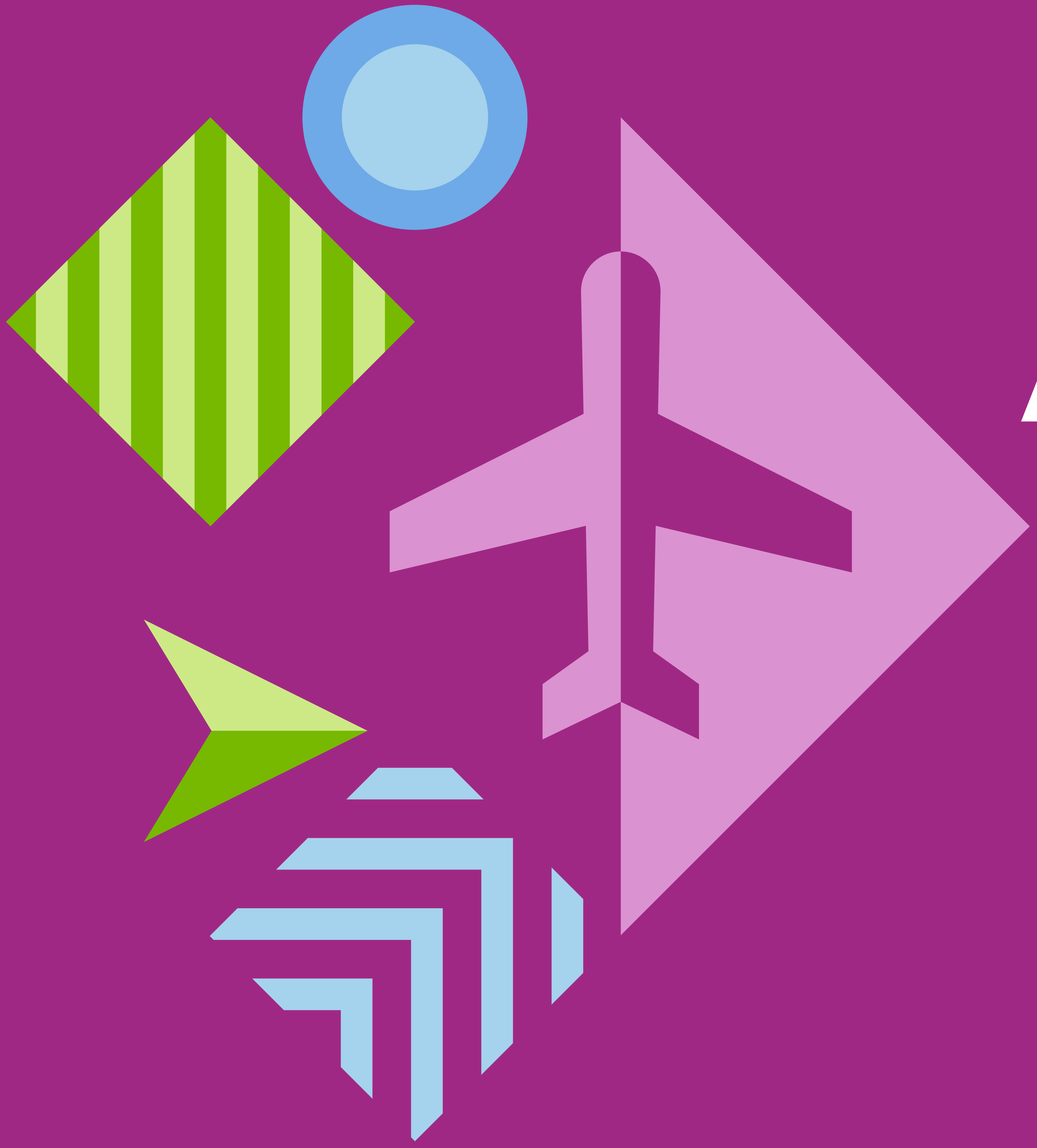

2019. Annual Report

volaris

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Photography by Ricardo Encinas

LETTER FROM OUR CEO

Mexico City, April 22, 2020

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

In accordance with the provisions of article 44, section XI of the Securities Market Law, and in terms of article 172 of the General Law of Mercantile Companies (except as provided in subsection b) of said article), and in my capacity as Chief Executive Officer of Controladora Vuela Compañía de Aviación, S.A.B. de C.V. and Subsidiaries, I would like to submit the annual report on the operations and activities of the Company, during the fiscal year ended on December 31, 2019.

2019 Operating Results

Our ultra-low-cost and growth flexibility model has strengthened Volaris as a key player in the aviation industry. We remain focused on offering low fares, point-to-point routes and providing the best travel experience for our passengers. Through our clean fare, we offer a wide range of optional services for an extra fee to our clients.

During 2019, we obtained outstanding operating indicators, making this year crucial in our strategies to build the Company's future.

During this year, Volaris' total consolidated operating revenues were Ps. 34.75 billion, an increase of 27.3% against the previous year. Our total non-ticket revenues and total ancillary revenue per passenger reached record figures of Ps. 11.69 billion and Ps. 532.00, an increase of 32.6% and 11.0% against 2018, respectively.

We strive to stimulate and increase our ancillary revenues; during 2019, 33.7% of our total revenues were driven by ancillaries. Volaris has reached figures that confirm that we are reaching the same level of our ultra-low-cost peers worldwide in this concept.

In 2019, we transported more than 21.9 million passengers, a 19.5% growth compared to the previous year, and we increased our domestic market penetration among Mexican airlines to 31.3%, at the year's end.

"I appreciate the support and commitment of our most important asset: our employees."

We launched 30 routes, consistent with our point-to-point route diversification plan. We maintain our commitment to have a young and fuel-efficient fleet; thus, we closed the year with 82 aircraft with an average age of five years.

As of December 31st, cash and cash equivalents were Ps. 7.98 billion, representing 23.0% of operating revenues in the last twelve months. The Company recorded a negative debt (or an active position) excluding the lease liability of Ps. 3.00 billion and a stockholders' equity of Ps. 5.53 billion.

Finally, as you all know, our country and the entire world are experiencing difficult moments in the face of the Coronavirus pandemic (COVID-19). Therefore, as of March 2020, we have reduced our capacity –measured in terms of available seat miles by approximately 80% versus the originally published schedule. Additionally, we have taken several actions to reduce costs and maintain liquidity during this period of reduced demand. Likewise, we have implemented safety and hygiene protocols to protect the wellbeing of our passengers, crews and ground personnel.

I appreciate the support and commitment of our most important asset: our employees, who we call Ambassadors, and who every day give their best to obtain excellent results. We are deeply grateful and proud of all those who are part of the Volaris family.

Sincerely,

Enrique J. Beltranena
President and Chief Executive Officer

OUTSTANDING FIGURES

2019

82
Aircraft

Ps.11.69
Billion ancillary revenues
+32.6% vs 2018

190
Routes

4,950
Ambassadors in Mexico and Central America

65
Destinations

21,975
Thousand passengers
+19.5% vs 2018

CASM ex-fuel in US dollar cents decreased 3.4%

1st
Ultra-low-cost
carrier in Central America

28%
NEO Airbus

Ps.34.75
Billion total operating revenues
+27.3% vs 2018

2019 FINANCIAL & OPERATING METRICS SUMMARY

(In Mexican pesos, except otherwise indicated)	2019 (USD)*	2019	2018	VARIANCE (%)
Total operating revenues (millions)	1,844	34,753	27,305	27.3%
Total operating expenses (millions)	1,613	30,397	26,770	13.5%
EBIT (millions)	231	4,355	535	>100%
EBIT margin	12.5%	12.5%	2.0%	10.5 pp
Depreciation and amortization	285	5,378	4,544	18.4%
Aircraft and engine rent expense	51	962	956	0.6%
Net income (loss) (millions)	140	2,639	(943)	NA
Net income (loss) margin	7.6%	7.6%	(3.5%)	11.1 pp
Income (loss) per share:				
Basic (pesos)	0.14	2.61	(0.93)	NA
Diluted (pesos)	0.14	2.61	(0.93)	NA
Income (loss) per ADS:				
Basic (pesos)	1.38	26.08	(9.32)	NA
Diluted (pesos)	1.38	26.08	(9.32)	NA
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]	-	24,499	21,010	16.6%
Domestic	-	16,891	14,519	16.3%
International	-	7,607	6,490	17.2%

(In Mexican pesos, except otherwise indicated)	2019 (USD)*	2019	2018	VARIANCE (%)
Revenue passenger miles (RPMs) (millions) (1)	-	21,032	17,748	18.5%
Domestic	-	14,871	12,655	17.5%
International	-	6,162	5,093	21.0%
Load factor (2)	-	85.9%	84.5%	1.4 pp
Domestic	-	88.0%	87.2%	0.8 pp
International	-	81.0%	78.5%	2.5 pp
Total operating revenue per ASM (TRASM) (cents) (1) (5)	7.5	142.2	130.0	9.4%
Total ancillary revenue per passenger (4) (5)	28.2	532	479	11.0%
Total operating revenue per passenger (5)	84.1	1,585	1,484	6.8%
Operating expenses per ASM (CASM) (cents) (1) (5)	6.60	124.3	127.4	(2.4%)
Operating expenses per ASM (CASM) (US cents) (3) (5)	-	6.45	6.62	(2.6%)
CASM ex fuel (cents) (1) (5)	4.07	76.6	79.2	(3.2%)
CASM ex fuel (US cents) (3) (5)	-	3.98	4.12	(3.4%)
Booked passengers (thousands) (1)	-	21,975	18,396	19.5%
Departures (1)	-	138,084	117,920	17.1%
Block hours (1)	-	350,572	322,054	8.9%
Fuel gallons consumed (millions)	-	251.8	227.4	10.7%
Average economic fuel cost per gallon (5)	2.5	46.4	44.6	4.1%
Aircraft at end of period	-	82	77	6.5%
Average aircraft utilization (block hours)	-	12.9	13.2	(2.0%)
Average exchange rate	-	19.26	19.24	0.1%
End of period exchange rate	-	18.85	19.68	(4.3%)

*Peso amounts were converted to U.S. dollars at end of period exchange rate for convenience purposes only
(1) Includes schedule and charter
(2) Includes schedule
(3) Dollar amounts were converted at average exchange rate of each period
(4) Includes "Other passenger revenues" and "Non-passenger revenues"
(5) Excludes non-derivatives financial instruments

COMPANY OVERVIEW

Controladora Vuela Compañía de Aviación, S.A.B. de C.V. (NYSE: VLRS and BMV: VOLAR), is an ultra-low-cost carrier, with point-to-point operations, serving Mexico, the United States and Central America. Volaris offers low base fares to build its market, providing quality service and extensive customer choice. As of December 31, 2019, Volaris offered more than 400 daily flight segments on routes that connect 40 cities in Mexico and 25 cities in the United States and Central America with the youngest fleet in Mexico. Volaris targets passengers who are visiting friends and relatives, cost-conscious business and leisure travelers in Mexico, the United States and Central America.

Mission

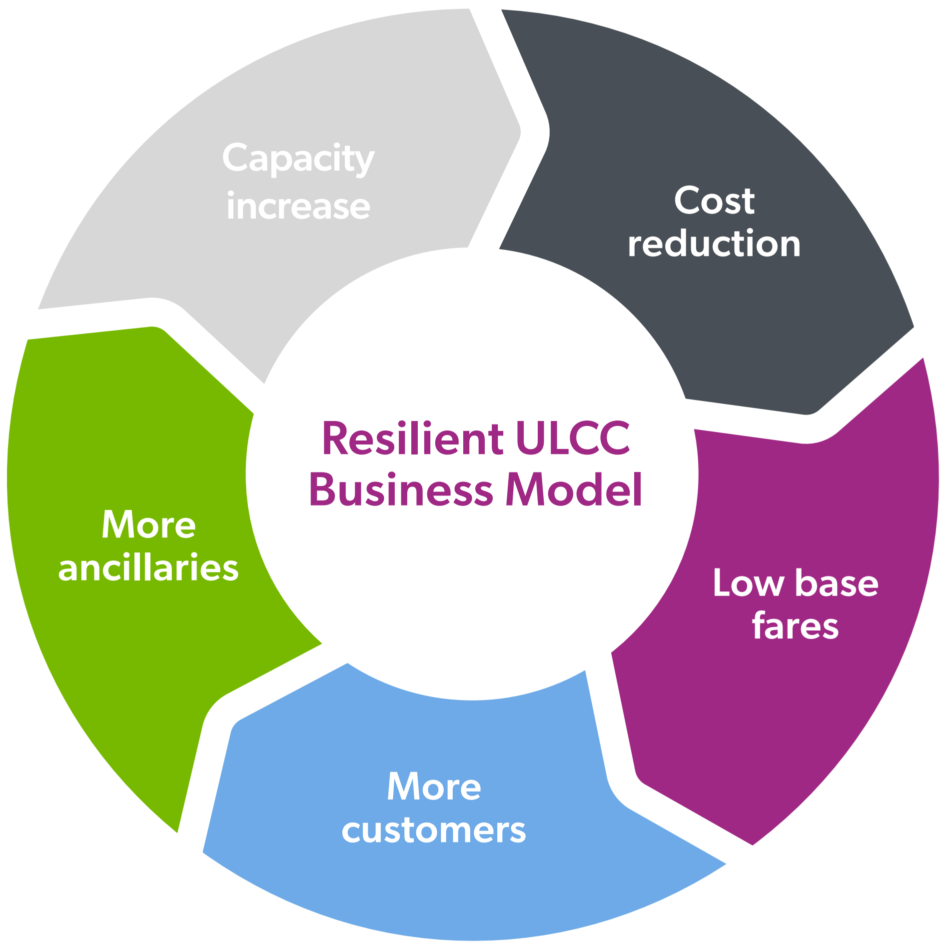
With the best people and low costs, we enable more people to travel... well!

Vision

Transcend by creating and living the best travel experiences.

ULCC VIRTUOUS CIRCLE

Our disruptive ultra-low-cost model has made air travel accessible for everyone.



Low operating costs + diversified point-to-point network.

ROUTE NETWORK

190 Routes

121 Domestic routes

69 International

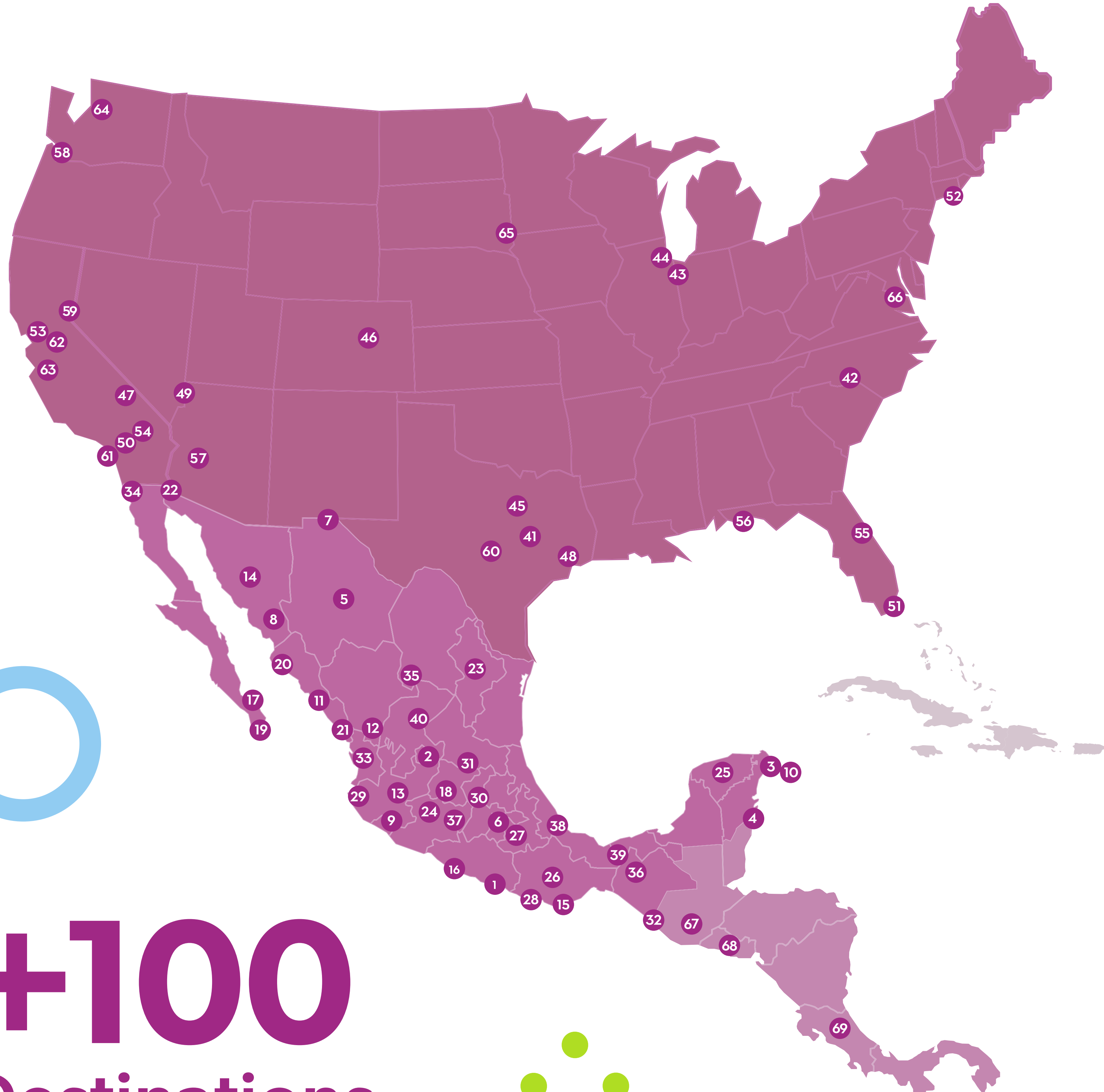
+146 Fontier routes

65 Destinations

40 Mexico

22 United States
+57 Frontier

3 Central America



2019 ROUTES

MEXICO

1. ACAPULCO
2. AGUASCALIENTES
3. CANCUN
4. CHETUMAL
5. CHIHUAHUA
6. MEXICO CITY
7. CIUDAD JUAREZ
8. CUIDAD OBREGON
9. COLIMA
10. COZUMEL
11. CULIACAN
12. DURANGO
13. GUADALAJARA
14. HERMOSILLO
15. HUATULCO
16. IXTAPA/ZIHUATANEJO
17. LA PAZ
18. LEON
19. LOS CABOS
20. LOS MOCHIS
21. MAZATLAN
22. MEXICALI
23. MONTERREY
24. MORELIA
25. MERIDA
26. OAXACA
27. PUEBLA
28. PUERTO ESCONDIDO
29. PUERTO VALLARTA
30. QUERETARO
31. SAN LUIS POTOSI
32. TAPACHULA
33. TEPIC
34. TIJUANA
35. TORREON
36. TUXTLA GUTIERREZ
37. URUAPAN
38. VERACRUZ
39. VILLAHERMOSA
40. ZACATECAS

UNITED STATES

41. AUSTIN
42. CHARLOTTE
43. CHICAGO (MIDWAY)
44. CHICAGO (O'HARE)
45. DALLAS-FORT WORTH
46. DENVER
47. FRESNO
48. HOUSTON
49. LAS VEGAS
50. LOS ANGELES
51. MIAMI
52. NEW YORK (JFK)
53. OAKLAND
54. ONTARIO, CA
55. ORLANDO
56. PENSACOLA
57. PHOENIX
58. PORTLAND
59. SACRAMENTO
60. SAN ANTONIO
61. SAN DIEGO
62. SAN FRANCISCO
63. SAN JOSE, CALIFORNIA
64. SEATTLE
65. SIOUX FALL (SOUTH DAKOTA)
66. WASHINGTON D.C.

CENTRAL AMERICA

67. GUATEMALA, GUATEMALA
68. EL SALVADOR, EL SALVADOR
69. SAN JOSE, COSTA RICA

+100

Destinations

30 new routes and 1 new destination

CODESHARE AGREEMENT WITH FRONTIER

Since last year, we began our codeshare operations with Frontier, which enables our Mexican passengers to visit new destinations in the United States and American passengers to fly to new cities in Mexico.

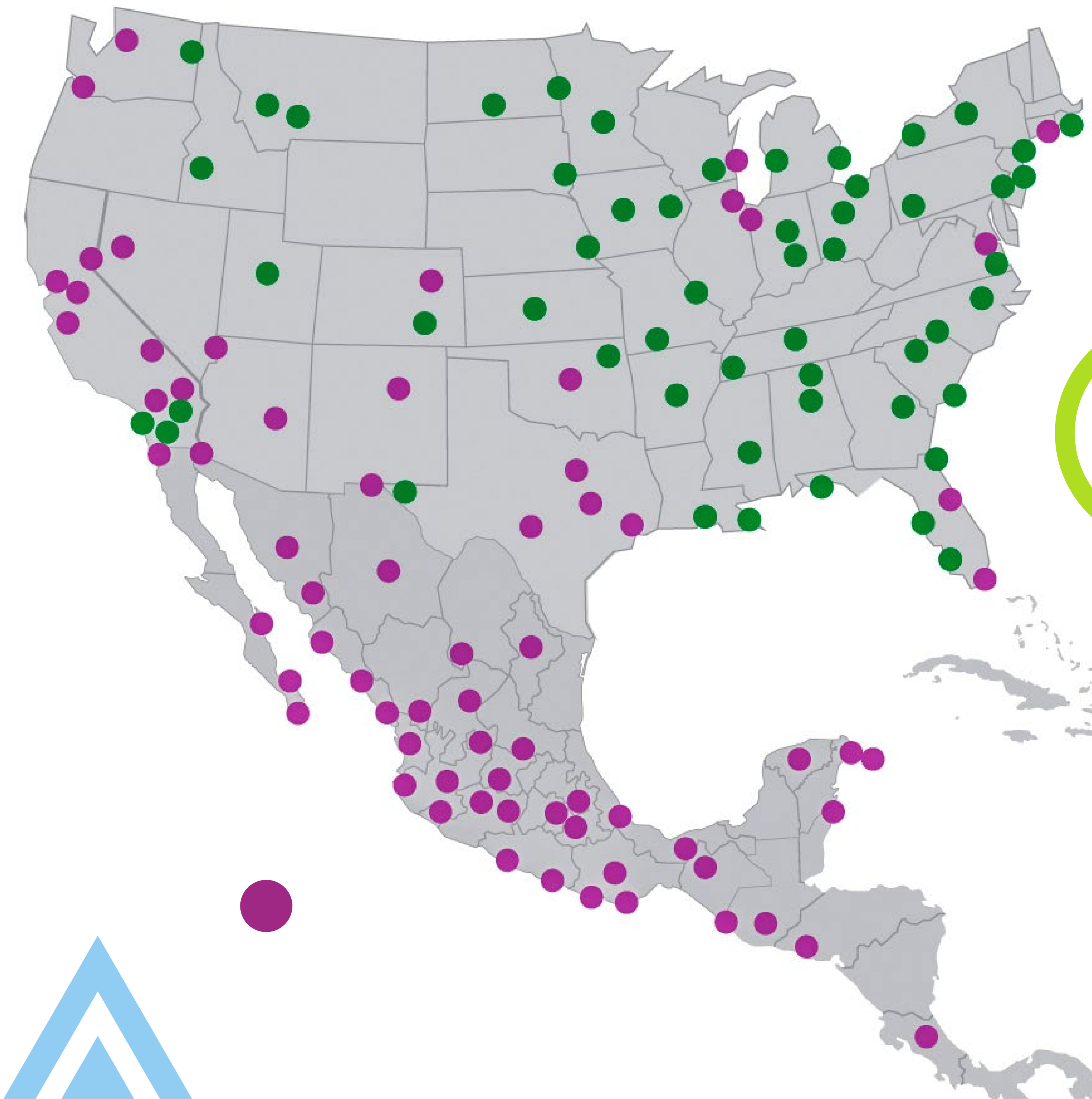
This agreement has significant benefits for Volaris:

Strong potential for **connectivity**

67 New destinations in the United States for Volaris

23 Connecting **airports**

+166 New connecting roundtrip routes



8	A319
58	A320
16	A321

FLEET

Our fleet is composed of 82 aircraft with an average age of five years; thus, it is one of the youngest in the country.

