ps. 83,886	Ps. 4,195	Ps. 12,932	Ps. 9,033	Ps. 4,815	Ps. 1,326	Ps. 3,764	Ps. 4,179	Ps. 1,453	Ps. 1,583,835	Ps. 21,710	Ps. 620,373	Ps. 2,549,650

* During the years ended December 31, 2015 and 2014, the Company capitalized borrowing cost of Ps.90,057 and Ps.42,572, respectively. The amount of this line is net of disposals of capitalized borrowing costs related to sale-and-leaseback transactions of Ps.68,008 and Ps.36,046, respectively.

a) Depreciation expense for the years ended December 31, 2015, 2014 and 2013, was Ps.425,439, Ps.318,103 and Ps.269,352, 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 ("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. The Company took the delivery of the aircraft in accordance with a schedule, based on which at December 31, 2011 a total of 16 aircraft and five engines have been delivered.

Based on the original Airbus purchase agreement, the Company had an option to buy 20 additional aircraft under the same commercial terms. On June 22, 2007, the Company converted 14 aircraft (out of the 20 aforementioned additional aircraft) to binding orders. On January 4, 2011, the Company amended the schedule of these 14 additional aircraft to be delivered as follows: seven in 2012, five in 2013 and two in 2014. On the same date, the Company modified these 14 new orders from A319 aircraft type to A320 aircraft type.

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 aircraft and 30 A320New Engine Option ("NEO") aircraft. In November 2013, the Company amended the agreement with Airbus to advance one of the 14 A320CEO aircraft due for delivery in 2016, to November 2014. At December 31, 2015, the company incorporated other five aircraft to its fleet. During the years ended December 31, 2015 and 2014, the amounts paid for aircraft pre-delivery payments were of Ps.835,495 (US$52.8 million) and Ps.906,120 (US$67.6 million), respectively.

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 2020. The Company also entered into agreements that provide major maintenance services related to these engines, and the purchase of seven spare engines, one of them for the A320CEO fleet, and the remaining six, for the A320NEO fleet.

In May 2015, the Company amended the agreement with Airbus to advance two aircraft, which will be delivered during 2016.

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 current purchase agreement with Airbus requires the Company to accept delivery of 38 Airbus A320 family aircraft in the next five years (from January 2016 to December 2020). The agreement provides for the addition of eight A320CEOs and 30 NEOs to its fleet as follows: eight in 2016, two in 2017, six in 2018, 10 in 2019, and 12 in 2020.

c) On August 27, 2012, the Company entered into a total support agreement with Lufthansa Technik AG ("LHT") for a six year term. This agreement includes a total component support agreement (power-by-hour) and guarantees the availability of aircraft components for the Company's fleet when they are required. The cost of the total component support agreement is recognized as maintenance expenses in the consolidated statement of operations.

Additionally, the total support agreement included a sale and leaseback agreement of certain components. As part of the total support agreement with LHT, the Company received credit notes of Ps.46,461 (US$3.5 million), which are being amortized on a straight line basis, prospectively during the term of the agreement. As of December 31, 2015, 2014 and 2013, the Company amortized a corresponding benefit from these credit notes of Ps.9,292, Ps.9,292 and 9,292, respectively, which is recognized as an offset to maintenance expenses in the consolidated statements of operations.

As of December 31, 2014 the Company applied Ps.21,151 to outstanding LHT. As of December 31, 2013, the Company also recorded an account receivable of Ps.9,956 for the unused portion of the credit notes, which was used during the year ended December 31, 2014.

Commitments to acquisitions of property and equipment are disclosed in (Note 23).

13. Intangible assets, net

The composition and movement of intangible assets is as follows:

		Gross value		Accumulated amortization		Net carrying amount	
		At December 31,					
	Amortization Rate	2015	2014	2015	2014	2015	2014
Software	Useful life	**Ps. 253,325**	Ps. 199,964	**Ps. (158,676)**	Ps. (127,398)	**Ps. 94,649**	Ps. 72,566

Balance as of January 1, 2014	Ps. 79,282
Additions	28,457
Disposals	(10,761)
Amortization	(24,412)
Balance as of December 31, 2014	72,566
Additions	53,361
Disposals	–
Amortization	(31,278)
Balance as of December 31, 2015	**Ps. 94,649**

Software amortization expense for the years ended December 31, 2015, 2014 and 2013 was Ps.31,278, Ps.24,412 and Ps.32,179, respectively. These amounts were recognized in depreciation and amortization in the consolidated statements of operations.