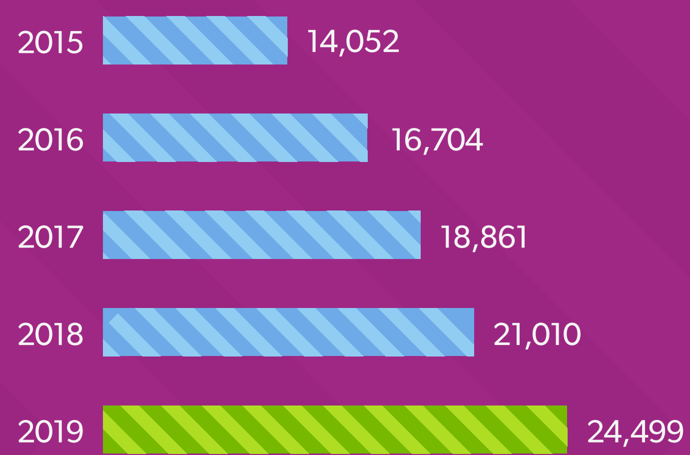
Each aircraft has 186 average seats and 77% have sharklets, aerodynamic devices that reduce fuel consumption by approximately 4% and prevent around 18,000 tons of annual CO_2 emissions.

In 2019, we incorporated five A320 NEO and A321 NEO aircraft to our fleet. These aircraft have state-of-the-art technology to enhance their environmental efficiency. They reduce annual fuel consumption by over 15%, as well as CO_2 emissions by 5,000 tons and 50% NOx gases per aircraft a year. Furthermore, they decrease sound footprint by 50%, compared with previous units.

Volaris was the first airline to operate NEO aircraft in North America. Currently, 28% of our fleet are NEO's.

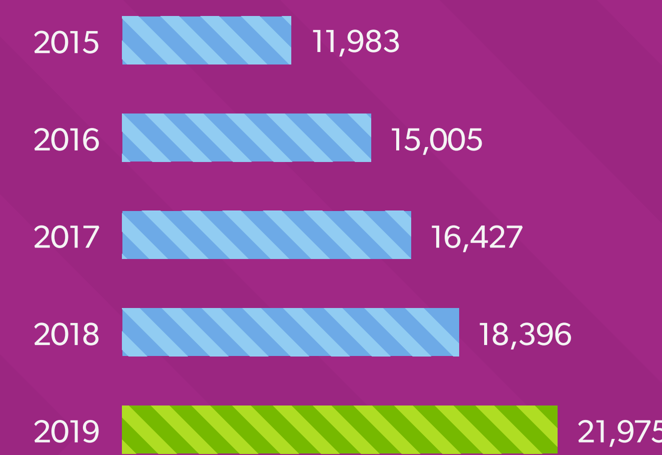
2019 RESULTS

Available seat miles
(ASMs, millions)

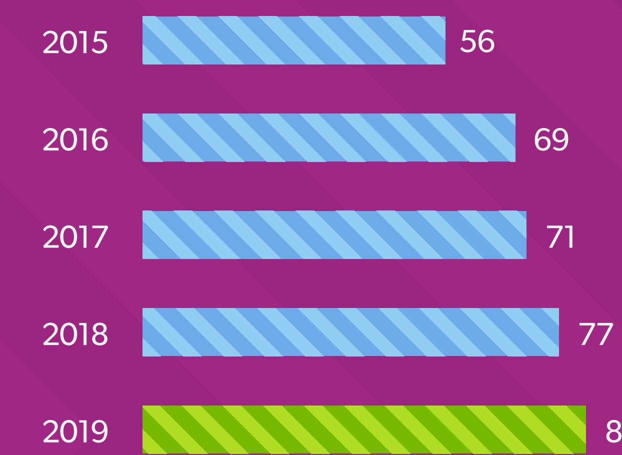


Revenue passenger miles
(RPMs, millions)

Passengers
(Thousands)

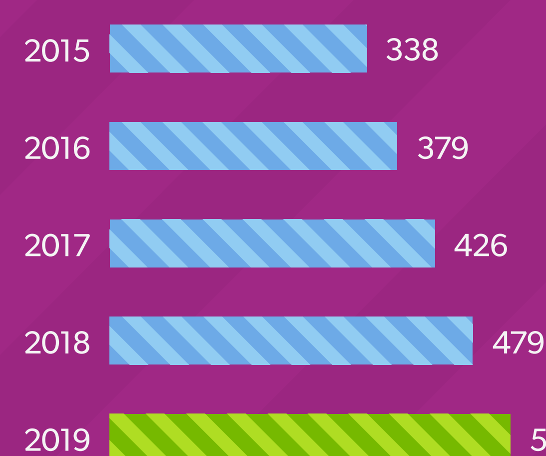


Aircraft



Total operating revenue per available seat mile
(TRASM, MXN cents)

Total ancillary revenue per booked passenger
(MXN)



Operating cost per available seat mile
(CASM*, USD cents)

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

COMPETITIVE ADVANTAGES

LOWEST UNIT-COST PUBLICLY TRADED AIRLINE

Since 2018, Volaris has focused on developing a low-cost strategy that allowed, first of all, to overcome the challenges posed by rising oil prices, and on the other, continue with its tactic of opening more point-to-point routes, taking into account the needs of its passengers, and offering them lower fares, even lower than buses'.

Furthermore, the internal traffic demand from our core market, Visiting Friends and Relatives, grows at a higher rate than the economy. Therefore, our unique business model is the best suited to increase traffic of passengers flying within Mexico and to the United States and Central America.

BUS SWITCHING STRATEGY

We remain faithful to our core belief: make air travel accessible for everyone. Hence, our bus switching strategy is a priority, and we have innovated new payment options to attract more passengers with lower incomes, such as immediate online credits, deferred payments for US Clients, among others.

POTENTIAL FOR GROWTH

Due to our low-cost strategy, the increasing young population and the emerging middle class, Volaris has an enormous potential for growth. Moreover, we have proven our ability to stimulate demand through lower fares, making flying affordable for more people.

33 million potential passengers, a 48% growth opportunity.

LARGEST AIRLINE IN MEXICO

In 2019 we became the leading airline in Mexico by transporting a record-breaking 21.97 million passengers.

TRASM increased 9% in 2019 year over year, following a trajectory of sequential quarterly improvements.

41% of our routes have no airline competitors; on these routes we only compete against buses.

Total ancillary revenues increased 33% year over year and accounted for 34% of total operating revenues.

As of December 31, 2019, cash and cash equivalents were Ps. $7.9 billion pesos, $2.1 billion pesos above last year, representing 23% of last twelve months of operating revenues.

We grew ASMs by 17% over the full year; the main source of growth was healthy capacity generated by better utilization of our existing assets.

We achieved a full year CASM ex-fuel of USD $3.9 cents as a result of our constant, company-wide cost savings focus. The total US dollar CASM for the year decreased 3% versus 2018, fully offsetting the increase of the average economic fuel cost per gallon during the year.

Volaris finished the full year with positive operating cashflow generation, at Ps. $9.5 billion pesos for 2019.

CORPORATE GOVERNANCE

Our Corporate Governance complies with the best international practices.

BOARD AND COMMITTEES

The members of our Board were elected at our General Annual Shareholders Ordinary Meeting held on April 2, 2020. Our by-laws stipulate that the Board must be comprised of no more than 21 members; at least 25% are required to be independent, pursuant to the Mexican Securities Market Law. Our Board of Directors is comprised of 14 proprietary directors and 4 alternates, of which 9 proprietary and 2 alternates are independent, 64%. All members are professionals with wide experience and knowledge in sectors such as aviation, business, marketing, finance and economy.

BOARD OF DIRECTORS

PROPRIETARY DIRECTORS	ALTERNATE DIRECTORS
Brian H. Franke CHAIRMAN OF THE BOARD	Andrew Broderick ALTERNATE MEMBER
William A. Franke MEMBER	
Marco Baldocchi Kriete MEMBER	Rodrigo Antonio Escobar Nottebohm ALTERNATE MEMBER
Enrique Javier Beltranena Mejicano MEMBER	
Harry F. Krensky MEMBER	
Mónica Aspe Bernal INDEPENDENT MEMBER	
William Dean Donovan INDEPENDENT MEMBER	
José Luis Fernández Fernández INDEPENDENT MEMBER	José Carlos Silva Sánchez-Gavito ALTERNATE MEMBER
Joaquín Alberto Palomo Déneke INDEPENDENT MEMBER	
John Slowik INDEPENDENT MEMBER	
Alfonso González Migoya INDEPENDENT MEMBER	
Ricardo Maldonado Yáñez INDEPENDENT MEMBER	Eugenio Macouzet de León ALTERNATE MEMBER
Stanley L.Pace INDEPENDENT MEMBER	
Guadalupe Phillips Margain INDEPENDENT MEMBER	
Jaime Esteban Pous Fernández SECRETARY NON-MEMBER	
Isela Cervantes Rodríguez DEPUTY SECRETARY NON-MEMBER	

AUDIT AND CORPORATE GOVERNANCE COMMITTEE

José Luis Fernández Fernández
CHAIRMAN

John A. Slowik
Joaquín Alberto Palomo Déneke
MEMBERS

Jaime Esteban Pous Fernández
SECRETARY NON-MEMBER

Isela Cervantes Rodriguez
DEPUTY SECRETARY NON-MEMBER

José Carlos Silva Sánchez-Gavito
ALTERNATE MEMBER

COMPENSATION AND NOMINATIONS COMMITTEE

Marco Baldocchi Kriete
CHAIRMAN

Harry F. Krensky
Enrique Javier Beltranena M.
Brian H. Franke
MEMBERS

Ricardo Maldonado Yáñez
SECRETARY NON-MEMBER

Eugenio Macouzet de León
DEPUTY SECRETARY NON-MEMBER

Rodrigo Antonio Escobar Nottebohm
ALTERNATE MEMBER

EXECUTIVE TEAM

Enrique Javier Beltranena Mejicano
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Holger Blankenstein
EXECUTIVE VICE PRESIDENT AIRLINE COMMERCIAL AND OPERATIONS

Jaime E. Pous Fernández
SENIOR VICE PRESIDENT CHIEF LEGAL OFFICER AND CORPORATE AFFAIRSS

José Luis Suárez Durán
SENIOR VICE PRESIDENT AND CHIEF OPERATING OFFICER

Sonia Jerez Burdeus
VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

Carolyn Prowse
VICE PRESIDENT AND CHIEF COMMERCIAL OFFICER

ETHICAL OPERATIONS

All our operations are managed by our Code of Ethics, which includes all Volaris' values, standards, behaviors and Culture that guide the daily behavior of all Ambassadors.

The main topics addressed are the defense of Human Rights, promotion of equal opportunities, Customer service, free market competition, anticorruption and antibribery guidelines, as well as regulatory compliance.

Furthermore, we have implemented several policies that ensure all our operations' integrity. In order to provide services that guarantee transparent practices, we are aligned to the Foreign Corrupt Practices Act (FCPA) requirements.

CORPORATE SUSTAINABILITY PROGRAM

We reinforce our commitment to the new generations' future, creating the ideal context so that the ultra-low-cost aviation business continues to be a development engine and an employment source for many more years.

Our business goals and sustainability strategy are aligned with the United Nations Sustainable Development Goals (SDG).

For more information on our sustainability initiatives, please visit our Sustainability Report at: http://ir.volaris.com/English/home/default.aspx

HIGHLIGHTS

2019

Members of the **Sustainability Index of the Mexican Stock Exchange**

-6%
Of fuel consumption vs 2018; equivalent to saving 37.8 million gallons

Socially Responsible Company Distinction for the 10th consecutive year

32,467
Certified carbon credits procured since 2015

106
Fulfilled dreams for girls, boys and teenagers with chronic or advanced illnesses

-17%
CO_2 emissions per passenger kilometer transported (2012-2019)

513
#VoluntariosVolaris who benefited **1,973 persons**

Certification in Environmental and Quality Management Systems ISO 14001 and ISO 9001

314
Organs and tissues transported with CENATRA since 2009

265
Tickets donated to vulnerable people through Volaris Aid Aircraft Program

Top member in the implementation of **The Code (ECPAT)**

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

You should read the following discussion of our financial condition and results of operations in conjunction with our consolidated financial statements and the notes thereto included elsewhere in this annual report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this annual report, particularly in "Risk Factors."

Description of Our Principal Line Items

OPERATING REVENUES

As of January 1, 2018, we adopted IFRS 15 "Revenue from Contracts with Customers" using the full retrospective method of adoption. The main impact of IFRS 15 on us is the timing of recognition of certain air travel-related ancillary services. Under the new standard, certain ancillary services are recognized when we satisfy our performance obligations, which is typically when the air transportation service is rendered (at the time of the flight). In addition, these ancillary services do not constitute separate performance obligations or represent administrative tasks that do not represent a different promised service and therefore should be accounted for together with the air fare as a single performance obligation of providing passenger transportation.

Therefore, the classification of certain ancillary fees in our statement of operations, such as advanced seat selection, fees charged for excess baggage, itinerary changes and other air travel-related services, changed with adoption of IFRS 15, since they are part of the single performance obligation of providing passenger transportation. We have recasted our financial statements as of January 1, 2016 and 2017 for comparability purposes.

PASSENGER REVENUES

Our passenger revenue includes income generated from: (i) fare revenue and (ii) other passenger revenue.

We derive our operating revenues primarily from transporting passengers on our aircraft and some tickets sold by other airlines such as Frontier. Approximately 67% of our total operating revenues were derived from passenger fares in 2019. Passenger revenues are based upon our capacity, load factor and the average ticket revenue per booked passenger. Our capacity is measured in terms of ASMs, which represents the number of seats we make available on our aircraft multiplied by the number of miles the seats are flown. Load factor, or the percentage of our capacity that is actually used by paying customers, is calculated by dividing RPMs by ASMs. The average ticket revenue per booked passenger represents the total passenger revenue divided by booked passengers.

Other passenger revenues include but are not limited to fees charged for excess baggage, bookings through our call center or third-party agencies, advanced seat selection, itinerary changes, V-Club memberships and charters. They are recognized as revenue when the obligation of passenger transportation service is provided by us or when the non-refundable ticket expires at the date of the scheduled travel. Approximately 30% of our total operating revenues were derived from other passenger revenues in 2019.

NON-PASSENGER REVENUES

Our non-passenger revenues include income generated from (i) other non-passenger revenues and (ii) cargo services. In 2019, we derived approximately Ps. 1.1 billion, or 3% of our total operating revenues from non-passenger revenues.

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

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

The following table shows each of the line items in our consolidated statements of operations for the periods indicated as a percentage of our total operating revenues for that period.

Revenues from our international operations represented 30%, 32% and 29% of our total revenues in 2017, 2018 and 2019, respectively, and revenues from our domestic operations represented 70%, 68% and 71% of our total revenues in 2017, 2018 and 2019, respectively.

	FOR THE YEARS ENDED DECEMBER 31		
	2017 Adjusted (1)	2018 Adjusted (1)	2019
Operating revenues:			
Passenger revenues:			
Fare revenues	72%	68%	67%
Other passenger revenues	25%	29%	30%
Non-passenger revenues:			
Other non-passenger revenues	3%	3%	3%
Cargo	0%	0%	0%
Non-derivative financial instruments:	0%	0%	0%
Total operating revenues	**100%**	**100%**	**100%**
Other operating income	0%	(2)%	(1)%
Fuel expense, net	29%	37%	33%
Landing, take-off and navigation expenses	16%	17%	15%
Depreciation of right of use assets	14%	15%	14%
Salaries and benefits	11%	11%	10%
Maintenance expenses	6%	5%	4%
Sales, marketing and distribution expenses	7%	5%	4%
Aircraft and engine variable lease expenses	6%	4%	3%
Other operating expenses	4%	4%	3%
Depreciation and amortization	2%	2%	2%
Total operating expenses, net	**95%**	**98%**	**87%**
Operating income	**5%**	**2%**	**13%**
Finance income	0%	1%	1%
Finance cost	(6)%	(7)%	(7)%
Exchange gain, net	3%	0%	4%
Income (loss) before income tax	2%	(5)%	11%
Income tax (expense) benefit	(1)%	1%	(3)%
Net income (loss)	**1%**	**(3)%**	**8%**

(1) On adoption of IFRS 16 we apply the new standard on the required effective date as of January 1, 2019, using the full retrospective method of adoption in order to provide for comparative results in all periods presented, recognizing the effect in retained earnings as of January 1, 2017.

Revenue Recognition

GENERAL

As of January 1, 2018, we adopted IFRS 15 "Revenue from Contracts with Customers" using the full retrospective method of adoption. The main impact of IFRS 15 on us is the timing of recognition of certain air travel-related ancillary services. Under the new standard, certain ancillary services are recognized when we satisfy our performance obligations, which is typically when the air transportation service is rendered (at the time of the flight). In addition, these ancillary services do not constitute separate performance obligations or represent administrative tasks that do not represent a different promised service and therefore should be accounted for together with the air fare as a single performance obligation of providing passenger transportation.

Therefore, the classification of certain ancillary fees in our statement of operations, such as advanced seat selection, fees charged for excess baggage, itinerary changes and other air travel-related services, changed with adoption of IFRS 15, since they are part of the single performance obligation of providing passenger transportation. We have recasted our financial statements as of January 1, 2016 and 2017 for comparability purposes.

PASSENGER REVENUES

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

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

Passenger revenues includes income generated from: (i) fare revenues and (ii) other passenger revenues. Other passenger services include but are not limited to fees charged for excess baggage, bookings through the call center or third-party agencies, advanced seat selection, itinerary changes and charters. They are recognized as revenue when the obligation of passenger transportation service is provided by the Company or when the non-refundable ticket expires at the date of the scheduled travel.

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

Tickets sold by other airlines such as Frontier where we provide the transportation are recognized as passenger revenue when the service is provided.

We sell certain tickets with connecting flights with one or more segments operated by other airline partners. For segments operated by other airline partners, we have determined that we are acting as an agent on behalf of the other airlines as they are responsible for their portion of the contract (i.e. transportation of the passenger). We, as the agent, recognize revenue within other operating revenue at the time of the travel for the net amount retained by us for any segments flown by other airlines.

NON-PASSENGER REVENUES

Non-passenger revenues include revenues generated from: (i) other non-passenger revenues and (ii) cargo services.

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

We concluded that the timing of satisfaction of revenue from advertising spaces is to be recognized over time because the customer simultaneously receives and consumes the benefits we provide.

Additionally, we recognize as revenue the air transportation facility charges for non-show passengers, when the non-refundable ticket expires at the date of the scheduled travel.

We also evaluated principal versus agent considerations as they relate to certain non-air travel services arrangements with third party providers. No changes were identified under this analysis as we are the agent for those services proviwded by third parties.

We are also required to collect certain taxes and fees from customers on behalf of government agencies and airports and remit these back to the applicable governmental entity or airport on a periodic basis. These taxes and fees include value added tax, federal transportation taxes, federal security charges, airport passenger facility charges, and foreign arrival and departure taxes. These items are collected from customers at the time they purchase their tickets, but are not included in passenger revenue. We record a liability upon collection from the customer and discharge the liability when payments are remitted to the applicable governmental entity or airport.

Operating Expenses, net

Our operating expenses consist of the following line items.

Other Operating Income. Other operating income primarily includes the gains from sale and lease back operations of our aircraft and engines.

Fuel expense, net. Fuel expense is our single largest operating expense. It includes the cost of fuel, related taxes, fueling into-plane fees and transportation fees. It also includes realized gains and losses that arise from any fuel price derivative activity qualifying for hedge accounting and gains and losses that arise from non-derivative financial instruments.

Landing, Take-off and Navigation Expenses. Landing, take-off and navigation expenses include airport fees, handling charges, and other rents, which are fixed and variable facilities' expenses, such as the fees charged by airports for the use or lease of airport facilities, as well as costs associated with ground handling services that we outsource at certain airports. This expense also includes route charges, which are the costs of using a country's or territory's airspace and are levied depending on the distance flown over such airspace.

Depreciation of right–of–use assets. Depreciation of right-of-use assets use includes the depreciation of all aircraft and engine leases and some land and building leases that qualify under IFRS 16.

With respect to this line item, IFRS 16 was issued in January 2016 and replaces IAS 17 "Leases," IFRIC 4 "Determining Whether an Arrangement Contains a Lease," SIC-15 "Operating Leases-Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease." IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. Under IFRS 16, at the commencement date of a lease, a lessee recognizes a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees are required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees are also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term or a change in future lease payments). The lessee generally recognizes the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. In addition, for leases denominated in a foreign currency other than our functional currency (which is the Mexican Peso) the lease liability will be remeasured at each reporting date, using the foreign exchange of the period. We adopted IFRS 16 on the mandatory date, January 1, 2019, through the full retrospective method recognizing the effect on our statement of financial position as of January 1, 2017. This led to approximately Ps.23.5 billion of right-of-use assets and Ps.32.7 billion as lease liabilities as of January 1, 2017. Our financial results as of and for the years ended December 31, 2017 and 2018 as presented in our annual report for the year ended December 31, 2018 filed with the SEC on April 26, 2019 have been adjusted in our Audited Consolidated Financial Statements presented in this annual report to take into account this application of IFRS 16. See note 1x to our Audited Consolidated Financial Statements for more details.