14. Operating leases

The most significant operating leases are as follows:

a) Aircraft and engine rent. At December 31, 2015, the Company leased 56 aircraft (50 in 2014) and six spare engines under operating leases that have maximum terms through 2026. Rents are guaranteed by deposits in cash or letters of credit. The aircraft lease agreements contain certain covenants to which the Company is bound. The most significant covenants include the following:

(i) Maintain the records, licenses and authorizations required by the competent aviation authorities and make the corresponding payments.
(ii) Provide maintenance services to the equipment based on the approved maintenance program.
(iii) Maintain insurance policies on the equipment for the amounts and risks stipulated in each agreement.
(iv) Periodic submission of financial and operating information to the lessors.
(v) Comply with the technical conditions relative to the return of aircraft.

As of December 31, 2015 and 2014, the Company was in compliance with the covenants under the above mentioned aircraft lease agreements.

Composition of the fleet, operating leases*:

Aircraft Type	Model	At December 31, 2015	At December 31, 2014	At December 31, 2013
A319	132	6	6	7
A319	133	12	12	13
A320	233	32	28	20
A320	232	4	4	4
A321	200	2	–	–
		56	50	44

* 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, 2015, the Company incorporated seven aircraft to its fleet (five of them based on the terms of the Airbus purchase agreement and two from a lessor's aircraft order book), and returned one aircraft to a lessor. These new aircraft lease agreements were accounted for as operating leases. Additionally, during 2015 the Company extended the lease term of three A319 aircraft. All aircraft incorporated through the lessor's aircraft order book are not subject to sale and leaseback transactions.

In November 2015, the Company entered into three new A321CEO aircraft lease agreements. These aircraft will be incorporated into the Company's fleet in September and December 2016.

In August 2015, the Company entered into two new A321CEO aircraft lease agreements. These aircraft will be incorporated into the Company's fleet in June and September 2016.

In April 2015, the Company entered into three new A321CEO aircraft lease agreements. The three A321CEO will be incorporated into the Company's fleet during May, October and November 2016.

During the year ended December 31, 2014, the Company incorporated eight aircraft to its fleet (three of them based on the terms of the original Airbus purchase agreement and five from a lessor's aircraft order book), and returned two aircraft to different lessors. These new aircraft agreements were accounted for as operating leases. Additionally, during October 2014, the Company extended the lease term of one A320CEO aircraft.

On November 26, 2014, the Company entered into two new aircraft lease agreement (A321CEO), both from the lessor aircraft order book. These aircraft were incorporated into the Company's fleet during April and May 2015.

During October 2014, the Company entered into 14 new aircraft lease agreement (all A320CEO). These aircraft are from the amended purchased order with Airbus. On November 2014 the Company received one of these aircrafts, which was accounted for as operating lease. During 2015, the Company received five of these aircrafts, which were accounted for as operating leases. The remaining eight aircrafts will be incorporated into the Company's fleet during 2016.

On April 8, 2014 the Company entered into one new aircraft lease agreement (A320CEO aircraft) from a lessor aircraft order book. This aircraft was incorporated into the Company's fleet during 2014, and was accounted for as operating lease.

On February 13, 2014, the Company entered into 16 new aircraft lease agreements (10 A320NEO and 6 A321NEO), all from a lessor aircraft order book. The A320NEO will be incorporated into the Company's fleet during 2016, 2017 and 2018, and the A321NEO will be incorporated into the Company's fleet during 2017 and 2018. All aircraft incorporated through the lessor aircraft order book are not subject to sale and leaseback transactions.

During the year ended December 31, 2013, the Company incorporated seven aircraft to its fleet (five of them based on the terms of the original Airbus purchase agreement) and returned four aircraft to the lessors. These aircraft agreements were accounted for as operating leases.

On November 7, 2013, the Company entered into one new spare engine lease agreement, which was accounted for as an operating lease; with the addition of this engine the quantity of spare engines increased to six.

On June 5, 2013, the Company entered into four new aircraft lease agreements (A320 aircraft), which were accounted as operating leases; two of them were incorporated into the Company's fleet during the fourth quarter of 2013, and the two remaining aircraft were incorporated during the first half of 2014. On August 12, 2013, the Company entered into two new aircraft lease agreements (A320 aircraft), which were accounted as operating leases; these two aircraft were incorporated into the Company's fleet during 2014. All aircraft incorporated through the lessor aircraft order book are not subject to sale and leaseback transactions.

At December 31, 2015 and 2014, all of the Company's aircraft and spare engines lease agreements were accounted for as operating leases.

Provided below is an analysis of future minimum aircraft rent payments in U.S. dollars and its equivalent to Mexican pesos:

	Operating leases			
	in U.S. dollars		in Mexican pesos (1)	
2016	US$	194,615	Ps.	3,348,639
2017		171,360		2,948,516
2018		153,380		2,639,129
2019		141,303		2,431,332
2020		139,058		2,392,704
2021 and thereafter		417,083		7,176,532
Total	US$	1,216,799	Ps.	20,936,852

(1) Using the exchange rate as of December 31, 2015 of Ps. 17.2065.

Such amounts are determined based on the stipulated rent contained within the agreements without considering renewals and on the prevailing exchange rate and interest rates at December 31, 2015.

b) Rental of land and buildings. The Company has entered into land and property lease agreements with third parties for the premises where it provides its services and where its offices are located. These leases are recognized as operating leases.

Provided below is an analysis of future minimum rental and land and building payments in Mexican pesos and its equivalent to U.S. dollars:

	Operating leases			
	in U.S. dollars		in Mexican pesos	
2016	US$	5,860	Ps.	100,836
2017		3,472		59,742
2018		945		16,263
2019		787		13,535
2020		773		13,293
Total	US$	11,837	Ps.	203,669

c) Rental expense charged to results of operations is as follows:

		2015		2014		2013
Aircraft and engine (Note 1p)	Ps.	3,525,336	Ps.	2,534,522	Ps.	2,187,339
Real estate:						
Airports facilities		39,993		36,113		41,643
Offices, maintenance warehouse and hangar (Note 20)		25,889		20,055		22,431
Total rental expenses on real estate		65,882		56,168		64,074
Total cost of operating leases	Ps.	3,591,218	Ps.	2,590,690	Ps.	2,251,413

During the years ended December 31, 2015, 2014 and 2013 the Company entered into sale and leaseback transactions, resulting in a gain of Ps.181,736, Ps.14,192 and Ps.106,607, respectively, that was recorded under the caption other income in the consolidated statement of operations (Note 20).

During the year ended December 31, 2011, the Company entered into sale and leaseback transactions, which resulted in a loss of Ps.30,706. This loss was deferred on the consolidated statements of financial position and is being amortized over the contractual lease term. As of December 31, 2015 and 2014, the current portion of the loss on sale amounts to Ps.3,047 and Ps.3,047, respectively, which are recorded in the caption of prepaid expenses and other current assets (Note 10), and the non-current portion amounts to Ps.17,507 and Ps.20,554, respectively, which are recorded in the caption of other assets in the consolidated statements of financial position.

For the years ended December 31, 2015, 2014 and 2013, the Company amortized a loss of Ps.3,047, Ps.3,047 and Ps.3,047, respectively, as additional aircraft rental expense.

15. Accrued liabilities

a) An analysis of accrued liabilities at December 31, 2015 and 2014 is as follows:

		2015		2014
Fuel and traffic accrued expenses	Ps.	532,112	Ps.	548,851
Salaries and benefits		158,854		89,234
Maintenance and aircraft parts accrued expenses		153,559		96,531
Maintenance deposits		139,214		109,083
Sales, marketing and distribution accrued expenses		123,745		100,229
Advances from travel agencies		86,927		1,561
Aircraft and engine lease extension benefit (Note 1j)		55,115		34,985
Incentives from suppliers		47,788		4,081

(continue)

		2015		2014
Information and communication accrued expenses		46,383		19,508
Deferred revenue from VClub membership		44,948		29,939
Accrued administrative expenses		41,212		54,847
Supplier services agreement		9,292		9,292
Depositary services benefit		2,068		2,068
Others		30,056		21,332
	Ps.	1,471,273	Ps.	1,121,541

b) Accrued liabilities long-term:

		2015		2014
Aircraft and engine lease extension benefit (Note 1j)	Ps.	139,213	Ps.	112,057
Supplier services agreement		5,806		15,099
Depositary services benefit		3,547		5,614
Others		8,765		11,291
	Ps.	157,331	Ps.	144,061

c) An analysis of other liabilities is as follows:

		Balance as of January 1, 2015		Increase for the year		Payments		Balance as of December 31, 2015
Employee profit sharing	Ps.	6,533	Ps.	9,938	Ps.	6,298	Ps.	10,173
Aircraft lease return obligation		23,358		35,337 *		1,067		57,628
	Ps.	29,891	Ps.	45,275	Ps.	7,365	Ps.	67,801
Short- term maturities							Ps.	18,670
Long-term							Ps.	49,131

* Includes discount rate adjustment

		Balance as of January 1, 2014		Increase for the year		Payments		Balance as of December 31, 2014
Employee profit sharing	Ps.	7,934	Ps.	6,273	Ps.	7,674	Ps.	6,533
Aircraft lease return obligation		12,945		12,815 *		2,402		23,358
	Ps.	20,879	Ps.	19,088	Ps.	10,076	Ps.	29,891
Short- term maturities							Ps.	8,905
Long-term							Ps.	20,986