Salaries and Benefits. Salaries and benefits expense include the salaries, hourly wages, employee health insurance coverage and variable compensation that are provided to employees for their services, as well as the related expenses associated with employee benefit plans and employer payroll taxes.

Maintenance Expenses. Maintenance expenses include all parts, materials, repairs and fees for repairs performed by thirdparty vendors directly required to maintain our fleet. It excludes the direct labor cost of our own mechanics, which is included under salaries and benefits and includes only routine and ordinary maintenance expenses. Major maintenance expenses are capitalized and subsequently amortized as described in "—Depreciation and Amortization—" below.

Sales, Marketing and Distribution Expenses. Sales, marketing and distribution expenses consist of advertising and promotional expenses directly related to our services, including the cost of web support, our outsourced call center, travel agent commissions, and credit card discount fees that are associated with the sale of tickets and other products and services.

Aircraft and Engine Variable Lease Expenses. Aircraft and engine variable expenses consist of the maintenance deposits we pay to the lessor as maintenance deposits when we determine that we will probably not recover such deposits in whole or in part. In these cases, we record these amounts in the results of operations as additional aircraft rent (supplemental rent) from the time we make the determination over the remaining term of the lease. Aircraft and engine variable lease expense also includes the estimated return costs of our fleet, which in no case are related to scheduled major maintenance. The return costs are recognized on a straight-line basis as a component of supplemental rent.

Other Operating Expenses. Other operating expenses include (i) administrative support such as travel expenses, stationery, administrative training, monthly rent paid for our headquarters' facility, professional fees and all other administrative and operational overhead expenses; (ii) costs for technological support, communication systems, cell phones, and internal and operational telephone lines; (iii) premiums and all expenses related to the aviation insurance policy (hull and liability); and (iv) outsourced ground services and the cost of snacks and beverages that we serve on board to our passengers.

Depreciation and Amortization. Depreciation and amortization expense include the depreciation of all flight equipment, furniture and equipment we own and leasehold improvements to flight equipment. It also includes the amortization of major maintenance expenses we defer under the deferral method of accounting for major maintenance events associated with the aging of our fleet and recognize over the shorter period of the next major maintenance event or the remaining lease term.

A common measure of per unit costs in the airline industry is cost per available seat mile (CASM). The following table shows the breakdown of CASM for the periods indicated:

	FOR THE YEARS ENDED DECEMBER 31			
	2017 Adjusted [2]	2018 Adjusted [2]	2019	2019
	(In Ps. cents)			(In U.S. $ cents)[1]
Other operating income	(0.5)	(3.0)	(1.3)	(0.1)
Fuel expense, net	38.5	48.2	47.7	2.5
Landing, take-off and navigation expenses	21.2	21.8	20.9	1.1
Depreciation of right of use assets	18.2	19.2	19.2	1.0
Salaries and benefits	15.0	14.9	14.7	0.8
Maintenance expenses	7.4	7.2	6.0	0.4
Sales, marketing and distribution expenses	9.0	7.1	5.9	0.3
Aircraft and engine variable lease expenses	7.6	4.6	3.9	0.2
Other operating expenses	5.5	5.0	4.5	0.2
Depreciation and amortization	2.9	2.4	2.8	0.2
Total operating expenses, net	**124.8**	**127.4**	**124.3**	**6.6**

(1) Peso amounts were converted to U.S. dollars solely for the convenience of the reader at the rate of Ps. 18.8452 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, 2019. Such conversions should not be construed as a representation that the peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated, or at all.

(2) On adoption of IFRS 16 we apply the new standard described elsewhere in this annual report as of the effective date of January 1, 2019, using the full retrospective method of adoption in order to provide for comparative results in all periods presented, recognizing the effect in retained earnings as of January 1, 2017.

RECENT DEVELOPMENTS

The ongoing outbreak of COVID-19 was first reported on December 31, 2019 in Wuhan, Hubei Province, China. From Wuhan, the disease spread rapidly to other parts of China as well as other countries, including Mexico and the United States, and has been declared a pandemic by the World Health Organization. Since the outbreak began, countries have responded by taking various containment measures, including imposing quarantines and medical screenings, restricting domestic and international travel, closing borders, prohibiting public gatherings and widely suspending previously scheduled activities and events. In addition, concerns related to COVID-19 have drastically reduced demand for air travel and caused major disruptions and volatility in global financial markets, resulting in the fall of stock prices (including the price of our stock), both trends which may continue. There are other broad and continuing concerns related to the potential effects of COVID-19 on international trade (including supply chain disruptions and export levels), travel, restrictions on our ability to access our facilities or aircraft, requirements to collect additional passenger data, employee productivity, employee illness, increased unemployment levels, securities markets, and other economic activities, particularly for airlines, that may have a destabilizing effect on financial markets and economic activity. Please refer to "Risk Factors—Risks related to the airline industry—Public health threats, such as the H1N1 flu virus, the bird flu, Severe Acute Respiratory Syndrome (SARS), the Zika virus, COVID-19 and other highly communicable diseases, affect travel behavior and could have a material adverse effect on the Mexican economy, airline industry reputation, the price of our shares, our business, results of operations and financial condition" for a discussion of the ways COVID-19 may impact our business and the Mexican economy.

As a result of the national health emergency and health security measures imposed by the Mexican government, which on April 21, 2020 were extended until May 30, 2020, we reduced our capacity as measured by available seat miles ("ASMs") by approximately 80% for the month of April and by approximately 90% for the month of May. Additionally, we have suspended service on certain routes. Costa Rica, Guatemala and El Salvador have also imposed operational and migratory restrictions that make it impossible to operate international passenger flights to those countries. While our business and the airline industry have begun to experience material adverse impacts due to COVID-19, as of the date of this annual report, we cannot yet quantify the impact on us and we cannot offer any assurance that these impacts will not intensify to the extent that the outbreak persists and spreads throughout Mexico. Further, additional government measures in order to avoid mass contagion remain unknown and depend on future developments with respect to COVID-19, including the scope and duration of the pandemic, which are highly fluid, uncertain and cannot be predicted. It is not yet possible to determine when the adverse effects of COVID-19 will abate and the extent to which they will further decrease demand for air travel, which could continue to materially and negatively affect our business, results of operations and financial condition. For additional information see "—Trends and Uncertainties Affecting Our Business—Impact of COVID-19."

TRENDS AND UNCERTAINTIES AFFECTING OUR BUSINESS

We believe our operating and business performance is driven by various factors that affect airlines and their markets, trends affecting the broader travel industry, and trends affecting the specific markets and customer base that we target. The following key factors may affect our future performance.

Impact of COVID-19. COVID-19 has drastically reduced demand for air travel and caused major disruptions and volatility in global financial markets, resulting in the fall of stock prices (including the price of our stock), both trends which may continue. There are other broad and continuing concerns related to the potential effects of COVID-19 on international trade (including supply chain disruptions and export levels), travel, restrictions on our ability to access our facilities or aircraft, requirements to collect additional passenger data, employee productivity, employee illness, increased unemployment levels, securities markets, and other economic activities, particularly for airlines, that may have a destabilizing effect on financial markets and economic activity.

From a macroeconomic point of view, the impact of COVID-19 in Mexico is uncertain. Initial estimates indicate that Mexico's GDP, previously predicted to grow between 0.5% and 1.5% in 2020, could contract by -4.0% as a result of the COVID-19 pandemic. However, as the full effects of the pandemic have yet to be realized, Mexican GDP may contract in an amount that is not yet possible to estimate. Economic stagnation, the depreciation of the peso, contraction and decreased income levels and increased unemployment levels could result in decreased passenger demand and lower net income in the long term, even after any potential COVID-19-related travel restrictions and border closures are lifted. For example, for the period from March 13, 2020 to April 6, 2020, 346,878 jobs were lost in Mexico. Furthermore, the COVID-19 outbreak has also resulted in increased volatility in both the local and the international financial markets and economic indicators, such as exchange rates, interest rates, credit spreads and commodity prices. Any shocks or unexpected movements in these market factors could result in financial losses.

While the actual impact of the COVID-19 pandemic on our results of operations and financial condition remains uncertain, the following indicators, among others, are likely to have a negative impact on our consolidated financial results in the first quarter of 2020 (and further into the year depending on the length of the pandemic and Mexican governmental actions to control the pandemic):

- due to continued partial or total lockdowns in Mexico and the other countries in which we operate, demand for our flights is likely to continue to decrease which may require further reductions to our ASMs (in addition to the approximately 80% reduction we announced for the month of April 2020) and aircraft utilization and may lead to a decrease in our total operating revenue;

- the volatility in the international capital markets has resulted in (i) the fall of stock prices, including the price of our stock and (ii) financial losses associated with our financial portfolio, which may cause a deterioration of our financial condition or limitations on our ability to meet our liabilities;

- if our revenues decrease for a significant portion of time, we may have less cash available to meet our obligations under our aircraft and engine lease agreements and additional sources of financing may be difficult to obtain at favorable rates;

- contingency plans we have implemented in our corporate office in contingency plans we have implemented in order to address the COVID-19 emergency, including home offices, implementation of alternative offsite locations and so on, may cause a temporary increase in our administrative expenses; and

- as of the date of this annual report, we are experiencing a significant decline in international and domestic demand. In response to decreased demand, we have taken a number of actions. In addition to the schedule reductions discussed above, we have cancelled or postponed non-operational expenditures, non-essential capital expenditure and tooling expenses; and instituted other, company-wide cost cutting measures. However, even after the COVID-19 pandemic eases, there is a risk that we will experience reduced demand in the near to mid-term due to the potential economic impact of the pandemic on our customers, as well as customer health concerns about the safety of air travel.

Economic Conditions in Mexico. Based on information that was published prior to the COVID-19 pandemic, Mexico's GDP is expected to grow by 2.15% per year for the next ten years according to the Mexican Central Bank, which is in line with the expected annual growth for the United States during the same period as reported by the U.S. Federal Reserve. See "Key Information—Risk Factors—Risks Related to the Airline Industry—Public health threats, such as the H1N1 flu virus, the bird flu, Severe Acute Respiratory Syndrome (SARS), the Zika virus, the novel coronavirus ("COVID-19") and other highly communicable diseases, could affect suspension of domestic and international flights, travel behavior and could have a material adverse effect on the Mexican economy, airline industry reputation, the price of our shares, our business, results of operations and financial condition" for more recent information on the impact of COVID-19 on Mexico's future macroeconomic condition.

Regarding population dynamics as of 2015, according to the INEGI intercensal survey, around 36% of the Mexican population was under 20 years of age, which benefits us by providing a strong base of potential customer growth. Inflation in Mexico during 2019 was 2.83% according to the INEGI. As of December 31, 2019, international reserves were at U.S. $180.749 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. 124.3 cents (U.S. $6.45 cents) we believe was the lowest CASM in Latin America in 2019, compared to Avianca at U.S. $15.30 cents, Azul at U.S. $10.60 cents, Copa at U.S. $9.40 cents, Gol at U.S. $9.00 cents, Grupo Aeroméxico at U.S. $10.80 cents and LATAM at U.S. $10.50 cents. We also have lower costs than our publicly traded target market competitors in the United States, including Alaska Air at U.S. $ 11.58 cents, American at U.S. $14.85 cents, Delta at U.S. $14.67 cents, Jet Blue at U.S. $11.43 cents, Southwest Airlines at U.S. $12.38 cents and United at U.S. $13.67 cents.

Our principal competitors for the domestic market are Grupo Aeroméxico, Interjet and VivaAerobus, Interjet and VivaAerobus are low-cost carriers in Mexico. In 2019, the Mexican low-cost carriers (including us) combined had 71% of the domestic market based on passenger flight segments. We had 31% of the domestic market which placed us first, according to the AFAC.

We also face domestic competition from ground transportation alternatives, primarily long-distance bus companies. There are limited passenger rail services in Mexico. There is a large bus industry in Mexico, with total passenger segments of approximately 3.09 billion in 2018 (the latest year for which data is available as of the date of this annual report), of which approximately 83.48 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 7.8% market share on the routes that we operate and 11.5% market share considering all routes between Mexico and the United States in 2019, according to the AFAC.

Seasonality and Volatility. Our results of operations for any interim period are not necessarily indicative of those for the entire year because our business is subject to seasonal fluctuations. We generally expect demand to be greater during the summer in the northern hemisphere, in December and around Easter, which can fall either in the first or second quarter, compared to the rest of the year. Our business is also volatile and highly affected by economic cycles and trends. Consumer confidence and discretionary spending, fear of terrorism or war, health outbreaks, weakening economic conditions, fare initiatives, fluctuations in fuel prices, labor actions, weather and other factors have resulted in significant fluctuations in our revenues and results of operations in the past. Particularly, in 2008, the demand for air transportation services was significantly adversely affected by both the severe economic recession and the record high fuel prices. We believe, however, that demand for business travel historically has been more sensitive to economic pressures than demand for low-price leisure and VFR travel, which are the primary markets we serve.

In addition, on January 20, 2017, Donald Trump became president of the United States. President Trump has already implemented immigration policies that have adversely affected the United States—Mexico travel behavior, especially in the VFR and leisure markets, and there is a possibility that further immigration policy changes are to come. For example as a result of the COVID-19 pandemic, on April 22, 2020 the President of the United States signed a Presidential Proclamation entitled: "Suspending Entry of Immigrants Who Present Risk to the U.S. Labor Market During the Economic Recovery Following the COVID-19 Outbreak."

President Trump's immigration policies had a negative impact on our results of operations during 2018 and 2019 and this negative impact can be expected to continue if the Trump administration continues to carry out such immigration policies.

Fuel. Fuel costs represent the single largest operating expense for most airlines, including ours, accounting for 31%, 38% and 38% of our total operating expenses for 2017, 2018 and 2019, respectively. Fuel availability and pricing are also subject to refining capacity, periods of market surplus and shortage, and demand for heating oil, gasoline and other petroleum products, as well as economic, social and political factors and other events occurring throughout the world, which we can neither control nor accurately predict. We source a significant portion of our fuel from refining sources located in Mexico.

During the year ended December 31, 2019, we entered into US Gulf Coast Jet Fuel 54 Asian call options designated to hedge 13,492 thousand gallons of fuel. Such hedges represented a portion of our fourth quarter 2019 projected consumption. Additionally, during the same period, we entered into US Gulf Coast Jet Fuel 54 Asian Zero-Cost collar options designated to hedge 70,136 thousand gallons of fuel. The latter hedges represented a portion of our projected third quarter 2019 and our 2020 consumption.

During the year ended December 31, 2018, we entered into US Gulf Coast Jet Fuel 54 Asian Call options and Zero-Cost Collars designated to hedge 45.6 million gallons of fuel. Additionally, as of December 31, 2017, we entered into US Gulf Coast Jet Fuel 54 Asian call options designated to hedge 61.1 million gallons of fuel.

As of December 31, 2019, we purchased our domestic fuel under the ASA fuel service contract, and international fuel under the WFS, Shell, Uno Petrol, Uno El Salvador, BP Products North America and Chevron fuel service contracts. The cost and future availability of fuel cannot be predicted with any degree of certainty.

Foreign Exchange Gains and Losses. While most of our revenue is generated in pesos, 30%, 32% and 29% of our revenues came from our operations in the United States and Central America during the years ended December 31, 2017, 2018 and 2019, respectively, and U.S. dollar denominated collections accounted for 40%, 38% and 43% of our total collections in 2017, 2018 and 2019, respectively. In addition, the majority of our operating costs are denominated in or indexed to U.S. dollars, constituting 71%, 73% and 72% of our total operating costs in 2017, 2018 and 2019. Our key U.S. dollar-denominated operating costs include fuel, aircraft rentals and maintenance costs.

We manage our foreign exchange risk exposure by a policy of matching, to the extent possible, receipts and local payments in each individual currency. Most of the surplus funds are converted into U.S. dollars. However, we are exposed to fluctuations in exchange rates between the peso and the U.S. dollar.

As of December 31, 2017, 2018, and 2019, our net monetary liability position denominated in U.S. dollars was U.S. $1.2 billion, U.S. $1.7 billion and U.S. $1.7 billion, respectively. As a result of either the appreciation or depreciation of the peso against the U.S. dollar in 2017, 2018 and 2019, as the case may be, and our net U.S. dollar liability position, we recorded a foreign exchange gain (loss), net of Ps. 0.7 billion, Ps. (0.1) billion and Ps. 1.4 billion, respectively.

Maintenance Expenses. We are required to conduct varying levels of aircraft and engine maintenance, which involve significantly different labor and materials inputs. Maintenance requirements depend on the age and type of aircraft and the route network over which they operate. Fleet maintenance requirements may involve short cycle engineering checks, for example, component checks, monthly checks, annual airframe checks and periodic major maintenance and engine checks. Aircraft maintenance and repair costs for routine and non-routine maintenance are divided into three general categories:

(i) Routine maintenance requirements consist of daily and weekly scheduled maintenance checks on our aircraft, including pre-flight, daily, weekly and overnight checks, diagnostic and routine repairs and any necessary unscheduled tasks performed. These types of line maintenance are currently serviced by our mechanics and are primarily completed at the main airports that we currently serve.

All other maintenance activities are sub-contracted to qualified maintenance, repair and overhaul organizations. Routine maintenance also includes scheduled tasks that can take from seven to 14 days to accomplish and are required approximately every 22 months. All routine maintenance costs are expensed as incurred.

(ii) Major maintenance consists of a series of more complex tasks that can take from one to six weeks to accomplish and are generally required approximately every five to six years. Major maintenance is accounted for under the deferral method, whereby the cost of major maintenance and major overhaul and repair is capitalized as improvements to leased assets and amortized over the shorter period of the next major maintenance event or the remaining lease term.

(iii) Engine services are provided pursuant to an engine flight hour agreement that guarantees a cost per overhaul, provides miscellaneous engine coverage, caps the cost of foreign objects damage events, ensures protection from annual escalations and grants an annual credit for scrapped components. We also have a power-by-hour agreement for component services, which guarantees the availability of aircraft parts for our fleet when they are required and provides aircraft parts that are not included in the redelivery conditions of the contract without constituting an additional cost at the time of redelivery. The costs associated with the miscellaneous engine coverage and the component services agreements are recorded in the consolidated statements of operations.

Due to the young age of our fleet (approximately 5.0 years on average as of December 31, 2019), maintenance expense in 2017, 2018 and 2019 remained relatively low. For the years ended December 31, 2017, 2018 and 2019 we capitalized major maintenance events as part of leasehold improvements to the flight equipment in the amount of Ps.529.3 million, Ps.676.5 million and Ps. 659.1 million, respectively. For the years ended December 31, 2017, 2018 and 2019 the amortization of these deferred major maintenance expenses was Ps.382.7 million, Ps.313.5 million and Ps. 450.4 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 2017, 2018 and 2019, total maintenance costs amounted to Ps.1.4 billion, Ps.1.5 billion and Ps. 1.5 billion, respectively. As the fleet ages, we expect that maintenance costs will increase in absolute terms. The amount of total maintenance costs and related amortization of heavy maintenance expense is subject to many variables such as future utilization rates, average stage length, the size and makeup of the fleet in future periods and the level of unscheduled maintenance events and their actual costs. Accordingly, we cannot reliably quantify future maintenance expenses for any significant period of time. However, we estimate that based on our scheduled maintenance events, current maintenance expense and maintenance-related amortization expense will be approximately Ps. 2.6 billion (U.S. $127 million) in 2020.

Aircraft Maintenance Deposits Paid to Lessors. The terms of our aircraft lease agreements require us to pay maintenance deposits to lessors to be held as collateral for the performance of major maintenance activities, resulting in our recording significant prepaid deposits on our consolidated statements of financial position. As a result, the cash costs of scheduled major maintenance events are paid well in advance of the recognition of the maintenance event in our results of operations. Please see Item 5:—Critical Accounting Policies and Estimates."

Ramp-up Period for New Routes. During 2017 we opened 31 new routes, added 35 more in 2018 and 30 more in 2019. As we continue to grow, we would expect to continue to experience a lag between when new routes are put into service and when they reach their full profit potential. See Item 3: "Key Information—Risk Factors—Airline consolidations and reorganizations could adversely affect the industry."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The following discussion and analysis of our consolidated financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of supplemental assets and liabilities at the date of our consolidated financial statements. Note 1 to our consolidated financial statements included herein provides a detailed discussion of our significant accounting policies.

Critical accounting policies are defined as those policies that reflect significant judgments or estimates about matters that are both inherently uncertain and material to our financial condition or results of operations.

Aircraft Maintenance Deposits Paid to Lessors. Our lease agreements provide that we pay maintenance deposits or supplement rent to aircraft lessors to be held as collateral in advance of our performance of major maintenance activities. Maintenance deposits are held as collateral in cash. These lease agreements provide that maintenance deposits are reimbursable to us upon completion of the maintenance event in an amount equal to the lesser of (i) the amount of the maintenance deposits held by the lessor associated with the specific maintenance event or (ii) the qualifying costs related to the specific maintenance event. Substantially all of these maintenance deposits are calculated based on a utilization measure, such as flight hours or cycles, and are used solely to collateralize the lessor for maintenance time run off the aircraft until the completion of the maintenance of the aircraft and engines. We paid Ps. 148.8 million, Ps. 454.0 million and Ps. 64.6 million in maintenance deposits, net of reimbursements, to our lessors for the years ended December 31, 2017, 2018 and 2019, 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. 265.8 million in 2017, Ps. 299.6 million in 2018 and Ps. 295.7 million in 2019 of maintenance deposits as supplemental rent.

As of December 31, 2017, 2018 and 2019 we had prepaid maintenance deposits of Ps. 6.9 billion, Ps. 6.5 billion and Ps. 6.4 billion, respectively, recorded in our consolidated statements of financial position. We currently expect that these prepaid maintenance deposits are likely to be recovered primarily because there is no rate differential between the maintenance deposit payments and the expected cost for the related next maintenance event that the deposits serve to collateralize.

During the years ended December 31, 2017, 2018 and 2019 we extended the lease term of three aircraft agreements, two aircraft agreements and one aircraft agreement, respectively. Additionally, we extended the lease term of one spare engine agreement in 2019, two spare engine agreements in 2018 and two spare engine agreements in 2017. These extensions made available maintenance deposits that were recognized in prior periods in the consolidated statements of operations as supplemental rent of Ps. 65.7 million, Ps. 0.0 million and Ps. 0.0 million during 2017, 2018 and 2019, respectively.