* Includes discount rate adjustment

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, 2015, 2014 and 2013, are as follows:

		2015		2014		2013
Analysis of net period cost:						
Current service cost	Ps.	2,012	Ps.	1,384	Ps.	1,251
Interest cost on benefit obligation		537		380		276
Net period cost	Ps.	2,549	Ps.	1,764	Ps.	1,527

Changes in the defined benefit obligation are as follows:

		2015		2014		2013
Defined benefit obligation at January 1,	Ps.	7,737	Ps.	5,260	Ps.	4,111
Net period cost charged to profit or loss:						
Current service cost		2,012		1,384		1,251
Interest cost on benefit obligation		537		380		276
Remeasurement (gains) losses in other comprehensive income (loss):						
Actuarial changes arising from changes in assumptions		1,174		1,581		332
Payments made		(1,404)		(868)		(710)
Defined benefit obligation at December 31,	Ps.	10,056	Ps.	7,737	Ps.	5,260

The significant assumptions used in the computation of the seniority premium obligations are shown below:

	2015	2014	2013
Financial:			
Discount rate	7.29%	7.15%	7.50%
Expected rate of salary increases	5.50%	5.50%	5.50%
Annual increase in minimum salary	4.00%	4.00%	4.00%
Biometric:			
Mortality (1)	EMSSA 09	EMSSA 97	EMSSA 97
Disability (2)	IMSS–97	IMSS–97	IMSS–97

(1) EMSSA. Mexican Experience of social security.

(2) IMSS. Mexican Experience of *Instituto Mexicano del Seguro Social*.

Accruals for short-term employee benefits at December 31, 2015 and 2014, respectively, are as follows:

		2015		2014
Employee profit-sharing	Ps.	10,173	Ps.	6,533

The key management personnel of the Company include the members of the Board of Directors (Note 7).

17. Share-based payments

a) LTRP

During 2010, the Company adopted an employee LTRP, the purpose of which is to retain high performing employees within the organization by paying incentives depending on the Company's performance. During the year ended December 31, 2013 the Company expensed Ps.6,327, as bonuses as part of the caption salaries and benefits.

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 in a share purchase plan (equity-settled transaction) and SARs plan (cash settled).

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 Mexican Stock Exchange 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 desire.

(iv) The share purchase plan provides that if the terms and conditions are not meet by the vesting period date, then the shares will be sold in the BMV, and Servicios Corporativos will 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. As of December 31, 2014 the Administrative Trust held available cash by an amount of Ps.440, intended for acquiring the remaining shares.

As of December 31, 2015 and 2014, 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 November 11, 2014	594,081
Granted during the year	–
Exercised as during the year	–
Outstanding as of December 31, 2014	594,081 *
Purchased during the year	22,920
Granted during the year	–
Exercised as during the year	–
Forfeited	–
Outstanding as of December 31, 2015	617,001 *

* These shares were presented as treasury shares in the consolidated statement of financial position as of December 31, 2015 and 2014.

The vesting period of the shares granted under the Company's share purchase plan is as follows:

Number of Series A shares	Vesting period
205,667*	November 2014 – 2015
205,667*	November 2015 – 2016
205,667*	November 2016 – 2017
617,001	

* Includes the shares acquired during November 2015.

In accordance with IFRS 2, this share purchase plan was classified as an equity-settled transaction on the grant date. Equity-settled transactions are measured at fair value at the date the equity benefits are conditionally granted to key employees. The total cost of the plan granted in 2014, determined by the Company was Ps.10,831 to be recognized from the time it becomes probable the performance condition will be met over the vesting period. 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.

The equity-settled compensation cost is recognized in the consolidated statement of operations under the caption of salaries and benefits, over the vesting period. For the years ended December 31, 2015 and 2014, the compensation expense recorded in the consolidated statement of operations amounted to Ps.6,018 and Ps.1,058, respectively.

All shares held in the Administrative Trust are considered outstanding for both basic and diluted earnings per share purposes, since the shares are entitled to dividend if and when declared by the Company.

During the year ended December 31, 2015, some key employees left the Company; therefore, the vesting conditions were not fulfilled. 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, 2015, 86,419 shares did not meet the vesting terms. As of December 31, 2015, these shares remain deposited in the Administrative Trust.

– 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 as such date.

Fair value of the SARs is measured at each reporting date. The carrying amount of the liability relating to the SARs as of December 31, 2015 and 2014 was Ps.14,511 and Ps.1,652, 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, 2015 and 2014, the Company recorded Ps.44,699 and Ps.1,652, respectively in the consolidated statement of operations.

The fair value of these SARs is estimated at the grant date and at each reporting date using the Black-Sholes option pricing model, taking into account the terms and conditions on which the SARs were granted (vesting schedule in tables below).

The amount of the cash payment is determined based on the increase in our share price between the grant date and the settlement date.

Number of SARs	Exercisable date
1,959,065	November 2015
1,312,953	November 2016
1,043,246	November 2017
4,315,264	

During the year ended December 31, 2015, the Company made a cash payment to key employees related to the SAR's plan by an amount of Ps.31,090. This amount was determined based on the increase in the share price of the Company between the grant date and the exercisable date (November 2015).

c) MIP

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 has to 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. During the years ended December 31, 2015 and 2014, the Company recorded Ps.327 and Ps.327, respectively, as cost of the MIP related to the vested shares, in the consolidated statements of operations.

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.

On September 18, 2013 (IPO date), the key employees participating in the MIP exercised 4,891,410 Series A and Series B shares. As a result, the key employees paid Ps.25,993 to the Management Trust corresponding to the exercised shares. 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.

On November 16, 2015, as part of the secondary follow-on equity offering, the key employees exercised 4,414,860 Series A shares. As a result, the key employees paid Ps.23,461 to the Management Trust corresponding to the exercised shares. 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, 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		5.31		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

At December 31, 2015 and 2014, the share options were considered as treasury shares. As of December 31, 2015, 15,857,856 share options were vested. As of December 31, 2014, the total number of vested and unvested shares amounted 17,246,405 and 3,026,311, respectively.

The expense recognized for the Company's retention plans during the year is shown in the following table:

		2015		2014		2013
Expense arising from equity-settled share-based payments transactions	Ps.	6,345	Ps.	1,385	Ps.	2,068
Expense arising from cash-settled share-based payments transactions		44,699		1,652		–
Total expense arising from share-based payments transactions	Ps.	51,044	Ps.	3,037	Ps.	2,068

18. Equity

As of December 31, 2015, the total number of 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	3,224	877,852,982	877,856,206
Series B shares	20,956	133,999,515	134,020,471
	24,180	1,011,852,497	1,011,876,677
Treasury shares (Note 17)	–	(16,474,857	(16,474,857)
	24,180	995,377,640	995,401,820

As of December 31, 2014, the total number of 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	3,224	877,852,982	877,856,206
Series B shares	20,956	133,999,515	134,020,471
	24,180	1,011,852,497	1,011,876,677
Treasury shares (Note 17)	–	(20,866,797)	(20,866,797)
	24,180	990,985,700	991,009,880

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.

During the year ended December 31, 2015 and 2014, the Company did not declare any dividends.

a) Secondary follow-on equity offering

On November 16, 2015, the Company completed a secondary follow-on equity offering, in which certain shareholders sold 108,900,000 of the Company's CPOs, in the form of American Depositary Shares, or ADSs. No CPOs or ADSs were sold by the Company and the selling shareholders received all of the proceeds from this offering. The Company recorded the related transaction costs in the consolidated statement of operations in the amount of Ps.22,955.

b) Earnings per share

Basic earnings per share ("EPS") amounts are calculated by dividing the income 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 amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) 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.

The following table shows the calculations of the basic and diluted earnings per share for the years ended December 31, 2015, 2014 and 2013.

	At December 31,		
	2015	2014	2013
Net income for the period attributable to equity holders of the parent	Ps. 2,463,870	Ps. 605,184	Ps. 268,678
Weighted average number of shares outstanding (in thousands)*:			
Basic	1,011,877	1,011,877	865,579
Diluted	1,011,877	1,011,877 *	865,579 *
EPS:			
Basic	2.435	0.598	0.310
Diluted	2.435	0.598	0.310

* During 2013, issued shares awarded under the MIP and, up until April 22, the Company's swap shares are deemed treasury shares and dilutive; accordingly, they have been included in the determination of weighted average diluted shares outstanding for the period. Vested but unexercised shares under the MIP are entitled to dividend; accordingly, they are participating securities for the determination of basic earnings per share.

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.

c) In conformity 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.

At an ordinary general shareholders' meeting held on April 7, 2011, the shareholders approved to allocate the legal reserve by an amount of Ps.38,250.

As of December 31, 2015 and 2014, the Company's legal reserve has not reached the 20% of its capital stock.

d) 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.

e) 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 MITL, the Company is subject to income tax and files its tax returns on an individual entity basis and the related tax results are combined 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 restated assets values. Taxable income is increased or reduced by the effects of inflation on certain monetary assets and liabilities through the annual inflation adjustment.