Because the lease extension benefits are considered lease incentives, the effect of these extensions are recorded reducing the right of use asset. See note 14 to our audited consolidated financial statements included elsewhere in this annual report.

During the year ended December 31, 2019, we added 7 new net aircraft to our fleet. The lease agreements of some of these aircraft do not require the obligation to pay maintenance deposits to lessors in advance in order to ensure major maintenance activities, so we do not record guarantee deposits regarding these aircraft. However, some of these agreements provide the obligation to make a maintenance adjustment payment to the lessors at the end of the contract period. This adjustment covers maintenance events that are not expected to be made before the termination of the contract. We recognize this cost as supplemental rent during the lease term of the related aircraft, in the consolidated statements of operations.

For the years ended December 31, 2017, 2018 and 2019, we expensed as supplemental rent Ps. 265.8 million, Ps. 299.6 million and Ps. 295.7 million, respectively.

Aircraft and Engine Maintenance. We account for major maintenance under the deferral method. Under the deferral method, the cost of major maintenance is capitalized (leasehold improvements to flight equipment) and amortized as a component of depreciation and amortization expense until the next major maintenance event or during the remaining contractual lease term, whichever occurs first. The next major maintenance event is estimated based on assumptions including estimated usage maintenance intervals mandated by the FAA in the United States and the AFAC in Mexico and average removal times suggested by the manufacturer. These assumptions may change based on changes in the utilization of aircraft, changes in government regulations and changes in suggested manufacturer maintenance intervals. In addition, these assumptions can be affected by unplanned incidents that could damage an airframe, engine, or major component to a level that would require a major maintenance event prior to a scheduled maintenance event. To the extent the planned usage increases, the estimated useful life would decrease before the next maintenance event, resulting in additional amortization expense over a shorter period.

In 2017, 2018 and 2019, we capitalized costs of major maintenance events of Ps. 529.3 million, Ps. 676.5 million and Ps. 659.1 million, respectively and we recognized amortization expenses of Ps. 382.7 million, Ps. 313.5 million and Ps. 450.4 million, respectively. The amortization of deferred maintenance expenses is included under the caption depreciation and amortization expense in our consolidated statements of operations. If the amortization of major maintenance expenditures were classified as maintenance expense, they would amount to Ps.1.8 billion, Ps.1.8 billion and Ps. 1.9 billion for the years ended December 31, 2017, 2018 and 2019, respectively.

In August 2012, we entered into a total support agreement with Lufthansa Technik AG (LHT), as amended in December 2016, that expires December 31, 2022, which includes a total component support agreement (power-by-hour) and ensures the availability of aircraft components for our fleet when they are required. The cost of the total component support agreement is applied monthly to the results of operations. As part of this total support agreement, we received credit notes of Ps. 46.5 million and of Ps. 28.1 million, which was deferred on the consolidated statements of financial position and is being amortized on a straight line basis, prospectively during the term of the agreement.

During 2017, 2018 and 2019, we amortized a corresponding benefit from these credit notes of, Ps. 6.6 million, Ps. 7.2 million and Ps. 5.2 million, respectively, which is recognized in the consolidated statements of operations as a reduction of maintenance expenses.

Return obligations. The aircraft and engine lease agreements also require that the aircraft and engines be returned to lessors under specific conditions of maintenance. The costs of return, which in most cases are related to scheduled major maintenance, are estimated and recognized ratably as a provision from the time it becomes likely such costs will be incurred and can be estimated reliably. These return costs are recognized on a straight-line basis as a component of variable rent expenses and the provision is included as part of other liabilities, through the remaining lease term. We estimate the provision related to airframe, engine overhaul and limited life parts using certain assumptions including the projected usage of the aircraft and the expected costs of maintenance tasks to be performed. For the years ended December 31, 2017, 2018 and 2019, the Company expensed as variable rent Ps. 851,410, Ps. 659,106 and Ps. 680,964, respectively.

Fair Value. The fair value of our financial assets and financial liabilities recorded in the consolidated statements of financial position cannot be derived from active markets. They are determined using valuation techniques such as the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and expected volatility. Changes in assumptions regarding these factors could affect the reported fair value of financial instruments.

Gains and Losses on Sale and Leaseback. We enter into sale and leaseback agreements whereby an aircraft or engine is sold to a lessor upon delivery and the lessor agrees to lease such aircraft or engine back to us.

Starting January 1, 2019, we measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, we recognize in the Statement of Operations only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor. The rest of the gain is amortized over the lease term.

During the year ended December 31, 2017, 2018 and 2019 we sold and transferred aircraft and engines to third parties, giving rise to a gain of approximately Ps. 65.9 million, Ps. 609.2 million and Ps. 284.8 million respectively, that was recorded as other operating income in the consolidated statements of operations.

During the year ended December 31, 2011, we entered into aircraft and spare engine sale and leaseback transactions, which resulted in a loss of Ps.30.7 million. This loss was deferred on the consolidated statements of financial position and is being amortized over the contractual lease term. For the years ended December 31, 2017, 2018 and 2019, we amortized a loss of Ps. 3.0 million, Ps. 3.0 million and Ps. 3.0 million, respectively, as additional aircraft rental expense.

Before the IFRS 16 adoption, the profit or loss related to a sale transaction followed by an operating lease, was accounted for as follows:

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

(ii) If the sale price was at or below fair value, any profit or loss was recognized immediately. However, if the loss was compensated for by future lease payments at below market price, such loss was 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 was above fair value, the excess of the price above the fair value was 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 years ended December 31, 2017, 2018 and 2019 we sold and transferred aircraft and engines to third parties, giving rise to a gain of approximately Ps. 65.9 million, Ps. 609.2 million and Ps. 284.8 million, respectively, that was recorded as other operating income in the consolidated statements of operations

Equity-settled Transactions

Equity-settled transactions are measured at fair value at the date the equity benefits are conditionally granted to employees. Our Equity-settled Transactions include long-term retention plans comprised of: (i) a management incentive plan; (ii) long-term incentive plan; and (iii) a board of directors incentive plan.

LONG-TERM RETENTION PLANS

Management Incentive Plan

The management incentive plan has been classified as an equity-settled transaction because as of the grant date the fair value of the transaction is fixed and is not adjusted by subsequent changes in the fair value of capital instruments.

The total cost of the management incentive plan is Ps. 2.7 million. This amount is being expensed over the vesting period, which commenced retroactively upon consummation of our initial public offering and ended on December 31, 2015. During 2012, we did not recognize any compensation expense associated with the management incentive plan in our consolidated statements of operations. During 2013, 2014 and 2015, we recorded Ps. 2.1 million Ps. 0.3 million and Ps. 0.3 million, respectively, as a cost of the management incentive plan related to the vested shares, as recorded in our consolidated statements of operations.

The factors considered in the valuation model for the management incentive plan included a volatility assumption estimated from historical returns on common stock of comparable companies and other inputs obtained from independent and observable sources, such as Bloomberg.

The share spot price fair value was determined using the market approach valuation methodology, with the following assumptions:

	2012
Dividend yield (%)	0.00
Volatility (%)	37.00
Risk—free interest rate (%)	5.96
Expected life of share options (years)	8.80
Exercise share price (in pesos)	5.31
Exercise multiple	1.10
Fair value of the stock at grant date	1.73

The dividend yield was set at zero because at the time the management incentive plan was valued and as of the date of this annual report, we do not have any plans to pay a dividend.

The volatility was determined based on average historical volatilities. Such volatilities were calculated according to a database including up to 18 months of historical stock price returns of U.S. and Latin American publicly traded airlines. The expected volatility reflects the assumption that the historical volatility of comparable companies is indicative of future trends, which may not necessarily be the actual outcome.

The risk-free interest rate is the interbank interest rate in Mexico, continuously expressed, accordingly to the corresponding term.

The expected life of the share options is an output of the valuation model and represents the average time the option is expected to remain viable, assuming the employee does not leave during the vesting period.

The management incentive plan explicitly incorporates expectations of the employee's early exercise behavior by assuming that early exercise happens when the stock price is a certain multiple, M, of the exercise price. The exercise multiple M, of 1.1x incorporates the assumption that the employee's exercise of the options can occur when the share prices are 1.1 times the exercise price, i.e. 10% above the exercise price.

On September 18, 2013, the key employees participating in the management incentive plan exercised 4,891,410 shares. As a result, the key employees paid Ps. 25.9 million to the Management Trust corresponding to the exercised shares. Thereafter, we received from the Management Trust the payment related to the exercised shares by the key employees as a repayment of the loan between the Company and the Management Trust.

On November 16, 2015, as part of the secondary follow-on equity offering, the key employees exercised 4,414,860 Series A shares. The key employees paid Ps. 23.5 million to the Management Trust corresponding to the exercised shares. Thereafter, we received from the Management Trust the payment related to the exercised shares by the key employees as a repayment of the loan between the Company and the Management Trust.

During 2016, the key employees participating in the management incentive plan exercised 3,299,999 Series A shares. The key employees paid Ps. 17.5 million to the Management Trust corresponding to the exercised shares. Thereafter, we received from the Management Trust the payment related to the exercised shares by the key employees as a repayment of the loan between the Company and the Management Trust.

During 2017, the key employees participating in the management incentive plan exercised 120,000 Series A shares. The key employees paid Ps. 0.6 million to the Management Trust corresponding to the exercised shares. Thereafter, we received from the Management Trust the payment related to the exercised shares by the key employees as a repayment of the loan between the Company and the Management Trust.

During 2018, the key employees participating in the management incentive plan exercised 2,003,876 Series A shares. The key employees paid Ps. 10.7 million to the Management Trust corresponding to the exercised shares. Thereafter, we received from the Management Trust the payment related to the exercised shares by the key employees as a repayment of the loan between the Company and the Management Trust.

During 2019, the key employees participating in the management incentive plan exercised 2,780,000 Series A shares. The key employees paid Ps. 14.8 million to the Management Trust corresponding to the exercised shares. Thereafter, we received from the Management Trust the payment related to the exercised shares by the key employees as a repayment of the loan between the Company and the Management Trust.

As of December 31, 2019, 2018 and 2017, the 7,653,981, 10,433,981 and 12,437,857 share options pending to be exercised, respectively, were considered as treasury shares.

MOVEMENTS DURING THE YEAR

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

At December 31, 2012, 2013, 2014, 2015, 2016, 2017, 2018 and 2019, the shares held in trust to satisfy the management options were considered as treasury shares. At December 31, 2017, 2018 and 2019, 12,437,857, 10,433,981 and 7,653,981 share options pending to be exercised were considered as treasury shares, respectively.

	Number	Exercise price in pesos	Total in thousands of pesos
Outstanding as of December 31, 2012	25,164,126	Ps. 5.31	Ps. 133,723
Granted during the year	—	—	—
Forfeited during the year	—		
Exercised during the year	(4,891,410)	5.31	(25,993)
Outstanding as of December 31, 2013	20,272,716	Ps. 5.31	Ps. 107,730
Granted during the year	—		
Forfeited during the year	—		
Exercised during the year	—		
Outstanding as of December 31, 2014	20,272,716	Ps. 5.31	107,730
Granted during the year	—	—	—
Forfeited during the year	—	—	—
Exercised during the year	(4,414,860)	5.31	(23,461)
Outstanding as of December 31, 2015	15,857,856	Ps. 5.31	Ps. 84,269
Granted during the year	—	—	—
Forfeited during the year	—	—	—
Exercised during the year	(3,299,999)	5.31	(17,536)
Outstanding as of December 31, 2016	12,557,857	Ps. 5.31	Ps. 66,733
Granted during the year	—	—	—
Forfeited during the year	—	—	—
Exercised during the year	(120,000)	5.31	(638)
Outstanding as of December 31, 2017	12,437,857	Ps. 5.31	Ps. 66,095
Granted during the year	—	—	—
Forfeited during the year	—	—	—
Exercised during the year	(2,003,876)	5.31	(10,654)
Outstanding as of December 31, 2018	10,433,981	Ps. 5.31	Ps. 55,441
Granted during the year	—	—	—
Forfeited during the year	—	—	—
Exercised during the year	(2,780,000)	5.31	(14,773)
Outstanding as of December 31, 2019	7,653,981	Ps. 5.31	Ps. 40,668

Long-term Incentive Plan (equity-settled)

In November 2014, we established an equity-settled long-term incentive plan pursuant to which certain of our key executives were granted a special bonus equal to a fair value of Ps. 10.8 million to be used to purchase our shares. On April 21, 2016, an amendment to this plan was approved at our annual ordinary shareholders' meeting. The key components of the plan are as follows:

(i) Servicios Corporativos granted a bonus to each key executive.

(ii) Pursuant to the instructions of such key executives, on November 11, 2014, an amount equal to Ps. 7.1 million (the fair value of the bonus net of withheld taxes) was transferred to an administrative trust for the acquisition of our Series A shares through an intermediary authorized by the Mexican stock market, based on the instructions of the administration trust's technical committee. An amount equal to Ps. 7.5 million (the fair value of the bonus net of withheld taxes) was approved in April 2016 as an extension of this plan for the acquisition of our Series A shares, following the same mechanism.

(iii) Subject to the terms and conditions set forth in the administrative trust agreement signed in connection thereto, the acquired shares are to be held in escrow in the administrative trust until the applicable vesting period date for each key executive, which is the date as of which each such key executive can fully dispose of the shares as desired.

(iv) If the terms and conditions set forth therein are not meet by the applicable vesting period date, then the shares will be sold in the BMV and Servicios Corporativos will be entitled to receive the proceeds from such sale.

(v) Each key executive' account balance will be administered by the administrative trustee, whose objective is to manage the shares granted to each key executive based on instructions set forth by the administrative trust's technical committee.

The total cost of this plan is Ps. 10.8 million. This valuation is the result of multiplying the total number of our Series A shares deposited in the administrative trust and the price per share, plus the balance in cash deposited in the administrative trust. This amount is being expensed over the vesting period, which commenced on November 11, 2014 and will end in November 2019.

In November 2019, 2018 and 2017, extensions to this plan were approved by our board of directors. The total cost of each of the extensions approved was Ps. 86.8 million (or Ps. 56.4 million, net of withheld taxes), Ps. 64.0 million (or Ps. 41.6 million, net of withheld taxes) and Ps. 15.8 million (or Ps. 10.1 million, net of withheld taxes), respectively. Under these extensions, certain of our key employees were granted a special bonus that was transferred to the administrative trust for the acquisition of our Series A shares.

During 2017, 2018 and 2019, we recognized Ps.13.5 million, Ps.20.0 million and Ps.49.7 million, respectively, as compensation expense associated with the long-term incentive plan in our consolidated statements of operations.

	Number of Series A shares
Outstanding as of December 31, 2018	*3,553,295
Purchased during the year	2,694,600
Granted during the year	—
Exercised during the year	(959,614)
Forfeited during the year	(173,090)
Outstanding as of December 31, 2019	*5,115,191

* These shares were presented as treasury shares in the consolidated statements of financial position as of December 31, 2018 and 2019 and all are considered outstanding for basic and diluted earnings per share purposes because the holders are entitled to dividends if and when distributed.

The vesting period of the shares granted under the Company's equity-settled long-term incentive plan is as follows:

Number of Series A shares	Vesting period
2,211,269	November 2019-2020
2,005,716	November 2020-2021
898,206	November 2021-2022
5,115,191	

During the year ended December 31, 2019, some key employees left the Company; therefore, these employees did not fulfill the vesting conditions. In accordance with the plan, Servicios Corporativos is entitled to receive the proceeds of the sale of such shares. During the year ended December 31, 2019, 173,090 shares were forfeited.

Board of Directors Incentive Plan (BoDIP)

In April 2018, our shareholders at the annual shareholders meeting authorized a stock plan for the benefit of certain independent members of our board of directors (the "BoDIP"). The BoDIP was implemented through the execution of: (i) trust agreement number CIB/3081 created by us, as trustor, and CIBanco, S.A., Institucion de Banco Multiple, as trustee, on August 29, 2018; and (ii) a stock purchase agreement between each plan participant and the trustee, under which a plan participant has a period of four years to exercise his/her option to pay a fixed purchase price, with the title to the shares transferring to the plan participant upon payment of such purchase price by the plan participant. The number of shares held by the trustee as of December 31, 2019 was 2,072,344, of which 968,706 shares were priced at Ps. 16.80, 977,105 shares were priced at Ps. 16.12 and 126,533 shares were priced at Ps. 26.29. As of December 31, 2019, there were no exercises under the BoDIP.

Cash-settled Transactions

Cash-settled transactions include share appreciation rights ("SARs"). Our cash-settled transactions include long-term retention plans comprised of: (i) management incentive plan II and (ii) a cash-settled long-term incentive plan.

LONG-TERM RETENTION PLANS

Management Incentive Plan II

On November 6, 2016, our board of directors approved an extension of the management incentive plan to certain key employees, known as MIP II. Under MIP II, 13,536,960 share appreciation rights of our Series A shares were granted to be settled annually in cash in a period of five years in accordance with the established service conditions. In addition, a five-year extension to the period in which the executives can exercise MIP II once the SARs are vested was also approved.

The fair value of these SARs is estimated at the grant date and at each reporting date using the Black-Scholes option pricing model, which takes into account the terms and conditions on which the SARs were granted (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, 2019, 2018 and 2017 was Ps. 70.6 million, Ps. 32.9 million and Ps. 37.9 million, respectively. The compensation cost is recognized in our consolidated statements of operations under the caption salaries and benefits over the service period. During the years ended December 31, 2019, 2018 and 2017 we recorded a expense (benefit) of Ps. 37.8 million, Ps.(5.1) million and Ps.(16.5) million, respectively, associated with these SARs in our consolidated statements of operations. No SARs were exercised during 2019.

Number of SARs (Grant date: November 6, 2016)	Exercisable date
2,825,840	February 2020
3,391,020	February 2021
6,216,860*	

* Includes forfeited SARs of 0, 1,563,520 and 0 for the years ended December 31, 2017, 2018 and 2019, respectively.

Cash-settled Long-term Incentive Plan

During 2010, we adopted an employee long-term incentive plan, the purpose of which is to retain high-performing employees within the organization by paying incentives depending on our performance. Incentives under this plan were payable in three annual installments, following the provisions for other long-term benefits under IAS 19. During the year ended December 31, 2013 and 2012 we expensed Ps .6.3 million and Ps. 6.5 million respectively, as bonuses as part of the caption salaries and benefits. During 2014, this plan was structured as a long-term incentive plan, which consists of a long-term incentive plan (equity-settled) and long-term incentive plan (cash-settled).

On November 6, 2014 we granted 4,315,264 Series A SARs to key executives. The SARs vest during a three-year period as long as the employee completes the required service period and entitle them to a cash payment. As of the grant date the amount of SARs granted under this plan totaled Ps. 10.8 million.

Under the plan program extensions described above, the number of SARs granted to certain of our key executives totaled 3,965,351, 0 and 0, respectively, which amounts to a cost of Ps. 15.8 million (or Ps. 10.1 million, net of withheld taxes), Ps. 0.0 million (or Ps. 0.0 million, net of withheld taxes) and Ps .0.0 million (or Ps. 0.0 million, net of withheld taxes), for the years ended December 31, 2017, 2018 and 2019, respectively. The SARs vest during a three-year period as long as the employee completes the required service period.

The fair value of these SARs is estimated at the grant date and at each reporting date using the Black-Scholes option pricing model, which takes into account the terms and conditions on which the SARs were granted (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 the SARs as of December 31, 2017, 2018 and 2019 was Ps. 0.7 million, Ps. 0.5 million and Ps. 1.9 million, respectively. The compensation cost is recognized in our consolidated statements of operations under the caption of salaries and benefits over the service period. During the years ended December 31, 2017, 2018 and 2019 we recorded an expense (benefit) of Ps. (9.0) million, Ps. (0.2) million and Ps. 3.0 million, respectively, in respect of these SARs in our consolidated statements of operations.

Number of SARs	Exercisable date
725,193	November 2020
725,193*	

* Include forfeited SARs of 32,616, 484,656 and 145,769 for the years ended December 31, 2019, 2018 and 2017, respectively.

Derivative Financial Instruments and Hedge Accounting. We mitigate certain financial risks, such as volatility in the price of jet fuel, adverse changes in interest rates and exchange rate fluctuations, through a controlled risk management policy that includes the use of derivative financial instruments. The derivative financial instruments are recognized in the consolidated statement of financial position at fair value. The effective portion of a cash flow hedge's unrecognized gain or loss is recognized in "Accumulated other comprehensive income (loss) items," while the ineffective portion is recognized in current year earnings. The realized gain or loss of derivative financial instruments that qualify as hedging is recorded in the same statements of operations as the realized gain or loss of the hedged item. Derivative financial instruments that are not designated as or not effective as a hedge are recognized at fair value with changes in fair value recorded in current year earnings.

During 2019, 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, 2019 we did not have any collateral recorded as a guarantee deposits.

(i) **Aircraft Fuel Price Risk.** We account for derivative financial instruments at fair value and recognize them in the consolidated statements of financial position as an asset or liability. The cost of aircraft fuel consumed in 2017, 2018 and 2019 represented 31%, 38% and 38% of our operating expenses, respectively. To manage aircraft fuel price risk, we periodically enter into derivatives financial instruments.

During the year ended December 31, 2019, we entered into US Gulf Coast Jet Fuel 54 Asian call options designated to hedge 13,492 thousand gallons of fuel. Such hedges represented a portion of our fourth quarter 2019 projected consumption. Additionally, during the same period, we entered into US Gulf Coast Jet Fuel 54 Asian Zero-Cost collar options designated to hedge 70,136 thousand gallons of fuel. The latter hedges represented a portion of our projected third quarter 2019 and our 2020 consumption.

During the year ended December 31, 2018, we entered into US Gulf Coast Jet Fuel 54 Asian Call options and Zero-Cost Collars designated to hedge 45.6 million gallons of fuel. Additionally, as of December 31, 2017, we entered into US Gulf Coast Jet Fuel 54 Asian call options designated to hedge 61.1 million gallons of fuel.

Additionally, during the year ended December 31, 2019, we entered into US Gulf Coast Jet Fuel 54 Asian Zero-Cost collar options designated to hedge approximately 20% of our 2020 fuel consumption, as well as US Gulf Coast fuel 54 Asian call options that expired by the end of 2019 to hedge approximately 5% of projected fuel consumption for 2019. During the year ended December 31, 2018, we entered into US Gulf Coast Jet Fuel 54 Asian Zero-Cost collar options and US Gulf Coast fuel 54 Asian call options designated to hedge approximately 18% of our 2019 projected fuel consumption.

We utilize IFRS 9, which comprises aspects related to classifications and measurement of financial assets and financial liabilities, as well as hedge accounting treatment. Paragraph 6.2.4 (a) of IFRS 9 allows us to separate the intrinsic value and time value of an option contract and to designate as the hedging instrument only the change in the intrinsic value of the option. As further required in paragraph 6.5.15 therein, because the external value (time value) of the Jet fuel 54 Asian call options are related to a "transaction related hedged item," it is required to be segregated and accounted for as a "cost of hedging" in other comprehensive income ("OCI") and accrued as a separate component of stockholders' equity until the related hedged item affects profit and loss.

Since monthly forecasted jet fuel consumption is considered the hedged item of the "related to a transaction" type, then the time value included as accrued changes on external value in capital is considered as a "cost of hedging" under IFRS 9. The hedged item (jet fuel consumption) of the Jet fuel 54 Asian call options contracted by us represent a non-financial asset (energy commodity), which is not in our inventory. Instead, it is directly consumed by our aircraft at different airport terminals. Therefore, although a non-financial asset is involved, its initial recognition does not generate a book adjustment in our inventories. Rather, it is initially accounted for in our 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, 2017 and 2018, the fair value of our outstanding US Gulf Coast Jet Fuel 54 Asian call options was Ps. 497.4 million and Ps. 48.2 million respectively. During the year ended December 31, 2019, the Company entered into US Gulf Coast Jet Fuel 54 Asian call options which expired by the end of 2019. As of December 31, 2018 and 2019 the fair value of our outstanding US Gulf Coast Jet Fuel 54 Asian Zero-Cost collar options was a loss of (Ps. 122.9) million and a gain of Ps. 133.6 million, respectively, and these were presented as part of the financial assets and financial liabilities line items in our consolidated statements of financial position. The amount of positive cost of hedging derived from the extrinsic value changes of these options as of December 31, 2017, 2018 and 2019 recognized in other comprehensive income totaled Ps. 163.8 million, Ps. 134.1 million, and Ps. 133.6 million, respectively, and will be recycled to our fuel cost during 2020, as these options expire on a monthly basis and as jet fuel is consumed. During the years ended December 31, 2017, 2018 and 2019, the net negative (positive) cost of these options recycled to our fuel cost totaled Ps. 27.0 million, (Ps. 402.5) million and Ps. 70.5 million, respectively.

(ii) Foreign Currency Risk. Foreign currency risk is the risk that the fair value of future cash flows will fluctuate because of changes in foreign exchange rates. Our exposure to the risk of changes in foreign exchange rates relates primarily to our operating activities (when revenue or expense is denominated in a different currency than pesos). Exchange exposure relates to amounts payable arising from U.S. dollar-denominated and U.S. dollar-linked expenses and payments. To mitigate this risk, we may use foreign exchange derivative financial instruments and non-derivative financial instruments.

During the years ended December 31, 2017 and 2018, the Company entered into foreign currency forward contracts in U.S. dollars to hedge approximately 9% and 20% of its future 12 and 6 months of aircraft rental expenses, respectively. A portion of the Company's foreign currency forwards matured during the second half of 2017 (in August, September, November and December), therefore there was no outstanding balance as of December 31, 2017. In addition, a portion of the Company's foreign currency forwards matured during the fourth quarter of 2018 (November and December).

During the year ended December 31, 2019, the Company did not enter into foreign currency forward contracts

Our foreign exchange exposure as of December 31, 2017, 2018 and 2019 was a net liability position of U.S. $1.2 billion, U.S. $1.7 billion and U.S. $1.7 million, respectively.

Hedging relationships with non-derivative financial instruments

Regarding the foreign currency risk effective since January 1, 2019, we implemented two hedging strategies for our forecasted foreign exchange exposures using with non-derivative financial instruments. In the first hedging strategy, we have designated a hedge to mitigate our foreign exchange rate risk and the foreign exchange variation fluctuation in U.S. dollar denominated forecasted revenues using the financial liabilities corresponding to the lease liability denominated in U.S. dollars over the term of the remaining leases term. As of December 31, 2019 we had an amount equivalent to U.S. $2.1 billion of lease liability designated as hedging forecasted revenues over the remaining lease term.

Additionally, the second strategy involves a hedging relationship for our foreign exchange rate with non-derivative financial instruments in order to mitigate the exchange rate risk and foreign exchange (the peso to U.S. dollar) variation intrinsic in our U.S. dollar denominated Jet Fuel purchases. For this strategy, a portion of our Jet Fuel consumption over approximately the next two years has been designated as a hedge item; as hedging instrument we designated a portion of the guaranteed deposits and cash and cash equivalents denominated in U.S. dollars. In this hedging relationship, for foreign exchange rate with non-derivate financial instruments, we designated an amount equivalent to U.S. $410 million, which represents a portion of the financial assets denominated in U.S. dollars.

For both hedging relationships in accordance with the Cash Flows Hedging Model, the accounting records corresponding to the recycling of the reserve for hedging of cash flows (Other Comprehensive Income or "OCI", part of the Stakeholders' Equity) will be done as it is indicated on IFRS 9, this means to reclassify to OCI through the accounts of results in the same period or periods in which the expected hedging for cash flows affects our results for such period, i.e. when those sales are recognized as revenue, always adjusting them because of the hedging effects for the program.

(iii) Interest Rate Risk. Interest rate risk is the risk that the fair value of future cash flows will fluctuate because of changes in market interest rates. Our exposure to the risk of changes in market interest rates relates primarily to our long-term debt obligations and lease obligations with floating interest rates. As of December 31, 2017 and 2018, the Company did not have any interest rate derivatives. As of December 31, 2019, we had an outstanding hedging contract in the form of an interest rate cap with a notional amount of Ps. 1.5 billion and a fair value of Ps. 2.7 million. These instruments are included as assets in our consolidated statements of financial position. For the year ended December 31, 2017, the reported loss on the interest rate swaps was Ps. 13.8 million, which was recognized as part of rental expense in the consolidated statements of operations. All the Company's positions in the form of interest rate swaps matured on March 31 and April 30, 2017. Consequently, there was no outstanding balance as of December 31, 2018 and 2017.

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

	Within one Year	One to five Years	Total
Interest-bearing borrowings:			
Pre-delivery payment facilities	1,855,956	1,452,553	3,308,509
Short-term working capital facilities	200,000	-	200,000
Asset backed trust note	-	1,500,000	1,500,000
Total	**2,055,956**	**2,952,553**	**5,008,509**

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, 2017, 2018 and 2019 we had tax loss carry-forwards amounting to Ps. 1.5 billion, Ps. 1.6 billion and Ps. 1.3 billion, respectively. These losses relate to our and our subsidiaries' operations on a stand-alone basis, which in conformity with current Mexican Income Tax Law may be carried forward against taxable income generated in the succeeding years in each country and may not be used to offset taxable income elsewhere in our consolidated group. During the years ended December 31, 2017, 2018 and 2019 we used tax-loss carry-forwards of Ps. 16.4 million, Ps. 154.4 million and Ps. 214.5 million, respectively.

Central America (Guatemala, Costa Rica and El Salvador)

According to Guatemala corporate income tax law, under the regime on profits from business activities net operating losses cannot offset taxable income in prior or future years. For the year ended December 31, 2018 and 2019, we generated a net operating income (loss) of Ps. 8.5 million and Ps. (1.1) million, respectively.

According to Costa Rica corporate income tax law, under the regime on profits from business activities, net operating losses can offset taxable income in a term of three years. For the years ended December 31, 2017, 2018 and 2019, we obtained net operating losses of Ps. 300.6 million, Ps. 170.7 million and Ps. 50.2 million, respectively, which have not been recognized as deferred tax assets.

According to El Salvador corporate income tax law, under the regime on profits from business activities, net operating losses cannot offset taxable income in prior or future years. For the year ended December 31, 2019, we obtained a net operating loss of Ps. 32.5 million.

Impairment of Long-Lived Assets. The carrying value of flight equipment, furniture and equipment and right of use assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable and the cumulative impairment losses are shown as a reduction in the carrying value of flight equipment, furniture and equipment and right of use assets.

We record impairment charges on long-lived assets used in operations when events and circumstances indicate that the assets may be impaired or when the carrying amount of a long-lived asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less cost to sell and its value in use.

The value in use calculation is based on a discounted cash flow model, using our projections of operating results for the near future. The recoverable amount of long-lived assets is sensitive to the uncertainties inherent in the preparation of projections and the discount rate used in the calculation.

For the years ended December 31, 2017, 2018 and 2019, no impairment charges were recorded in respect of our long-lived assets.

Allowance for Credit Losses. An allowance for credit losses is established using the life-time expected credit loss approach, based on objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. At December 31, 2017, 2018 and 2019, the allowance for credit losses was Ps. 17.8 million, Ps. 11.3 million and Ps. 40.3 million, respectively.

Operating Revenues

2018 COMPARED TO 2019

	For the years ended December 31,			
	2018 Adjusted[1]	2019	Variation	
	(In thousands of pesos, except for % and operating data)			
Operating Revenues				
Passenger revenues:				
Fare revenues	18,487,858	23,129,991	4,642,133	25.1%
Other passenger revenues	7,892,497	10,569,208	2,676,711	33.9%
Non-passenger revenues:				
Other non-passenger revenues	697,357	897,586	200,229	28.7%
Cargo	227,438	228,836	1,398	0.6%
Non-derivative financial instruments	-	(72,949)	(72,949)	n.a.
Total operating revenues	**27,305,150**	**34,752,672**	**7,447,522**	**27.3%**
Operating Data				
Capacity (in ASMs in thousands)	21,009,545	24,498,893	3,489,348	16.6%
% Load factor booked	85%	86%	-	1.0 pp
Booked passengers (in thousands)	18,396	21,975	3,579	19.5%
Average ticket revenue per booked passenger	1,006	1,054	48	4.8%
Average other passenger revenue per booked passenger	429	481	52	12.1%
Average total ancillary revenue per booked passenger	479	532	53	11.1%
Revenue passenger miles (RPMs in thousands)	17,748,408	21,032,364	3,283,956	18.5%

(1) On adoption of IFRS 16 we apply the new standard on the required effective date as of January 1, 2019, using the full retrospective method of adoption in order to provide for comparative results in all periods presented, recognizing the effect in retained earnings as of January 1, 2017.

Fare revenues. The increase in fare revenues in 2019 was primarily due to growth in our ASM capacity by 16.6% resulting from the incorporation of five new net aircraft. Additionally, our booked passengers increased 19.5%, and our average ticket revenue per booked passenger increased 4.8% year over year.

Other passenger revenues. The increase in other passenger revenues in 2019 was primarily due to higher volume of passengers electing to purchase additional services. We continue executing our fare unbundling and demand stimulation strategy. In particular, during 2019, our total ancillary revenues increased due to improved revenue from fees charged for excess baggage, advanced seat selection and itinerary changes.

Other non-passenger revenues. The increase in other non-passenger revenues was primarily due to higher revenues from airport incentives recorded during 2019.

Cargo. The increase in cargo revenues in 2019 was primarily due to a higher volume of cargo operations recorded during 2019.

2017 COMPARED TO 2018

	For the years ended December 31,			
	2017 Adjusted[1]	2018	Variation	
	(In thousands of pesos, except for % and operating data)			
Operating Revenues				
Passenger revenues:				
Fare revenues	17,791,317	18,487,858	696,541	3.9%
Other passenger revenues	6,098,504	7,892,497	1,793,993	29.4%
Non-passenger revenues:				
Other non-passenger revenues	727,392	697,357	(30,035)	(4.1)%
Cargo	170,973	227,438	56,465	33.0%
Total operating revenues	**24,788,186**	**27,305,150**	**2,516,964**	**10.2%**
Operating Data				
Capacity (in ASMs in thousands)	18,860,950	21,009,545	2,148,595	11.4%
% Load factor booked	84%	85%	—	1.0%
Booked passengers (in thousands)	16,427	18,396	1,969	12.0%
Average ticket revenue per booked passenger	1,086	1,006	(80)	(7.4)%
Average other passenger revenue per booked passenger	371	429	58	15.6%
Average total ancillary revenue per booked passenger	426	479	53	12.4%
Revenue passenger miles (RPMs in thousands)	15,917,246	17,748,408	1,831,162	11.5%

(1) As of January 1, 2018, we adopted IFRS 15 using the full retrospective method of adoption in order to provide comparative results in all periods presented, recognizing the effect in retained earnings as of January 1, 2016.

Fare revenues. The increase in fare revenues in 2018 was primarily due to growth in our ASM capacity by 11.4% resulting from the incorporation of six new net aircraft, which was partially offset by a lower average ticket revenue per booked passenger of 7.4% year over year. Our traffic as measured in terms of RPMs increased 11.5% in 2018, also resulting from the increase in our fleet size.

Other passenger revenues. The increase in other passenger revenues in 2018 was primarily due to higher volume of passengers electing to purchase additional services. We continue executing our fare unbundling and demand stimulation strategy. In particular, during 2018, our total ancillary revenues increased due to improved revenue from fees charged for excess baggage, advanced seat selection and itinerary changes.

Other non-passenger revenues. The decrease in other non-passenger revenues was primarily due to higher revenues from airport incentives recorded during 2017.

Cargo. The increase in cargo revenues in 2018 was primarily due to a higher volume of cargo operations recorded during 2018.

Operating Expenses, net

2018 COMPARED TO 2019

	For the years ended December 31,			
	2018[1]	2019	Variation	
	(In thousands of pesos, except for %)			
Other operating income	(621,973)	(327,208)	294,765	(47.4)%
Fuel expense, net	10,134,982	11,626,069	1,491,087	14.7%
Landing, take-off and navigation expenses	4,573,319	5,108,489	535,170	11.7%
Depreciation of right of use assets	4,043,691	4,702,971	659,280	16.3%
Salaries and benefits	3,125,393	3,600,762	475,369	15.2%
Sales, marketing and distribution expenses	1,501,203	1,447,637	(53,566)	(3.6)%
Maintenance expenses	1,497,989	1,488,431	(9,558)	(0.6)%
Aircraft and engine variable lease expenses	956,010	961,657	5,647	0.6%
Other operating expenses	1,059,098	1,112,927	53,829	5.1%
Depreciation and amortization	500,641	675,514	174,873	34.9%
Total operating expenses, net	**26,770,353**	**30,397,249**	**3,626,896**	**13.5%**

(1) As of January 1, 2019, we adopted IFRS 16 using the full retrospective method of adoption in order to provide comparative results in all periods presented, recognizing the effect in retained earnings as of January 1, 2017.

Total operating expenses, net increased 13.5% in 2019 primarily as a result of growth of operations and other factors described below.

Other Operating Income. Other operating income decreased Ps. 294.8 million or 47.4% in 2019, primarily due to lower sale and lease-back gains recorded during 2019 compared to the previous year as a result of the adoption of IFRS 16.

Fuel expense, net. The 14.7% increase in fuel expense was primarily as a result of an increase in the average fuel cost per gallon of 4.1% and an increase in fuel gallons consumed of 10.7% which, in turn, was primarily due to more aircraft in operation and a 17.1% increase in our departures.

During the years ended December 31, 2019 and 2018, we entered into Asian Zero-Cost collar options and Asian call options contracts. These instruments also qualify for hedge accounting. As a result, during 2019, their intrinsic value loss of Ps. 70.5 million was recycled to the cost of fuel.

Landing, Take-off and Navigation Expenses. The 11.7% increase in landing, take-off and navigation expenses in 2019 was primarily due to an increase in our operations as measured by number of departures by 17.1%. These increases were partially offset by a decrease in the number of airports where we operated during the year and incentives received from certain airport groups as a result of the growth of our operations.

Depreciation of right of use assets. The 16.3% increase in depreciation of right of use assets in 2019 was primarily due to an increase in our fleet, as we incorporated five new net aircraft and four new net engine leases during 2019.

Salaries and Benefits. The 15.2% increase in salaries and benefits in 2019 was primarily the result of the annual salary increase and an increase of 7.6% in our total number of employees during the year. Additionally, the variable compensation of our workforce increased also due to higher operations recorded during 2019, as well as the accounting accrual impact related to our management retention plans.

Sales, Marketing and Distribution Expenses. The 3.6% decrease in sales, marketing and distribution expenses was mainly due to efficiencies in our marketing and distribution expenses related to our efficiency and cost reduction plan.

Maintenance Expenses. The 0.6% decrease in maintenance expenses in 2019 was mainly due to the receipt of credit notes from some maintenance suppliers. This decrease was partially offset by the 6.5% increase in our fleet size as a result of the addition of five new net aircraft received during the year and the depreciation of approximately 0.1% in the average exchange rate of the peso against the U.S. dollar during 2019 since some of these maintenance expenses are denominated in U.S. dollars.

Aircraft and engine variable lease expenses. The 0.6% increase in aircraft and engine variable expenses in 2019 was primarily due to the depreciation in the average exchange rate of the peso against the U.S. dollar, since the majority of these expenses are denominated in U.S. dollars.

Other Operating Expenses. The 5.1% increase in other operating expenses in 2019 was primarily the result of our purchase of additional insurance to cover flight equipment and an increase in other administrative expenses. Additionally, during 2019, other operating expenses on a dollar basis increased due to the depreciation of approximately 0.1% in the average exchange rate of the peso against the U.S. dollar during 2019, since some of these expenses are denominated in U.S. dollars.

Depreciation and Amortization. The 34.9% increase in depreciation and amortization in 2019 was primarily due to higher amortization of major maintenance events associated with the aging of our fleet. The cost of the major maintenance events is accounted for under the deferral method. During 2018 and 2019, we recorded amortization of major maintenance leasehold improvements of Ps. 313.5 million and Ps. 450.4 million, respectively.

2017 COMPARED TO 2018

	For the years ended December 31,			
	2017[1]	2018[1]	Variation	
	(In thousands of pesos, except for %)			
Other operating income	(96,765)	(621,973)	(525,208)	>100%
Fuel expense	7,255,636	10,134,982	2,879,346	39.7%
Landing, take-off and navigation expenses	4,002,744	4,573,319	570,575	14.3%
Depreciation of right of use assets	3,437,903	4,043,691	605,788	17.6%
Salaries and benefits	2,823,647	3,125,393	301,746	10.7%
Sales, marketing and distribution expenses	1,691,524	1,501,203	(190,321)	(11.3)%
Aircraft and engine variable lease expenses	1,429,595	956,010	(473,585)	(33.1)%
Maintenance expenses	1,418,253	1,497,989	79,736	5.6%
Other operating expenses	1,034,258	1,059,098	24,840	2.4%
Depreciation and amortization	548,687	500,641	(48,046)	(8.8)%
Total operating expenses, net	**23,545,482**	**26,770,353**	**3,224,871**	**13.7%**

(1) As of January 1, 2019, we adopted IFRS 16 using the full retrospective method of adoption in order to provide comparative results in all periods presented, recognizing the effect in retained earnings as of January 1, 2017.

Total operating expenses, net increased 13.7% in 2018 primarily as a result of growth of operations and other factors described below.

Other Operating Income. Other operating income increased Ps. 525.2 million or greater than 100% in 2018, primarily due to a higher number of sale and leaseback transactions, which resulted in higher profit realized during 2018.

Fuel expense. The 39.7% increase in fuel expense was primarily as a result of an increase in the average fuel cost per gallon of 29.2% and an increase in fuel gallons consumed of 8.0% which, in turn, was primarily due to more aircraft in operation and a 9.1% increase in our departures.

During the year ended December 31, 2018, we entered into Asian Zero-Cost collar options and Asian call options contracts.

Additionally, during the year ended December 31, 2017, we entered into Asian call options contracts. These instruments also qualify for hedge accounting. As a result, during 2018, their extrinsic value benefit of Ps.402.5 million was recycled to the cost of fuel.

Landing, Take-off and Navigation Expenses. The 14.3% increase in landing, take-off and navigation expenses in 2018 was primarily due to an increase in the number of airports where we operated during the year. In addition, our operations as measured by number of departures increased by 9.1%. These increases were partially offset by incentives received from certain airport groups as a result of the growth of our operations.

Depreciation of right of use assets. The 17.6% increase in depreciation of right of use assets in 2018 was primarily due to an increase in our fleet size, as we incorporated six new net aircraft and new net engine leases during 2018.

Salaries and Benefits. The 10.7% increase in salaries and benefits in 2018 was primarily the result of the annual salary increase, as well as severance payments related to a net decrease of 2.9% in our total number of employees as part of our efficiency and cost reduction plan. Additionally, the variable compensation of our workforce increased also due to higher operations recorded during 2018, as well as the accounting accrual impact related to our management retention plans.

Sales, Marketing and Distribution Expenses. The 11.3% decrease in sales, marketing and distribution expenses was mainly due to efficiencies in our marketing and distribution expenses related to our efficiency and cost reduction plan.

Maintenance Expenses. The 5.6% increase in maintenance expenses in 2018 was mainly due to the increase in our fleet size of 8.5% as a result of the addition of six new net aircraft received during the year. Additionally, during 2018 our maintenance expenses increased due to the depreciation of approximately 1.6% in the average exchange rate of the peso against the U.S. dollar during 2018, since some of these expenses are denominated in U.S. dollars.

Aircraft and engine variable lease expenses. The 33.1% decrease in aircraft and engine variable expenses was primarily due to a decrease in the number of aircraft returned to lessors.

Other Operating Expenses. The 2.4% increase in other operating expenses in 2018 was primarily the result of additional technical and communication support and passenger service expenses required for the growth of our operations. Additionally, during 2018, other operating expenses on a dollar basis increased due to the depreciation of approximately 1.6% in the average exchange rate of the peso against the U.S. dollar during 2018, since some of these expenses are denominated in U.S. dollars.

Depreciation and Amortization. The 8.8% decrease in depreciation and amortization 2018 was primarily due to lower amortization of major maintenance events associated with the aging of our fleet. The cost of the major maintenance events is accounted for under the deferral method. During 2017 and 2018, we recorded amortization of major maintenance leasehold improvements of Ps. 382.7 million and Ps. 313.5 million, respectively.

Operating Results

2018 COMPARED TO 2019

	For the years ended December 31,			
	2018 Adjusted (1)	2019	Variation	
	(In thousands of pesos, except for %)			
Operating Results				
Total operating revenues	27,305,150	34,752,672	7,447,522	27.3%
Total operating expenses, net	26,770,353	30,397,249	3,626,896	13.5%
Operating income	534,797	4,355,423	3,820,626	>100%

(1) As of January 1, 2019, we adopted IFRS 16 using the full retrospective method of adoption in order to provide comparative results in all periods presented, recognizing the effect in retained earnings as of January 1, 2017.