On December 11, 2013, the 2014 tax reform was approved. The effects of the changes in the MITL have been observed for the computation of Company's deferred taxes since these effects are not retroactive. The main changes to the MITL are as follows:

(i) Based on the approved law corporate income tax rate for 2015 and thereafter is 30%.

(ii) In order to carry out the simplicity and lower administrative costs related to taxes payments, the tax authority abrogated the FRBT. Therefore, FRBT is no longer applicable as of January 1, 2014.

(iii) In addition to the above, as of 2014, the new 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% (Christmas 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.

(iv) The new MITL sets forth new 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.

(v) Starting 2014, taxable income for purposes of the employee profit sharing is the same used for the Corporate Income Tax except for certain items.

(vi) A new 10% withholding tax is imposed on dividends distributions to individuals and foreign shareholders.

b) Until 2013, the Company was subject to the FRBT. FRBT is computed by applying the 17.5% rate to a taxable income determined in a cash flow basis net of authorized credits.

As a result of the repeal of the FRBT Law, starting in fiscal years beginning on or after January 1, 2014, taxpayers must cancel the FRBT credit balances they had reported through 2013 resulting from negative FRBT bases to be amortized (i.e., when deductions exceeded revenues) and FRBT credits resulting from the deduction of certain assets, such as inventories and fixed assets.

c) For the years ended December 31, 2015, 2014 and 2013, the Company reported on a combined basis a tax income of Ps.2,751,813, Ps.472,630 and Ps.51,665, respectively, which was offset by tax losses from prior years.

In accordance with the MITL, tax losses may be carried forward against taxable income generated in the succeeding ten years. Carryforward tax losses are restated based on inflation.

d) An analysis of combined income tax expense for the years ended December 31, 2015, 2014 and 2013 is as follows:

Consolidated statements of operations

		2015		2014		2013
Current year income tax expense	Ps.	(337,997)	Ps.	(17,345)	Ps.	(8,710)
Deferred income tax expense		(700,351)		(21,375)		(8,840)
Total income tax expense	Ps.	(1,038,348)	Ps.	(38,720)	Ps.	(17,550)

Consolidated statements of OCI

		2015		2014		2013
Deferred tax related to items recognized in OCI during the year						
Net gain (loss) on CFH	Ps.	58,161	Ps.	38,852	Ps.	(14,346)
Remeasurement gain (loss) of employee benefits		352		474		(3,076)
Deferred tax charged to OCI	Ps.	58,513	Ps.	39,326	Ps.	(17,422)

e) A reconciliation of the statutory corporate income tax rate to the Company's effective tax rate for financial reporting purposes is as follows:

	2015	2014	2013
Statutory income tax rate	30.00%	30.00%	30.00%
Annual inflation adjustment	(0.23%)	0.11%	0.45%
Nondeductible expenses	0.66%	0.64%	3.85%
Inflation on furniture, intangible and equipment	(0.34%)	(0.20%)	(0.37%)
Unrecorded deferred taxes on available tax losses carryforward	–	–	14.00%
Benefits recognized for tax losses	–	(22.92%)	(39.21%)
Inflation of tax losses	(0.02%)	(3.39%)	(6.34%)
Amendment tax return effects and other tax adjustments	(0.42%)	1.77%	3.77%
Tax rate change	–	–	0.05%
	29.65%	6.01%	6.20%

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.

f) An analysis of combined deferred taxes is as follows:

		2015				2014		
		Consolidated statement of financial position		Consolidated statement of operations		Consolidated statement of financial position		Consolidated statement of operations
Deferred income tax assets:								
Unearned transportation revenue	Ps.	58,716	Ps.	16,089	Ps.	42,627	Ps.	1,055
Allowance for doubtful accounts		9,070		(124)		9,194		229
Provisions and other accruals		286,567		56,324		230,243		76,390
Employee benefits		3,013		343		2,319		267
Employee profit sharing		3,048		1,720		1,328		(420)
Financial instruments		126,240		(163)		68,241		(342)
Extension lease agreement		76,319		18,593		57,726		9,633
Tax losses available for offsetting against future taxable income		58,354		(459,718)		518,072		47,284
Intangible		498,263		498,263		–		–
		1,119,590		131,327		929,750		134,096
Deferred income tax liabilities:								
Inventories		48,904		7,007		41,897		7,745
Rotable spare parts, furniture and equipment, net		264,101		34,558		229,543		120,487
Intangible assets		–		(21,770)		21,770		9,853
Prepaid expenses and other assets		155,078		91,364		63,714		(31,176)
Deductible supplemental rent		975,827		716,968		258,859		49,009
Other prepayment		16,575		3,551		13,024		(447)
		1,460,485		831,678		628,807		155,471
	Ps.	(340,895)	Ps.	(700,351)	Ps.	300,943	Ps.	(21,375)