Operating Income. As a result of the factors outlined above, our operating income was Ps. 4,355 million in 2019, a greater than 100% increase compared to our operating income of Ps. 534.8 million in 2018. As a consequence of the adoption of IFRS 16, operating expenses decreased and our operating income increased.

2017 COMPARED TO 2018

	For the years ended December 31,			
	2017 Adjusted (1)	2018 Adjusted (1)	Variation	
	(In thousands of pesos, except for %)			
Operating Results				
Total operating revenues	24,788,186	27,305,150	2,516,964	10.2%
Total operating expenses, net	23,545,482	26,770,353	3,224,871	13.7%
Operating income	1,242,704	534,797	(707,907)	(57.0)%

(1) As of January 1, 2019, we adopted IFRS 16 using the full retrospective method of adoption in order to provide comparative results in all periods presented, recognizing the effect in retained earnings as of January 1, 2017.

Operating Income. As a result of the factors outlined above, our operating income was Ps. 534.8 million in 2018, lower than our operating income of Ps. 1,242.7 million in 2017 by 57%. As a consequence of the adoption of IFRS 16, operating expenses decreased and improved the operating income in both years.

Financial Results

2018 COMPARED TO 2019

	For the years ended December 31,			
	2018 Adjusted (1)	2019	Variation	
	(In thousands of pesos, except for %)			
Financing Results				
Finance income	152,603	207,799	55,196	36.2%
Finance cost	(1,876,312)	(2,269,829)	(393,517)	21.0%
Exchange gain (loss), net	(103,790)	1,440,501	1,544,291	n.a.
Total financing results	**(1,827,499)**	**(621,529)**	**1,205,970**	**(66.0)%**

(1) As of January 1, 2019, we adopted IFRS 16 using the full retrospective method of adoption in order to provide comparative results in all periods presented, recognizing the effect in retained earnings as of January 1, 2017.

Total Financing Results. The 66.0% decrease in our total financing loss in 2019 was primarily due to the increase in our foreign exchange gain, year over year.

During 2019, we recorded an exchange gain of Ps. 1.4 billion, which resulted from the 4.3% appreciation of the peso against the U.S. dollar at year-end, since we maintained a net monetary liability position of U.S. $1.7 billion in 2019. Our U.S. dollar net monetary liability position mainly resulted from the value of our lease liabilities and financial debt. Additionally, our finance income increased by Ps. 55.2 million, mainly due to an increase in our short-term investments as a result of a higher level of Cash during 2019. Our finance cost increased by Ps. 393.5 million, mainly due to an increase in our lease financial cost related to the recognition of IFRS 16 and interest paid on our asset backed trust notes.

2017 COMPARED TO 2018

	For the years ended December 31,			
	2017 Adjusted (1)	2018 Adjusted (1)	Variation	
	(In thousands of pesos, except for %)			
Financing Results				
Finance income	105,795	152,603	46,808	44.2%
Finance cost	(1,515,281)	(1,876,312)	(361,031)	23.8%
Exchange gain (loss), net	683,039	(103,790)	(786,829)	n.a.
Total financing results	**(726,447)**	**(1,827,499)**	**(1,101,052)**	**>100%**

(1) As of January 1, 2019, we adopted IFRS 16 using the full retrospective method of adoption in order to provide comparative results in all periods presented, recognizing the effect in retained earnings as of January 1, 2017.

Total Financing Results. The greater than 100% increase in our total financing loss in 2018 was primarily due to the foreign exchange loss we recorded during 2018.

During 2018, we recorded an exchange loss of Ps. 103.8 million, which resulted from the 0.3% appreciation of the peso against the U.S. dollar at year-end, since we maintained a net monetary liability position of U.S. $1.7 billion in 2018. Our U.S. dollar net monetary liability position mainly resulted from the value of our lease liabilities and financial debt. Additionally, our finance income increased Ps. 46.8 million, mainly due to an increase in our short-term investments. Our finance cost increased by Ps. 361.0 million, mainly due to higher lease financial cost related to the recognition of IFRS 16 and interest costs and higher commissions resulting from our letters of credit.

Income Tax Expense and Net Income

2018 COMPARED TO 2019

	For the years ended December 31,			
	2018 Adjusted (1)	2019	Variation	
	(In thousands of pesos, except for %)			
Net income (loss)				
Income (loss) before income tax	(1,292,702)	3,733,894	5,026,596	n.a.
Income tax (expense) benefit	349,820	(1,094,831)	(1,444,651)	n.a.
Net income (loss)	**(942,882)**	**2,639,063**	**3,581,945**	**n.a.**

(1) As of January 1, 2019, we adopted IFRS 16 using the full retrospective method of adoption in order to provide comparative results in all periods presented, recognizing the effect in retained earnings as of January 1, 2017.

We recorded net gain of Ps. 2.6 billion in 2019 compared to a net loss of Ps. 942.9 million in 2018. During the years ended December 31, 2019 and 2018, we recorded a tax (expense) benefit of Ps. (1.1 billion) and Ps. 349.8 million, respectively. At December 31, 2019, our tax loss carry-forwards amounted to Ps. 1.3 billion (Ps. 1.6 billion of December 31, 2018).

During the years ended December 31, 2019 and 2018, we used Ps. 214.5 million and Ps. 154.4 million, in available tax loss carry-forwards, respectively. The effective tax rate during 2019 and 2018 was of 29.3% and 27.1% respectively.

2017 COMPARED TO 2018

	For the years ended December 31,			
	2017 Adjusted (1)	2018 Adjusted (1)	Variation	
	(In thousands of pesos, except for %)			
Net income (loss)				
Income (loss) before income tax	516,257	(1,292,702)	(1,808,959)	n.a
Income tax (expense) benefit	(237,586)	349,820	587,406	n.a
Net income (loss)	**278,671**	**(942,882)**	**(1,221,553)**	**n.a**

(1) On adoption of IFRS 16 we apply the new standard on the required effective date as of January 1, 2019, using the full retrospective method of adoption in order to provide for comparative results in all periods presented, recognizing the effect in retained earnings as of January 1, 2017.

We recorded net loss of Ps. 942.9 million in 2018 compared to a net income of Ps. 278.7 million in 2017. During the years ended December 31, 2018 and 2017, we recorded a tax benefit (expenses) of Ps. 349.8 million and Ps. (237.6) million, respectively. At December 31, 2018 and 2017, our tax loss carry-forwards amounted to Ps. 1.6 billion and Ps. 1.5 billion, respectively.

During the years ended December 31, 2018 and 2017, we used Ps. 154.4 million and Ps. 16.4 million, in available tax loss carry-forwards, respectively. The effective tax rate during 2018 and 2017 was of 27.1% and 46.0% respectively.

* Calculation of effective tax rate may vary due to the recasted financial statements from prior periods after the adoption of IFRS 15; the tax amount variance was deemed as immaterial.

B. LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Our primary source of liquidity is cash provided by operations, with our primary uses of liquidity being working capital and capital expenditures.

	For the years ended December 31,		
	2017 Adjusted (1)	2018 Adjusted (1)	2019
	(In thousands of pesos)		
Net cash flows provided by operating activities	6,018,767	6,276,707	9,509,643
Net cash flows used in investing activities	(2,260,440)	(1,389,395)	(1,879,341)
Net cash flows used in financing activities	(3,634,598)	(5,946,059)	(5,238,840)

(1) On adoption of IFRS 16 we apply the new standard on the required effective date as of January 1, 2019, using the full retrospective method of adoption in order to provide for comparative results in all periods presented, recognizing the effect in retained earnings as of January 1, 2017.

In recent years, we have been able to meet our working capital requirements through cash from our operations. Our capital expenditures consist primarily of the acquisition of flight equipment, including pre-delivery payments for aircraft acquisitions. From time to time, we finance pre-delivery payments related to our aircraft with revolving lines of credit with the commercial banks. We have obtained committed financing for pre-delivery payments in respect of all the aircraft to be delivered through 2022.

Our cash and cash equivalents increased by Ps. 2.1 billion, from Ps. 5.9 billion at December 31, 2018 to Ps. 8.0 billion at December 31, 2019. At December 31, 2019, we had available credit lines totaling Ps. 9.0 billion, of which Ps. 6.6 billion were related to financial debt and Ps. 2.4 billion were related to letters of credit (Ps. 1.7 billion were undisbursed). At December 31, 2018, we had available credit lines totaling Ps. 6.7 billion, of which Ps. 4.1 billion were related to financial debt and Ps. 2.7 billion were related to letters of credit (Ps. 1.0 billion were undisbursed).

We have an investment policy to optimize the performance and ensure availability of, and minimize the risk associated with, the investment of cash, cash equivalents and short-term investments. Such policy provides for guidelines regarding minimum balance, currency mix, instruments, deadlines, counterparties and credit risk. At December 31, 2019, 88% of our cash, cash equivalents and short-term investments were denominated in U.S. dollars and 12% were denominated in pesos. See note 3 to our audited consolidated financial statements included elsewhere in this annual report.

Net cash flows provided by operating activities. We rely primarily on cash flows from operating activities to provide working capital for current and future operations. Net cash flows provided by operating activities totaled Ps. 9.5 billion and Ps. 6.3 billion in 2019 and 2018, respectively. Our net cash flows increased primarily due to a significant increase in unearned transportation revenue as compared to 2018.

Net cash flows provided by operating activities totaled Ps. 6.3 billion and Ps. 6.0 billion in 2018 and 2017, respectively. Our net cash flows increased primarily due to an increase in recoverable guarantee deposits and unearned transportation revenue as compared to 2017.

Net cash flows used in investing activities. During 2019, net cash flow used in investing activities totaled Ps. 1.9 billion, which consisted primarily of pre-delivery payments for aircraft and engine acquisitions totaling Ps. 1.4 billion, partially offset by pre-delivery payments reimbursements totaling Ps. 0.7 billion. Additionally, we recorded other capital expenditures relating to aircraft parts and rotable spare parts acquisitions, intangible assets and major maintenance costs, net of disposals of Ps. 1.2 billion.

During 2018, net cash flow used in investing activities totaled Ps. 1.4 billion, which consisted primarily of pre-delivery payments for aircraft and engine acquisitions totaling Ps. 1.2 billion, partially offset by pre-delivery payments reimbursements totaling Ps. 0.6 billion. Additionally, we recorded other capital expenditures relating to aircraft parts and rotable spare parts acquisitions, intangible assets and major maintenance costs, net of disposals of Ps. 0.8 billion.

During 2017, net cash flow used in investing activities totaled Ps. 2.3 billion, which consisted primarily of pre-delivery payments for aircraft and engine acquisitions totaling Ps. 1.7 billion, partially offset by pre-delivery payments reimbursements totaling Ps. 0.2 billion. Additionally, we recorded other capital expenditures relating to aircraft parts and rotable spare parts acquisitions, intangible assets and major maintenance costs, net of disposals of Ps. 0.81 billion.

Net cash flow used in financing activities. During 2019, net cash flows used in financing activities totaled Ps. 5.2 billion, which consisted primarily of payments of the principal portion of lease liabilities of Ps. 6.4 billion (aircraft and spare engine rent payment), payments of financial debt related to the aircraft financing pre-delivery payments for a net amount of Ps. 0.7 billion, payments of working capital credit lines of Ps. 0.5 billion and interest paid of Ps. 0.3 billion, which were partially offset by proceeds from disbursements under our revolving credit facility with Banco Santander and Bancomext of Ps. 1.1 billion, proceeds from our asset backed trust notes (CEBUR) of Ps. 1.4 billion, which take into account amortized transaction costs, and proceeds from additional short-term working capital facilities with Banco Sabadell, S.A. of Ps. 0.2 billion.

During 2018, net cash flows used in financing activities totaled Ps. 5.9 billion, which consisted primarily of payments of the principal portion of lease liabilities of Ps. 5.7 billion (aircraft and spare engine rent payments), payments of financial debt related to the aircraft financing pre-delivery payments for a net amount of Ps. 0.7 billion, payments of working capital credit lines of Ps. 0.5 billion and interest paid of Ps. 0.2 billion, which were partially offset by proceeds from disbursements under our revolving credit facility with Banco Santander and Bancomext of Ps. 1.2 billion.

During 2017, net cash flows used in financing activities totaled Ps. 3.6 billion, which consisted primarily of payments of the principal portion of lease liabilities of Ps. 5.0 billion (aircraft and spare engine rent payments), payments of aircraft financing pre-delivery payments for a net amount of Ps. 0.2 billion, payments of working capital credit lines of Ps. 0.7 billion and interest paid of Ps. 0.1 billion, which were partially offset by proceeds from disbursements under our revolving credit facility with Banco Santander and Bancomext of Ps. 1.5 billion, and additional short-term working capital facilities with Banco Nacional de México S.A. and Bank of America México, S.A. of Ps. 0.9 billion.

Loan Agreements

The revolving credit facility with Banco Santander México and Bancomext, dated July 27, 2011 as amended and restated on August 1, 2013 and as further amended on February 28, 2014 and November 27, 2014, under which we are a guarantor, provides financing for pre-delivery payments in connection with our purchase of nineteen A320 aircraft. On August 25, 2015, we entered into an additional amendment to such loan agreement to finance pre-delivery payments of eight additional A320 aircraft. On November 2016, we entered into an additional amendment to such loan agreement to finance the pre-delivery payments for the twenty-two remaining A320 aircraft under the Airbus purchase agreement. On December 2017, we entered an additional amendment to extend the term of the loan agreement to November 2021. Finally, we entered into one further amendment to this loan agreement on November 2018, to extend the term to May 2022.

The aggregate principal amount of this revolving line is for up to U.S. $183.0 million, of which U.S. $103.7 million is provided by Banco Santander México and U.S. $79.3 million by Bancomext. This revolving credit facility bears annual interest at three-month LIBOR plus 260 basis points. The maturity is on May 31, 2022, but it could be extended to November 2022. Any principal repaid may be re-borrowed until May 31, 2022. This revolving line of credit may limit our ability to, among others, declare and pay dividends in the event that we fail to comply with the payment terms thereunder, dispose of certain assets, incur indebtedness and create certain liens.

In December 2016, we entered into a short-term working capital facility with Banco Nacional de México S.A. in the amount of Ps.406.3 million, bearing annual interest the Interbank Equilibrium Interest Rate *(tasa de interés interbancaria de equilibrio or the TIIE)* 28 days plus 90 basis points. In December 2017, we rolled over this short-term working capital facility with Banco Nacional de México S.A. in the amount of Ps.948.4 million, bearing annual interest at TIIE 28 days plus a spread in a range of 20 to 80 basis points. Finally, in December 2018, we rolled over this short-term working capital facility with Bancomext in the amount of Ps.461.3 million, bearing annual interest at TIIE 28 days plus 90 basis points, with final maturity date in January 2019.

On June 20, 2019, our subsidiary Volaris Opco issued 15,000,000 asset backed trust notes under the ticker VOLARCB 19 in the amount of Ps. 1.5 billion through Irrevocable Trust number CIB/3249 created by Volaris Opco. This issuance is part of a program approved by the CNBV for an amount of up to Ps. 3.0 billion. The notes mature in five years, have principal amortizations of Ps. 250,000, Ps. 500,000, Ps. 500,000 and Ps. 250,000 in 2021, 2022, 2023 and 2024, respectively, and bear annual interest at TIIE 28 days plus 175 basis points.

In December 2019, we entered into a short-term working capital facility with Banco Sabadell, S.A., Institución de Banca Multiple

("Sabadell") with Concesionaria as our obligor in the amount of Ps. 200 million and bearing annual interest at TIIE 28 days plus 120 basis points. As of December 31, 2019, we were current with principal and interest payments as well as in compliance with the covenants under our revolving credit facility and short-term working capital facilities.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

We have registered the trademark "Volaris" with the trademark office in Mexico, the United States and in the countries in which operate in Central America. We have also registered several additional trademarks and slogans with the trademark office in Mexico, the United States and in the countries in which we operate in Central America.

We operate software products under licenses from our vendors, including Jeppesen Systems AB, Navitaire LLC and Juniper Technologies Corporation. Under our agreements with Airbus, we use Airbus' proprietary information to maintain our aircraft.

D. TREND INFORMATION

See Item 5: "Operating and Financial Review and Prospects—Operating Results—Trends and Uncertainties Affecting our Business."

E. OFF-BALANCE SHEET ARRANGEMENTS

None of our operating lease obligations are reflected on our statements of financial position. We are responsible for all maintenance, insurance and other costs associated with operating these aircraft; however, we have not made any residual value guarantee to our lessors.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth certain contractual obligations as of December 31, 2019:

Contractual Obligations* Payments due by Period					
	Total	<1 year	1 to 3 years	3 to 5 years	>5 years
	(In thousands of pesos)				
Debt (1)	4,998,441	2,086,017	2,202,553	709,871	—
Lease liabilities (2)	40,517,045	4,720,505	9,695,025	8,404,284	17,697,231
Future lease liabilities (3)	19,959,084	392,866	2,698,915	3,326,518	13,540,785
Flight equipment, spare engines and spare parts purchase obligations (4)	82,828,498	2,661,281	14,542,803	28,719,331	36,905,083
Total future payments on contractual obligations	**148,303,068**	**9,860,669**	**29,139,296**	**41,160,004**	**68,143,099**

(1) Includes scheduled interest payments.
(2) Does not include maintenance deposit payments because they depend on the utilization of the aircraft.
(3) Our sale and leaseback agreements consist primarily of future lease payments with the lessors.
(4) Our contractual purchase obligations consist primarily of aircraft and engine acquisitions through manufacturers and aircraft leasing companies. In December 2011, we signed an amendment to our purchase agreement with Airbus for an additional order of 44 A320 family aircraft for delivery between 2014 and 2020.
* Disclosure of contractual obligations does not include obligations relating to our post-employment benefits which totaled Ps. 38.2 million at December 31, 2019.

Committed expenditures for these aircraft, spare engines, spare parts and related flight equipment, including estimated amounts for contractual price escalations of pre-delivery payments, will be approximately Ps. 18.8 billion from 2020 to 2025 and thereafter.

In 2020, we expect our capital expenditures, excluding pre-delivery payments, to be Ps. 82.8 billion, consisting primarily of aircraft parts and rotable spare parts, construction and improvements to leased assets, and major maintenance costs (leasehold improvements to flight equipment recorded into rotable spare parts furniture and equipment, net).

G. SAFE HARBOR

Not applicable.

CONSOLIDATED FINANCIAL STATEMENTS

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

Years Ended December 31, 2019, 2018 and 2017
with Independent Auditor's Report

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated statements of financial position of Controladora Vuela Compañía de Aviación, S.A.B. de C.V. and subsidiaries (the Company) as of December 31, 2019 and 2018, 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, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2019 and 2018, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, 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, 2020 expressed an unqualified opinion thereon.

BASIS FOR OPINION

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

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

CRITICAL AUDIT MATTERS

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

LEASE RETURN CONDITION PROVISION

Description of the Matter

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

The Company adopted IFRS 16 under the full retrospective approach, which required the initial assessment of all lease contracts from their beginning and restatement of each prior reporting period presented. The Company performed an assessment of the return condition provision for leased aircraft, which required management to estimate the cost of those maintenance obligations to be included in connection with aircraft lease return.

Maintenance obligation performed at the end of the lease which does not benefit the Company is viewed as variable payments under IFRS 16 and recognized in profit or loss based on the aircraft utilization over the period starting upon the completion of the major maintenance event occurring prior to lease return.

The maintenance provision covers the cost to fulfill return condition that must be satisfied at the expiration of the related leases primarily related to airframe, engine overhaul and limited life parts using certain assumptions including the projected usage of the aircraft and the expected costs of maintenance tasks to be performed at the return of the lease. The maintenance return condition also considers deposits paid to the lessor considered as supplemental rental. At December 31, 2019, the Company´s provision for return condition amounted Ps.1,852,688.

Auditing management´s lease return condition provision was complex as it is based on significant management´s judgement in estimating the amount and timing of future costs, aircraft usage, timing of recognition of the provision, and certain other assumptions, therefore we have determined this to be a critical audit matter.

How We Addressed the Matter in Our Audit

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

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

Furthermore, we assessed the reasonableness of the related disclosure made in Note 1 p) and 15 c) of the consolidated financial statements.

AIRCRAFT AND ENGINE LEASES

Description of the Matter

The Company adopted IFRS 16 and applied full retrospective approach that required to determine the carrying amounts of all leases in existence at the earliest comparative period as if those leases had always been accounted for applying IFRS 16 and to restate comparative information. As described in Note 1 x) to the consolidated financial statements, as a result of initial recognition of IFRS 16 there was an amount recorded as right of use asset by Ps.23,500,081, a lease liability of Ps.32,711,793 and a retrospective effect in retained earnings by Ps. 7,365,758 as of January 1st, 2017.

Additionally, the Company obtains substantially its entire fleet of aircraft and most of its engines under lease agreements, which in accordance with current standards, at inception of a contract, the Company assesses whether the contract is, or contains, a lease as a result of applying IFRS 16. Then at the commencement date of a lease, the Company recognizes a liability to make lease payments (lease liability) and an asset representing the right to use the underlying asset during the lease term (right-ofuse asset).

Based on the unique terms and usage conditions of each lease as specified in the related agreements, the potential impacts of the proper classification of the leases, the assumptions applied to calculate incremental borrowing rate, the determination of lease terms and in light of the fact that in 2019 the Company entered into lease agreements for 7 aircraft and 2 spare engines, as well as an extension of 1 spare engine, we have determined this to be a critical audit matter.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's IFRS 16 adoption process, for example, we tested controls over management's review of the significant assumptions described above and the data inputs used by management in the calculation of right of use assets and lease liabilities.

To test the completeness and accuracy of the underlying data used to calculate the right of use asset and lease liabilities, our procedures included reading the lease agreements and reviewing their terms and conditions, including their payment terms, the rates of established lease payment, among other procedures. Additionally, we evaluated management's assessment performed for each component of the lease within the contracts as a lease separately from the components of the contract that do not constitute a lease as well as the assumptions used to apply the requirements for depreciating the right of use asset. Furthermore, we involved our specialists to assist in evaluating assumptions and the methodology used by management in calculating the incremental borrowing rate.

We assessed the Company's disclosure of this matter in Notes 1 p) and 14 to the consolidated financial statements.

AIRCRAFT MAINTENANCE DEPOSITS PAID TO LESSORS

Description of the Matter

Certain of the Company's lease agreements require the payment of maintenance deposits to lessors during the lease term for the underlying aircraft and engines. The Company has booked aircraft maintenance deposits to lessors of Ps. 6,430,429 as of December 31, 2019. Related disclosure is included in Note 11 of the consolidated financial statements.

Most of the Company's lease agreements require the Company to pay maintenance deposits to aircraft lessors to be held as collateral in advance of the

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

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

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

How We Addressed the Matter in Our Audit

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

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

We assessed the Company's disclosure in Notes 1j and 11 to the consolidated financial statements.

SUBSEQUENT EVENTS (COVID-19 ASSESSMENT)

Description of the Matter

In March 2020 Mexico as well as the rest of the world was impacted by the effects of COVID-19, declared a pandemic by the World Health Organization. The Company and the entire aviation industry began to experience a significant drop in the demand for air travel, as evidenced by a significant reduction in forward sales over the next few months, due to this global pandemic. In addition, governmental travel restrictions have significantly reduced the demand for global air transportation. Furthermore, on April 21, 2020, the General Health Council (GHG) announced that Mexico is in "Phase 3" of the spread of the COVID-19, the most serious stage, as transmission of the virus is intensifying. As a result of and considering this matter might be a material uncertainty predicated by the COVID 19 outbreak, the Company has assessed the entity´s ability to continue as a going concern through December 31, 2020 as required by IFRS 1. When making that assessment, management has taken into consideration the existing and anticipated effects of the outbreak on the Company´s activities in its assessment of the appropriateness of the use of going concern basis.

The Company has taken several actions including decreasing capacity as measured by available seat miles (ASMs) for the rest of the month of April and May 2020 by approximately 80% and 90%, respectively, of total operation versus the originally published schedule, establishing payment deferrals to the lease and aircraft purchase contracts and other supplier's payment deferral, reducing management's compensations and other salaries, deferring capital expenditures and certain other measures.

Based on complexity in auditing the judgements and assumptions applied by management in assessing the capability of operating on a going concern basis, we have determined this to be a critical audit matter and we focused on the Company´s assumptions used in such assessment to estimate future demand and revenue as well as the recovery period for operations in order to conclude whether a material uncertainty exist.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the process of completing the evaluation including updated inputs into the forecast of results and cash flows and consideration of management plans. As described above, we tested the Company´s forecasted results, cash flows and balance sheet figures and stress tested critical assumptions as to the severity, duration and recovery period used to build up such figures and testing as compared to historical activity and financial relationships. In addition, we have tested the critical actions implemented, (such as keep low expenses level, negotiating with vendors and suppliers for differing payments, etc.), inspection of updated contracts with lessors and equipment supplier´s as needed, labor contracts and other supporting evidence.

We assessed the Company's disclosure in Note 25 to the consolidated financial statements.

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

C.P.C. José Andrés Marín Valverde

We have served as the Company's auditor since 2005.
Mexico City, Mexico
April 27, 2020

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In thousands of Mexican pesos)

	(Thousands of U.S. dollars*) 2019	At December 31, 2019	2018 Adjusted	2017 Adjusted
Assets				
Current assets:				
Cash and cash equivalents (Note 6)	US$ 423,449	Ps. 7,979,972	Ps. 5,862,942	Ps. 6,950,879
Accounts receivable:				
Related parties (Note 7)	1,244	23,442	8,266	–
Other accounts receivable, net (Note 8)	48,978	923,000	508,479	478,467
Recoverable value added tax and others	49,802	938,532	612,146	400,464
Recoverable income tax	23,102	435,360	337,799	570,361
Inventories (Note 9)	16,020	301,908	297,271	294,850
Prepaid expenses and other current assets (Note 10)	41,450	781,131	442,791	500,754
Financial instruments (Notes 3 and 5)	7,088	133,567	62,440	497,403
Guarantee deposits (Note 11)	31,856	600,327	790,635	1,352,893
Total current assets	642,989	12,117,239	8,922,769	11,046,071
Non–current assets:				
Rotable spare parts, furniture and equipment, net (Note 12)	391,895	7,385,334	5,782,282	4,375,697
Right–of–use assets (Note 14)	1,811,006	34,128,766	31,882,053	24,893,882
Intangible assets, net (Note 13)	8,883	167,397	179,124	190,420
Financial instruments (Notes 3 and 5)	143	2,695	–	–
Deferred income taxes (Note 19)	81,853	1,542,536	3,392,240	3,222,228
Guarantee deposits (Note 11)	405,643	7,644,421	6,337,496	6,098,252
Other assets	8,785	165,546	154,757	126,423
Other long–term assets	7,492	141,193	73,962	–
Total non–current assets	2,715,700	51,177,888	47,801,914	38,906,902
Total assets	US$ 3,358,689	Ps. 63,295,127	Ps. 56,724,683	Ps. 49,952,973

	(Thousands of U.S. dollars*) 2019	At December 31, 2019	2018 Adjusted	2017 Adjusted
Liabilities and equity				
Short–term liabilities:				
Unearned transportation revenue	US$ 195,271	Ps. 3,679,926	Ps. 2,438,516	Ps. 2,293,309
Suppliers	84,748	1,597,099	1,085,499	1,077,438
Related parties (Note 7)	3,107	58,554	17,775	40,931
Accrued liabilities (Note 15a)	134,355	2,531,861	2,267,596	1,967,926
Lease liabilities (Note 14)	250,488	4,720,505	4,976,454	4,213,417
Other taxes and fees payable (Note 1q)	111,564	2,102,455	1,932,082	1,245,247
Income taxes payable	7,461	140,609	4,065	111,292
Financial instruments (Notes 3 and 5)	–	–	122,948	–
Financial debt (Note 5)	110,692	2,086,017	1,212,259	2,403,562
Other liabilities (Note 15c)	21,608	407,190	25,835	202,250
Total short–term liabilities	919,294	17,324,216	14,083,029	13,555,372
Long–term liabilities:				
Financial debt (Note 5)	153,352	2,889,952	2,310,939	1,079,152
Accrued liabilities (Note 15b)	4,818	90,796	75,503	92,448
Lease liabilities (Note 14)	1,899,504	35,796,540	34,588,692	28,310,287
Other liabilities (Note 15c)	77,982	1,469,595	1,820,194	1,454,790
Employee benefits (Note 16)	2,027	38,206	18,153	19,289
Deferred income taxes (Note 19)	8,285	156,139	1,123,020	1,616,282
Total long–term liabilities	2,145,968	40,441,228	39,936,501	32,572,248
Total liabilities	3,065,262	57,765,444	54,019,530	46,127,620
Equity (Note 18):				
Capital stock	157,789	2,973,559	2,973,559	2,973,559
Treasury shares	(9,006)	(169,714)	(122,661)	(85,034)
Contributions for future capital increases	–	1	1	1
Legal reserve	15,451	291,178	291,178	291,178
Additional paid–in capital	99,761	1,880,007	1,837,073	1,804,528
Retained earnings (losses)	23,264	438,412	(2,200,651)	(1,257,769)
Accumulated other comprehensive income (loss)	6,168	116,240	(73,346)	98,890
Total equity	293,427	5,529,683	2,705,153	3,825,353
Total liabilities and equity	US$ 3,358,689	Ps. 63,295,127	Ps. 56,724,683	Ps. 49,952,973

* Convenience translation to U.S. dollars (Ps.18.8452) – Note 1y.
The accompanying notes are an integral part of these onsolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	(Thousands of U.S. dollars*) except for earnings per share)	For the years ended December 31,		
	2019	2019	2018 Adjusted	2017 Adjusted
Operating revenues (Notes 1d and 24):				
Passenger revenues:				
Fare revenues	US$ 1,227,368	Ps. 23,129,991	Ps. 18,487,858	Ps. 17,791,317
Other passenger revenues	560,844	10,569,208	7,892,497	6,098,504
	1,788,212	33,699,199	26,380,355	23,889,821
Non– passenger revenues				
Other non–passenger revenues (Note 1d)	47,629	897,586	697,357	727,392
Cargo	12,143	228,836	227,438	170,973
Non–derivatives financial instruments	(3,871)	(72,949)	–	–
	1,844,113	34,752,672	27,305,150	24,788,186
Other operating income (Note 20)	(17,363)	(327,208)	(621,973)	(96,765)
Fuel expense, net	616,925	11,626,069	10,134,982	7,255,636
Landing, take–off and navigation expenses	271,076	5,108,489	4,573,319	4,002,744
Depreciation of right of use assets (Note 14)	249,558	4,702,971	4,043,691	3,437,903
Salaries and benefits	191,071	3,600,762	3,125,393	2,823,647
Maintenance expenses	78,982	1,488,431	1,497,989	1,418,253
Sales, marketing and distribution expenses	76,818	1,447,637	1,501,203	1,691,524
Aircraft and engine variable lease expenses	51,030	961,657	956,010	1,429,595
Other operating expenses (Note 20)	59,056	1,112,927	1,059,098	1,034,258
Depreciation and amortization (Notes 12 and 13)	35,845	675,514	500,641	548,687
Operating income	231,115	4,355,423	534,797	1,242,704
Finance income (Note 21)	11,027	207,799	152,603	105,795
Finance cost (Note 21)	(120,446)	(2,269,829)	(1,876,312)	(1,515,281)
Foreign exchange gain (loss), net	76,439	1,440,501	(103,790)	683,039
Income (loss) before income tax	198,135	3,733,894	(1,292,702)	516,257
Income tax (expense) benefit (Note 19)	(58,096)	(1,094,831)	349,820	(237,586)
Net income (loss)	US$ 140,039	Ps. 2,639,063	Ps. (942,882)	Ps. 278,671
Earnings (loss) per share basic:	US$ 0.138	Ps. 2.608	Ps. (0.932)	Ps. 0.275
Earnings (loss) per share diluted:	US$ 0.138	Ps. 2.608	Ps. (0.932)	Ps. 0.275

* Convenience translation to U.S. dollars (Ps.18.8452) – Note 1y.
The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of Mexican pesos)

	(Thousands of U.S. dollars*)		For the years ended December 31,					
	2019		2019		2018 Adjusted		2017 Adjusted	
Net income (loss) for the year	US$	140,039	Ps.	2,639,063	Ps.	(942,882)	Ps.	278,671
Other comprehensive income (loss):								
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:								
Net gain (loss) on cash flow hedges (Note 22)		13,982		263,495		(283,691)		(42,148)
Income tax effect (Note 19)		(3,970)		(74,820)		85,107		12,017
Exchange differences on translation of foreign operations		427		8,045		22,156		(7,178)
Other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods:								
Remeasurement gain (loss) of employee benefits (Note 16)		(541)		(10,192)		5,989		(1,776)
Income tax effect (Note 19)		162		3,058		(1,797)		533
Other comprehensive income (loss) for the year, net of tax	US$	10,060	Ps.	189,586	Ps.	(172,236)	Ps.	(38,552)
Total comprehensive income (loss) for the year, net of tax	US$	150,099	Ps.	2,828,649	Ps.	(1,115,118)	Ps.	240,119

* Convenience translation to U.S. dollars (Ps.18.8452) – Note 1y.
The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2019, 2018 (adjusted) and 2017 (adjusted)
(In thousands of Mexican pesos)

	Capital stock	Treasury shares	Contributions for future capital increases	Legal reserve	Additional paid–in capital	Retained earnings (Accumulated losses)	Other comprehensive income (loss)	Total equity
Balance as of December 31, 2016	Ps. 2,973,559	Ps. (83,365)	Ps. 1	Ps. 38,250	Ps. 1,800,613	Ps. (1,283,512)	Ps. 137,442	Ps. 3,582,988
Legal reserve increase (Note 18)	–	–	–	252,928	–	(252,928)	–	–
Treasury shares	–	(10,108)	–	–	10,108	–	–	–
Exercised of stock options (Note 17)	–	638	–	–	–	–	–	638
Long–term incentive plan cost (Note 17)	–	7,801	–	–	(6,193)	–	–	1,608
Net loss for the period	–	–	–	–	–	(594,599)	–	(594,599)
IFRS 15 adoption	–	–	–			(57,189)		(57,189)
IFRS 16 adoption (Note 1x)	–	–	–	–	–	930,459	–	930,459
Other comprehensive (loss) income items	–	–	–	–	–	–	(38,552)	(38,552)
Total comprehensive income (loss)	–	–	–	–	–	278,671	(38,552)	240,119
Balance as of December 31, 2017	2,973,559	(85,034)	1	291,178	1,804,528	(1,257,769)	98,890	3,825,353
Treasury shares	–	(57,320)	–	–	41,590	–	–	(15,730)
Exercise of stock options (Note 17)	–	10,648	–	–	–	–	–	10,648
Long–term incentive plans cost (Note 17)	–	9,045	–	–	(9,045)	–	–	–
Net loss for the period	–	–	–	–	–	(682,500)	–	(682,500)
IFRS 16 adoption (Note 1x)	–	–	–	–	–	(260,382)	–	(260,382)
Other comprehensive loss items	–	–	–	–	–	–	(172,236)	(172,236)
Total comprehensive loss items	–	–	–	–	–	(942,882)	(172,236)	(1,115,118)
Balance as of December 31, 2018	2,973,559	(122,661)	1	291,178	1,837,073	(2,200,651)	(73,346)	2,705,153
Treasury shares	**–**	**(75,375)**	**–**	**–**	**56,483**	**–**	**–**	**(18,892)**
Exercise of stock options (Note 17)	**–**	**14,773**	**–**	**–**	**–**	**–**	**–**	**14,773**
Long–term incentive plan cost (Note 17)	**–**	**13,549**	**–**	**–**	**(13,549)**	**–**	**–**	**–**
Net income for the period	**–**	**–**	**–**	**–**	**–**	**2,639,063**	**–**	**2,639,063**
Other comprehensive income items	**–**	**–**	**–**	**–**	**–**	**–**	**189,586**	**189,586**
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**2,639,063**	**189,586**	**2,828,649**
Balance as of December 31, 2019	**Ps. 2,973,559**	**Ps. (169,714)**	**Ps. 1**	**Ps. 291,178**	**Ps. 1,880,007**	**Ps. 438,412**	**Ps. 116,240**	**Ps. 5,529,683**
	US$ 157,789	**US$ (9,006)**	**US$ –**	**US$ 15,451**	**US$ 99,761**	**US$ 23,264**	**US$ 6,168**	**US$ 293,427**

Convenience translation to U.S. dollars 18.8452) – Note 1y.
The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of Mexican pesos)

	(Thousands of U.S. dollars*) 2019	For the years ended December 31, 2019	2018 Adjusted	2017 Adjusted
Operating activities				
Income (loss) before income tax	US$ 198,135	Ps. 3,733,894	Ps. (1,292,702)	Ps. 516,257
Non–cash adjustment to reconcile income before tax to net cash flows from operating activities:				
Depreciation and amortization (including right–of–use–assets) (Notes 12 and 13)	285,403	5,378,485	4,544,332	3,986,590
Provision for doubtful accounts (Note 8)	2,143	40,393	10,621	4,720
Finance income (Note 21)	(11,027)	(207,799)	(152,603)	(105,795)
Finance cost (Note 21 and 1x)	120,203	2,265,242	1,876,312	1,515,281
Net foreign exchange differences	(91,428)	(1,722,985)	171,874	(972,523)
Financial instruments (Notes 4 and 22)	3,589	67,629	(455,009)	50,007
Amortized Cost (CEBUR)	175	3,306	–	–
Net gain on disposal of rotable spare parts, furniture and equipment and gain on sale of aircraft (Note 20)	(14,635)	(275,805)	(606,812)	(64,978)
Employee benefits (Note 16)	535	10,086	6,401	4,657
Aircraft and engine lease extension benefit and other benefits from service agreements	(564)	(10,634)	(12,693)	(12,356)
Management incentive and long–term incentive plans (Note 17)	1,712	32,257	12,919	8,783
Cash flows from operating activities before changes in working capital	494,241	9,314,069	4,102,640	4,930,643
Changes in operating assets and liabilities:				
Related parties	1,359	25,603	(31,422)	(24,091)
Other accounts receivable	(19,506)	(367,603)	1,711	139,774
Recoverable and prepaid taxes	(22,574)	(425,410)	19,168	(438,966)
Inventories	(246)	(4,637)	(2,421)	(50,966)
Prepaid expenses	(19,626)	(369,860)	(6,001)	726,020
Other assets	(573)	(10,789)	(11,228)	21,941
Guarantee deposits	(62,007)	(1,168,537)	232,019	57,425
Suppliers	27,497	518,189	14,022	196,082
Accrued liabilities	18,703	352,475	540,471	515,436
Other taxes and fees payable	6,352	119,700	558,174	353,014
Unearned transportation revenue	65,874	1,241,410	145,207	65,258
Financial instruments	(1,005)	(18,943)	807,644	126,053
Other liabilities	10,139	191,099	(38,875)	11,198
	498,628	9,396,766	6,331,109	6,628,821
Interest received	11,027	207,799	152,602	105,795
Income tax paid	(5,037)	(94,922)	(207,004)	(715,849)
Net cash flows provided by operating activities	504,618	9,509,643	6,276,707	6,018,767
Investing activities				
Acquisitions of rotable spare parts, furniture and equipment (Note 12)	(184,841)	(3,483,368)	(2,743,155)	(2,521,752)
Acquisitions of intangible assets (Note 13)	(4,103)	(77,325)	(71,007)	(130,908)
Pre–delivery payments reimbursements (Note 12)	37,402	704,852	668,365	213,947
Proceeds from disposals of rotable spare parts, furniture and equipment	51,817	976,500	756,402	178,273
Net cash flows used in investing activities	(99,725)	(1,879,341)	(1,389,395)	(2,260,440)
Financing activities				
Proceeds from exercised stock options (Note 17)	784	14,773	10,648	638
Treasury shares purchase	(4,000)	(75,375)	(57,320)	(10,108)
Interest paid	(11,515)	(217,018)	(175,170)	(105,388)
Other finance interest paid	(3,228)	(60,824)	(28,567)	–
Payments of principal portion of lease liabilities	(344,905)	(6,499,802)	(5,710,907)	(5,032,898)
Payments of financial debt	(62,707)	(1,181,726)	(1,193,589)	(924,867)
Proceeds from financial debt	147,578	2,781,132	1,208,846	2,438,025
Net cash flows used in financing activities	(277,993)	(5,238,840)	(5,946,059)	(3,634,598)
Increase (decrease) in cash and cash equivalents	126,900	2,391,462	(1,058,747)	123,729
Net foreign exchange differences on cash balance	(14,562)	(274,432)	(29,190)	(244,101)
Cash and cash equivalents at beginning of year	311,111	5,862,942	6,950,879	7,071,251
Cash and cash equivalents at end of year	US$ 423,449	Ps. 7,979,972	Ps. 5,862,942	Ps. 6,950,879

* Convenience translation to U.S. dollars (18.8452) – Note 1y.
The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019, 2018 and 2017
(In thousands of Mexican pesos and thousands of U.S. dollars, except when indicated otherwise)

1. DESCRIPTION OF THE BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Concesionaria's concession was granted by the Mexican federal government through the Mexican Communications and Transportation Ministry (*Secretaría de Comunicaciones y Transportes*) on May 9, 2005 initially for a period of five years and was extended on February 17, 2010 for an additional period of ten years. On February 21, 2020, Concesionaria's concession was extended for a 20–year term starting on May 9, 2020.

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

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

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

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

The accompanying consolidated financial statements and notes were approved by the Company´s Board of Directors and by the Shareholders on April 22, 2020. These consolidated financial statements were also approved for issuance in the Company´s annual report on Form 20–F by the Company´s President and Chief Executive Officer, Enrique Beltranena, and Vice–president and Chief Financial Officer, Sonia Jerez Burdeus on April 27, and subsequent events were considered through that date (Note 25).

a) Relevant events

Issuance asset backed trust notes

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

Shares conversion

On February 16, 2018, one of the Company´s shareholders concluded the conversion of 45,968,598 Series B Shares for the equivalent number of Series A Shares. This conversion has no impact either on the total number of outstanding shares nor on the earnings–per–share calculation. (Note 18).

New code–share agreement

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

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

Purchase of 80 A320 New Engine Option ("NEO") aircraft

On December 28, 2017, the Company amended the agreement with Airbus, S.A.S. ("Airbus") for the purchase of additional 80 A320NEO family aircraft to be delivered from 2022 to 2026, to support the Company's targeted growth markets in Mexico, United States and Central America. The related commitments for the acquisitions of such aircraft are disclosed in Note 23.

b) Basis of preparation

Statement of compliance

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries at December 31, 2019, 2018 and 2017 and for each of the three years in the period then ended, and were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the *International Accounting Standards Board* ("IASB").

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

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

The Company presents an additional statement of financial position at January 1, 2017, due to a retrospective application of accounting policies as a result of the adoption of IFRS 16 "Leases" see Note 1 p) and x).

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, 2019, 2018 and 2017, for accounting purposes the companies included in the consolidated financial statements are as follows:

Name	Principal Activities	Country	% Equity interest		
			2019	2018	2017
Concesionaria	Air transportation services for passengers, cargo and mail throughout Mexico and abroad	Mexico	**100%**	100%	100%
Vuela Aviación, S.A.	Air transportation services for passengers, cargo and mail in Costa Rica and abroad	Costa Rica	**100%**	100%	100%
Vuela, S.A. ("Vuela") *	Air transportation services for passengers, cargo and mail in Guatemala and abroad	Guatemala	**100%**	100%	100%
Vuela El Salvador, S.A. de C.V.*	Air transportation services for passengers, cargo and mail in El Salvador and abroad	El Salvador	**100%**	100%	–
Comercializadora Volaris, S.A. de C.V.	Merchandising of services	Mexico	**100%**	100%	100%
Servicios Earhart, S.A.*	Recruitment and payroll	Guatemala	**100%**	100%	100%
Servicios Corporativos Volaris, S.A. de C.V. ("Servicios Corporativos")	Recruitment and payroll	Mexico	**100%**	100%	100%
Servicios Administrativos Volaris, S.A. de C.V. ("Servicios Administrativos")	Recruitment and payroll	Mexico	**100%**	100%	100%
Comercializadora V Frecuenta, S.A. de C.V. ("Loyalty Program") **	Loyalty Program	Mexico	**100%**	100%	–
Viajes Vuela, S.A. de C.V. ("Viajes Vuela") (1)	Travel agency	Mexico	**100%**	100%	100%
Deutsche Bank México, S.A., Trust 1710	Pre–delivery payments financing (Note 5)	Mexico	**100%**	100%	100%
Deutsche Bank México, S.A., Trust 1711	Pre–delivery payments financing (Note 5)	Mexico	**100%**	100%	100%
Irrevocable Administrative Trust number F/307750 "Administrative Trust"	Share administration trust (Note 17)	Mexico	**100%**	100%	100%
Irrevocable Administrative Trust number F/745291 "Administrative Trust"	Share administration trust (Note 17)	Mexico	**100%**	100%	100%
Irrevocable Administrative Trust number CIB/3081 "Administrative Trust"	Share administration trust (Note 17)	Mexico	**100%**	100%	–
Irrevocable Administrative Trust number CIB/3249 "Administrative Trust"	Asset backed securities trustor & administrator (Note 5)	Mexico	**100%**	–	–

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

**The Company has not started operations yet

(1) With effect from July 16, 2018, the name of the Company was changed from Operaciones Volaris, S.A. de C.V. to Viajes Vuela, S.A. de C.V.