		2015		2014		2013
Reflected in the consolidated statement of financial position as follows:						
Deferred tax assets	Ps.	544,598	Ps.	327,785	Ps.	304,525
Deferred tax liabilities		(885,493)		(26,842)		(21,530)
Deferred tax (liability) asset, net	Ps.	(340,895)	Ps.	300,943	Ps.	282,995

A reconciliation of deferred tax liability is as follows:

		2015		2014		2013
Opening balance as of January 1,	Ps.	300,943	Ps.	282,995	Ps.	309,257
Deferred income tax (expense) benefit during the current year recorded on profits		(700,351)		(21,375)		(8,840)
Tax income benefit (expense) during the current year recorded in accumulated other comprehensive income (loss)		58,513		39,323		(17,422)
Closing balance as of December 31,	Ps.	(340,895)	Ps.	300,943	Ps.	282,995

At December 31, 2015 and 2014, the table shown above includes deferred income tax asset recognized by Concesionaria (2014) and Controladora (2015) 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 carryforward 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 this regards the Company has recognized at December 31, 2015 and 2014 a deferred tax asset for tax losses of Ps.58,354 and Ps.518,072, respectively.

During 2013, the Company recognized a deferred tax asset for the carryforward of available tax losses of Concesionaria for an amount of Ps.369,631, based on the positive evidence of the Company to generate taxable temporary differences against which the available tax losses can be utilized before they expire.

During 2014, the Company recognized a deferred tax asset for the carryforward of available tax losses of Controladora for an amount of Ps.491,916, based on the positive evidence of the Company to generate taxable temporary differences related to the same taxation authority which will result in taxable amounts against which the available tax losses can be utilized before they expire. Positive evidence includes the Company's desire to expand its operations out of Mexico, resulting in the need to find an organizational structure that is more efficient, in hopes of increasing the Company's growing resulting in tax planning opportunities available to create taxable profit in the future.

An analysis of the available tax losses carry-forward of the Company at December 31, 2015 is as follows:

Year of loss		Historical Loss		Restated tax loss		Utilized		Total remaining amount	Year of expiration
2005	Ps.	115,170	Ps.	142,044	Ps.	142,044	Ps.	–	2015
2006		297,422		387,262		387,262		–	2016
2007		333,206		442,588		442,588		–	2017
2008		317,209		414,164		414,164		–	2018
2009		344,154		425,688		425,688		–	2019
2010		95,334		113,625		113,625		–	2020
2011		559,623		645,658		645,658		–	2021
2013		181,756		197,680		21,403		176,277	2023
2014		17,341		18,235		–		18,235	2024
	Ps.	2,261,215	Ps.	2,786,944	Ps.	2,592,432	Ps.	194,512	

A breakdown of available tax loss carry-forward of Controladora and its subsidiaries at December 31, 2015 is as follows:

		Historical Loss		Restated tax loss		Utilized		Total remaining amount
Concesionaria	Ps.	1,687,494	Ps.	2,127,459	Ps.	2,127,459	Ps.	–
Controladora		552,592		636,602		442,090		194,512
Comercializadora		20,149		21,869		21,869		–
Servicios administrativos		980		1,014		1,014		–
	Ps.	2,261,215	Ps.	2,786,944	Ps.	2,592,432	Ps.	194,512

g) At December 31, 2015 the Company had the following tax balances:

		2015
Restated contributed capital account (*Cuenta de capital de aportación* or "CUCA")	Ps.	3,386,311
CUFIN		751,022

20. Other operating income and expenses

An analysis of other operating income is as follows:

		2015		2014		2013
Gain on sale and leaseback (Note 14c)	Ps.	181,736	Ps.	14,192	Ps.	106,607
Others		11,419		7,915		4,670
	Ps.	193,155	Ps.	22,107	Ps.	111,277

An analysis of other operating expenses is as follows:

		2015		2014		2013
Administrative and operational support expenses	Ps.	383,805	Ps.	261,286	Ps.	147,746
Technology and communications		173,078		110,245		96,924
Insurance		54,609		55,248		59,313
Rents of offices, maintenance warehouse and hangar (Note 14 c)		25,889		20,055		22,431
Passenger services		23,195		32,388		57,956
Disposal of intangible, rotable spare parts, furniture and equipment		632		284		11,805
Penalty of anticipated IT contract cancellation		–		–		21,821
Equity transaction costs (Note 18)		22,955		–		9,424
Penalty of anticipated lease contract cancellation		–		–		7,601
Other IT expenses		–		620		7,443
Others		13,623		9,812		16,036
	Ps.	697,786	Ps.	489,938	Ps.	458,500

21. Finance income and cost

An analysis of finance income is as follows:

		2015		2014		2013
Interest on cash and equivalents	Ps.	47,029	Ps.	23,242	Ps.	23,044
Others		5		222		1,730
	Ps.	47,034	Ps.	23,464	Ps.	24,774

An analysis of finance cost is as follows:

		2015		2014		2013
Cost of letter credit notes	Ps.	18,279	Ps.	18,189	Ps.	17,164
Interest on debts and borrowings*		–		–		38,796
Debt prepayment premium		–		–		65,206
Other finance costs		–		11,216		–
Bank fees and others		3,424		2,930		4,571
	Ps.	21,703	Ps.	32,335	Ps.	125,737

* The borrowing costs related to the acquisition or construction of qualifying asset are capitalized as part of the cost of that asset.

		2015		2014		2013
Interest on debts and borrowings	Ps.	90,057	Ps.	42,572	Ps.	63,993
Capitalized interest		(90,057)		(42,572)		(25,197)
Net interest on debts and borrowing in the consolidated statements of operations	Ps.	–	Ps.	–	Ps.	38,796

22. Components of other comprehensive income (loss)

		2015		2014		2013
Derivative financial instruments:						
Reclassification during the year profit or loss	Ps.	287,550	Ps.	125,339	Ps.	30,075
Gain of the not-yet matured interest rate swap contracts		(18,823)		(16,954)		4,792
Gain (loss) of the not-yet matured fuel swap contracts		(11,828)		(210,957)		12,952
Extrinsic vale changes on jet fuel						
Asian call options		(450,768)		(26,934)		–
	Ps.	(193,869)	Ps.	(129,506)	Ps.	47,819

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 equivalent in			
		U.S. dollars		Mexican pesos (1)
2016	US$	34,122	Ps.	587,128
2017		82,275		1,415,664
2018		119,883		2,062,772
2019		91,556		1,575,352
2020		25,692		442,062
	US$	353,528	Ps.	6,082,978

(1) Using the exchange rate as of December 31, 2015 of Ps. 17.2065.

All aircraft acquired by the Company through the Airbus purchase agreement at December 31, 2015 and 2014 have been executed through to sale and leaseback transactions.

Litigation

a) The Company and its Chief Executive Officer, Chief Financial Officer, certain of its current directors and certain of its former directors, are among the defendants in a putative class action commenced on February 24, 2015 in the United States District Court for the Southern District of New York brought on behalf of purchasers of ADSs in and/or traceable to the Company's September 2013 IPO. The complaint, which also names as defendants the underwriters of the IPO, generally alleges that the registration statement and prospectus for the ADSs contained misstatements and omissions with respect to the recognition of non-ticket revenue in violation of the federal securities laws, and seeks unspecified damages and rescission. Pavers and Road Builders Pension Fund was appointed as lead plaintiff for the action. The Company believes that the outcome of the proceedings to which we are currently a party will not, individually or in the aggregate, have a material adverse effect on the consolidated financial statements.

b) 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:

		2015		2014		2013
Operating revenues:						
Domestic (Mexico)	Ps.	12,579,806	Ps.	10,218,973	Ps.	9,619,983
International		5,599,898		3,817,769		3,382,488
Total operating revenues	Ps.	18,179,704	Ps.	14,036,742	Ps.	13,002,471

Revenues are allocated by geographic segments based upon the origin of each flight.

25. Subsequent events

Subsequent to December 31, 2015 and through April 27, 2016:

a) The Company incorporated three new aircraft (A320CEO) and a new spare engine. The Company´s fleet reached 59 aircraft and 7 spare engines as of April 27, 2016.

b) In April 2016, an extension to the LTIP was approved by the Annual Ordinary Shareholder's Meeting. The extension was approved in the same terms of the original plan by an amount of Ps.23,000.

c) On February 19, 2016, the Board of Directors of the Company authorized an extension to the MIP for certain key employees. Such extension granted 21,955,020 share appreciation rights on our Serie A shares to be settled annually in cash in a period of five years in accordance with the established service condition.

volaris

VOLAR

Índice IPC Sustentable

Av. Antonio Dovalí Jaime No. 70
Piso 13, Torre B
Colonia Zedec Santa Fe
C.P. 01210, Mexico City

Investor Relations
+52 55 5261 6444
ir@volaris.com