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

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

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

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

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

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

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

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

d) Revenue recognition

Passenger revenues

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

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

The most significant passenger revenue includes revenues generated from: (i) fare revenue and (ii) other passenger revenues. Other passenger services include but are not limited to fees charged for excess baggage, bookings through the call center or third–party agencies, advanced seat selection, itinerary changes and charters. They are recognized as revenue when the obligation of passenger transportation service is provided by the Company or when the non–refundable ticket expires at the date of the scheduled travel.

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

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

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

Non–passenger revenues

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

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

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

Other considerations analyzed as part of revenue from contracts with customers

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

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

Trade receivables are mainly with financial institutions due to transactions with credit and debit cards, and therefore they are non–interest bearing and are mainly on terms of 24 to 48 hours.

The Company has the right of collection at the beginning of the contracts and there are no discounts, payment incentives, bonuses or other variable considerations subsequent to the purchase that could modify the amount of the transaction price.

The Company does not have any obligations for returns, refunds and other similar obligations. All revenues from the Company related to future services, or services are rendered through a period of time less than 12 months.

Breakdown of revenues:

As of December 31, 2019, 2018 and 2017, the revenues from customers of contracts is described as follows:

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

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

Revenue recognition as of December 31, 2017	At the flight time		At the sale		Total
	Domestic	International	Domestic	International	Revenues
Passenger Revenues					
Fare Revenues	Ps. 12,284,795	Ps. 5,506,522	Ps. –	Ps. –	Ps. 17,791,317
Other Passenger Revenues	4,087,664	1,992,696	11,283	6,861	6,098,504
	16,372,459	7,499,218	11,283	6,861	23,889,821
Non–Passenger Revenues					
Other Non–Passenger revenues	723,297	4,095	–	–	727,392
Cargo	165,907	5,066	–	–	170,973
Total	Ps. 17,261,663	Ps. 7,508,379	Ps. 11,283	Ps. 6,861	Ps. 24,788,186

Transactions from unearned transportation revenues.

	2019	2018	2017
January 1,	Ps. 2,438,516	Ps. 2,293,309	Ps. 2,228,051
Deferred	34,940,609	26,525,562	23,955,079
Recognized in revenue during the year	(33,699,199)	(26,380,355)	(23,889,821)
December 31,	Ps. 3,679,926	Ps. 2,438,516	Ps. 2,293,309

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

e) Cash and cash equivalents

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

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

f) Financial instruments –initial recognition and subsequent measurement

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

i) Financial assets

Initial recognition

Classification of financial assets and initial recognition
The Company determines the classification and measurement of financial assets, in accordance with IFRS 9, which are based on both: the characteristics of the contractual cash flows of these assets and the business model objective for holding them.

Financial assets include those carried at FVTPL, whose objective to hold them is for trading purposes (short–term investments), or at amortized cost, for accounts receivables held to collect the contractual cash flows, which are characterized by solely payments of principal and interest ("SPPI"). Derivative financial instruments are also considered financial assets when these represent contractual rights to receive cash or another financial asset. All the Company's financial assets are initially recognized at fair value, including derivative financial instruments.

Subsequent measurement
The subsequent measurement of financial assets depends on their initial classification, as is described below:

1. Financial assets at FVTPL which include financial assets held for trading.
2. Financial assets at amortized cost, whose characteristics meet the SPPI criterion and were originated to be held to collect principal and interest in accordance with the Company's business model.
3. 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 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 in the Cash Generating Units (CGU). An impairment exists if one or more events has occurred since the initial recognition of an asset (an incurred 'loss event'), that has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in receivable, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Further disclosures related to impairment of financial assets are also provided in Note 8.

For trade receivables, the Company records allowance for credit losses in accordance with the objective evidence of the incurred losses.

Based on this evaluation, allowances are taken into account for the expected losses of these receivables. For the years ended December 31, 2019, 2018 and 2017, the Company recorded expected credit losses on accounts receivable of Ps.40,393, Ps.10,621 and Ps.4,720, respectively (Note 8).

iii) Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, accounts payables to suppliers, unearned transportation revenue, other accounts payable and financial instruments.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement
The measurement of financial liabilities depends on their classification as described below:

Financial liabilities at amortized cost
Accounts payable, are subsequently measured at amortized cost and do not bear interest or result in gains and losses due to their short–term nature.

Loans and borrowings are the category most relevant to the Company. After initial recognition at fair value (consideration received), interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on issuance and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the consolidated statements of operations. This amortized cost category generally applies to interest–bearing loans and borrowings (Note 5).

Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities under the fair value option, which are classified as held for trading, if they are acquired for the purpose of selling them in the near future. This category includes derivative financial instruments that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. During the years ended December 31, 2019, 2018 and 2017 the Company has not designated any financial liability as at FVTPL.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability.

The difference in the respective carrying amounts is recognized in the consolidated statements of operations.

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount is reported in the consolidated statement of financial position if there is:

(i) A currently enforceable legal right to offset the recognized amounts, and
(ii) An intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

g) Other accounts receivable

Other accounts receivables are due primarily from major credit card processors associated with the sales of tickets and are stated at cost less allowances made for credit losses, which approximates fair value given their short–term nature.

h) Inventories

Inventories consist primarily of flight equipment expendable parts, materials and supplies, and are initially recorded at acquisition cost. Inventories are carried at the lower of cost and their net realization value. The cost is determined on the basis of the method of specific identification and expensed when used in operations.

i) Intangible assets

Cost related to the purchase or development of computer software that is separable from an item of related hardware is capitalized separately measured at cost and amortized over the period in which it will generate benefits not exceeding five years on a straight–line basis. The Company annually reviews the estimated useful lives and salvage values of intangible assets and any changes are accounted for prospectively.

The Company records impairment charges on intangible assets used in operations when events and circumstances indicate that the assets or related cash generating unit may be impaired and the carrying amount of a long–lived asset or cash generating unit exceeds its recoverable amount, which is the higher of (i) its fair value less cost to sell, and (ii) its value in use.

The value in use calculation is based on a discounted cash flow model, using our projections of operating results for the near future. The recoverable amount of long–lived assets is sensitive to the uncertainties inherent in the preparation of projections and the discount rate used in the calculation. For the years ended December 31, 2019, 2018 and 2017, the Company did not record any impairment loss in the value of its intangible assets.

j) Guarantee deposits

Guarantee deposits consist primarily of aircraft maintenance deposits paid to lessors, deposits for rent of flight equipment and other guarantee deposits. Aircraft and engine deposits are held by lessors in U.S. dollars and are presented as current assets and non–current assets, based on the recovery dates of each deposit established in the related agreements (Note 11).

Aircraft maintenance deposits paid to lessors

Most of the Company's lease agreements require the Company to pay maintenance deposits to aircraft lessors to be held as collateral in advance of the Company's performance of major maintenance activities. These lease agreements provide that maintenance deposits are reimbursable to the Company upon completion of the maintenance event in an amount equal to the lesser of (i) the amount of the maintenance deposits held by the lessor associated with the specific maintenance event, or (ii) the qualifying costs related to the specific maintenance event.

Substantially all these maintenance deposits are calculated based on a utilization measure of the leased aircrafts and engines, such as flight hours or cycles, and are used solely to collateralize the lessor for maintenance time run off the aircraft and engines until the completion of the maintenance of the aircraft and engines.

Maintenance deposits expected to be recovered from lessors are reflected as guarantee deposits in the accompanying consolidated statement of financial position. These deposits are recorded as a monetary asset and are revaluated in order to record the foreign currency changes at each reported period. The Company makes certain assumptions at the inception of the lease and at each consolidated statement of financial position date to determine the recoverability of maintenance deposits. These assumptions are based on various factors such as the estimated time between the maintenance events, the date the aircraft is due to be returned to the lessor, and the number of flight hours the aircraft and engines is estimated to be utilized before it is returned to the lessor.

Some other aircraft lease agreements do not require the obligation to pay maintenance deposits to lessors in advance in order to ensure major maintenance activities, so the Company does not record guarantee deposits regarding these aircraft. However, certain of these lease agreements include the obligation to make a maintenance adjustment payment to the lessors at the end of the lease period. These maintenance adjustments cover maintenance events that are not expected to be made before the termination of the lease; for such agreements the Company accrues a liability related to the amount of the costs to be incurred at the lease term, since no maintenance deposits had been made, Note 15c). The portion of prepaid maintenance deposits that is deemed unlikely to be recovered and accruals in lien of maintenance deposits, are recorded as a variable lease payment and is presented as supplemental rent in the consolidated statements of operations. For the years ended December 31, 2019, 2018 and 2017, the Company expensed as supplemental rent Ps.295,720, Ps.299,601 and Ps.265,756, respectively.

During the year ended December 31, 2019, 2018 and 2017, the Company added seven, ten and five new net leases aircraft to its fleet, respectively (Note 14).

During the years ended December 31, 2019, 2018 and 2017, the Company extended the lease term of one, two and three aircraft agreements, respectively. Additionally, the Company extended the lease term of one spare engines in 2019, two spare engines in 2018 and two spare engines during 2017. These extensions made available to the Company maintenance deposits that were recognized in prior periods in the consolidated statements of operations as supplemental rent of Ps.0, Ps.0 and Ps.65,716 during 2019, 2018 and 2017, 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 supplemental rental payments were expensed. However, when the leases were amended the maintenance deposits amounts became probable of recovery due to the longer lease term and as such they are being recognized as an asset.

The effect of these lease extensions was recognized as a lease incentive reducing the right of use asset (Note 14).

k) Aircraft and engine maintenance

The Company is required to conduct various levels of aircraft maintenance. Maintenance requirements depend on the type of aircraft, age and the route network over which it operates.

Fleet maintenance requirements may involve short cycle engineering checks, for example, component checks, monthly checks, annual airframe checks and periodic major maintenance and engine checks.

Aircraft maintenance and repair consists of routine and non–routine works, divided into three general categories: (i) routine maintenance, (ii) major maintenance and (iii) component service.

(i) Routine maintenance requirements consist of scheduled maintenance checks on the Company's aircraft, including pre–flight, daily, weekly and overnight checks, any diagnostics and routine repairs and any unscheduled tasks performed as required. These type of maintenance events are currently serviced by Company mechanics and are primarily completed at the main airports that the Company currently serves.

All other maintenance activities are sub–contracted to qualified maintenance business partner, repair and overhaul organizations. Routine maintenance also includes scheduled tasks that can take from seven to 14 days to accomplish and typically are required approximately every 22 months. All routine maintenance costs are expensed as incurred.

(ii) Major maintenance consists of a series of more complex tasks that can take up to six weeks to accomplish and typically are required approximately every five to six years.

Major maintenance is accounted for under the deferral method, whereby the cost of major maintenance and major overhaul and repair is capitalized (leasehold improvements to flight equipment) and amortized over the shorter of the period to the next major maintenance event or the remaining contractual lease term. The next major maintenance event is estimated based on assumptions including estimated usage. The United States Federal Aviation Administration ("FAA") and the Mexican Federal Civil Aviation Agency (*Agencia Federal de Aviación Civil*) mandate maintenance intervals and average removal times as suggested by the manufacturer.

These assumptions may change based on changes in the utilization of aircraft, changes in government regulations and suggested manufacturer maintenance intervals. In addition, these assumptions can be affected by unplanned incidents that could damage an airframe, engine, or major component to a level that would require a heavy maintenance event prior to a scheduled maintenance event. To the extent the planned usage increases, the estimated life would decrease before the next maintenance event, resulting in additional expense over a shorter period.

During the years ended December 31, 2019, 2018 and 2017, the Company capitalized major maintenance events as part of leasehold improvements to flight equipment for an amount of Ps.659,082, Ps.676,457 and Ps.529,331, respectively (Note 12). For the years ended December 31, 2019, 2018 and 2017, the amortization of major maintenance leasehold improvement costs was Ps.450,371, Ps.313,464 and Ps.382,745 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–the hour agreement for component services, which guarantees the availability of aircraft parts for the Company's fleet when they are required. It also provides aircraft parts that are included in the redelivery conditions of the contract (hard time) without constituting an additional cost at the time of redelivery. The monthly maintenance cost associated with this agreement is recognized as incurred in the consolidated statements of operations.

The Company has an engine flight hour agreement (component repair agreement), that guarantees a cost per overhaul, provides miscellaneous engines coverage, caps the cost of foreign objects damage events, ensures there is protection from annual escalations, and grants an annual credit for scrapped components. The cost associated with the miscellaneous engines' coverage is recorded monthly as incurred in the consolidated statements of operations.

l) Rotable spare parts, furniture and equipment, net

Rotable spare parts, furniture and equipment, are recorded at cost and are depreciated to estimated residual values over their estimated useful lives using the straight–line method.

Aircraft spare engines have significant components with different useful lives; therefore, they are accounted for as separate items (major components) of spare engine parts (Note 12d).

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, 2019, 2018 and 2017, the Company capitalized borrowing costs which amounted to Ps.456,313 Ps.357,920 and Ps.193,389, respectively (Note 21). The rate used to determine the amount of borrowing cost was 5.10%, 4.41% and 3.30%, for the years ended December 31, 2019, 2018 and 2017, respectively.

Depreciation rates are as follows:

	Annual depreciation rate
Flight equipment	4.0–16.7%
Constructions and improvements	Remaining contractual lease term
Computer equipment	25%
Workshop tools	33.3%
Electric power equipment	10%
Communications equipment	10%
Workshop machinery and equipment	10%
Motorized transport equipment platform	25%
Service carts on board	20%
Office furniture and equipment	10%
Leasehold improvements to flight equipment	The shorter of: (i) remaining contractual lease term, or (ii) the next major maintenance event

The Company reviews annually the useful lives and salvage values of these assets and any changes are accounted for prospectively.

The Company assesses, at each reporting date, whether there is an objective evidence that rotable spare parts, furniture and equipment and right of use asset are impaired in the Cash Generating Unit (CGU). The Company identified only one CGU, which is the fleet. The Company records impairment charges on rotable spare parts, furniture and equipment and right of use assets used in operations when events and circumstances indicate that the assets may be impaired or when the carrying amount of a long–lived asset or related cash generating unit exceeds its recoverable amount, which is the higher of (i) its fair value less cost to sell and (ii) its value in use.

The value in use calculation is based on a discounted cash flow model, using projections of operating results for the near future. The recoverable amount of long–lived assets is sensitive to the uncertainties inherent in the preparation of projections and the discount rate used in the calculation.

During 2019, the Company performed its annual impairment test. The recoverable amount of rotable spare parts, furniture and equipment assets was determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management, covering a five–year period. The projected cash flows have been updated to reflect the future operating cashflows. It was concluded that the fair value less costs of disposal did not exceed the value in use. Consequently, for the years ended December 31, 2019, 2018 and 2017, there were no impairment charges recorded in respect of the Company's value of rotable spare parts, furniture and equipment.

m) Foreign currency transactions and exchange differences

The Company's consolidated financial statements are presented in Mexican peso, which is the reporting and functional currency of the parent company. For each subsidiary, the Company determines the functional currency and items included in the financial statements of each entity are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The financial statements of foreign subsidiaries prepared under IFRS and denominated in their respective local currencies, are translated into the functional currency as follows:

- Transactions in foreign currencies are translated into the respective functional currencies at the exchange rates at the dates of the transactions.
- All monetary assets and liabilities were translated at the exchange rate at the consolidated statement of financial position date.
- All non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.
- Equity accounts are translated at the prevailing exchange rate at the time the capital contributions were made and the profits were generated.
- Revenues, costs and expenses are translated at the average exchange rate during the applicable period.

Any differences resulting from the currency translation are recognized in the consolidated statements of operations.

For the year ended December 31, 2019, 2018 and 2017, the exchange rates of local currencies translated to functional currencies are as follows:

			Exchange rates of local currencies translated to functional currencies		Exchange rates of local currencies translated to functional currencies		Exchange rates of local currencies translated to functional currencies	
Country	Local currency	Functional currency	Average exchange rate for 2019	Exchange rate as of 2019	Average exchange rate for 2018	Exchange rate as of 2018	Average exchange rate for 2017	Exchange rate as of 2017
Costa Rica	Colon	U.S. dollar	¢. 590.9574	¢. 573.4400	¢. 580.8534	¢. 609.6100	¢. 572.2000	¢. 572.5600
Guatemala	Quetzal	U.S. dollar	Q. 7.7066	Q. 7.6988	Q. 7.5337	Q. 7.7440	Q. 7.3509	Q. 7.3448
El Salvador	U.S Dollar	U.S. dollar	$. 19.2618	$. 18.8452	$. –	$. –	$. –	$. –

The exchange rates used to translate the above amounts to Mexican pesos at December 31, 2019, 2018 and 2017, were Ps.18.8452, Ps.19.6829 and Ps.19.7354, respectively, per U.S. dollar.

Foreign currency differences arising on translation into the presentation currency are recognized in OCI. Exchange differences on translation of foreign entities for the year ended December 31, 2019, 2018 and 2017, were Ps.8,045, Ps.22,156 and Ps. (7,178), respectively.

n) Liabilities and provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre–tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

o) Employee benefits

i) Personnel vacations

The Company and its subsidiaries in Mexico and Central America recognize a reserve for the costs of paid absences, such as vacation time, based on the accrual method.

ii) Termination benefits

The Company recognizes a liability and expense for termination benefits at the earlier of the following dates:

a) When it can no longer withdraw the offer of those benefits; and
b) When it recognizes costs for a restructuring that is within the scope of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and involves the payment of termination benefits.

The Company is demonstrably committed to a termination when, and only when, it has a detailed formal plan for the termination and is without realistic possibility of withdrawal.

For the years ended December 31, 2019, 2018 and 2017, no termination benefits provision has been recognized.

iii) Seniority premiums

In accordance with Mexican Labor Law, the Company provides seniority premium benefits to the employees which rendered services to its Mexican subsidiaries under certain circumstances. These benefits consist of a one–time payment equivalent to 12 days' wages for each year of service (at the employee's most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with 15 or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit.

Obligations relating to seniority premiums other than those arising from restructurings, are recognized based upon actuarial calculations and are determined using the projected unit credit method.

The latest actuarial computation was prepared as of December 31, 2019. Remeasurement gains and losses are recognized in full in the period in which they occur in OCI. Such remeasurement gains and losses are not reclassified to profit or loss in subsequent periods.

The defined benefit asset or liability comprises the present value of the defined benefit obligation using a discount rate based on government bonds, less the fair value of plan assets out of which the obligations are to be settled.

For entities in Costa Rica, Guatemala and El Salvador there is no obligation to pay seniority premium, these countries have Post– Employee Benefits.

iv) Incentives

The Company has a quarterly incentive plan for certain personnel whereby cash bonuses are awarded for meeting certain performance targets. These incentives are payable shortly after the end of each quarter and are accounted for as a short–term benefit under IAS 19, *Employee Benefits*. A provision is recognized based on the estimated amount of the incentive payment. During the years ended December 31, 2019, 2018 and 2017 the Company expensed Ps.62,825, Ps.67,680 and Ps.48,384, respectively, as quarterly incentive bonuses, recorded under the caption salaries and benefits.

The Company has a short–term benefit plan for certain key personnel whereby cash bonuses are awarded when certain Company's performance targets are met. These incentives are payable shortly after the end of each year and also are accounted for as a short–term benefit under IAS 19. A provision is recognized based on the estimated amount of the incentive payment. During the years ended December 31, 2019, 2018 and 2017 the Company recorded an expense for an amount of Ps.80,634, Ps.50,000, and Ps.0, respectively, under the caption salaries and benefits.

v) Long–term incentive plan ("LTIP") and long–term retention plan (LTRP)

The Company has adopted a Long–term incentive plan ("LTIP"). This plan consists of a share purchase plan (equity–settled) and a share appreciation rights "SARs" plan (cash settled), and therefore accounted under IFRS 2 "Shared based payments". This incentive plan has been granting annual extensions in the same terms from the original granted in 2014.

During 2019 and 2018, the Company approved a new long–term retention plan ("LTRP"), which consisted in a purchase plan (equity–settled). This plan does not include cash compensations granted through appreciation rights on the Company's shares. The retention plans granted in previous periods will continue in full force and effect until their respective due dates and the cash compensation derived from them will be settled according to the conditions established in each plan.

vi) Share–based payments

a) LTIP

– Share purchase plan (equity–settled)

Certain key employees of the Company receive additional benefits through a share purchase plan denominated in Restricted Stock Units ("RSUs"), which has been classified as an equity–settled share–based payment. The cost of the equity–settled share purchase plan is measured at grant date, taking into account the terms and conditions on which the share options were granted. The equity–settled compensation cost is recognized in the consolidated statement of operations under the caption of salaries and benefits, over the requisite service period (Note 17).

During the years ended December 31, 2019, 2018 and 2017, the Company expensed Ps.49,659, Ps.19,980 and Ps.13,508, respectively, related to RSUs granted under the LTIP and LTRP. The expenses were recorded under the caption salaries and benefits.

– SARs plan (cash settled)

The Company granted SARs to key employees, which entitle them to a cash payment after a service period. The amount of the cash payment is determined based on the increase in the share price of the Company between the grant date and the time of exercise. The liability for the SARs is measured, initially and at the end of each reporting period until settled, at the fair value of the SARs, taking into account the terms and conditions on which the SARs were granted. The compensation cost is recognized in the consolidated statement of operations under the caption of salaries and benefits, over the requisite service period (Note 17). During the years ended December 31, 2019, 2018 and 2017, the Company recorded an expense (benefit) for Ps.2,964, Ps.(186), Ps.(8,999), respectively, related to the SARs included in the LTIP. These amounts were recorded under the caption salaries and benefits.

b) Management incentive plan ("MIP")

– MIP I

Certain key employees of the Company receive additional benefits through a share purchase plan, which has been classified as an equity–settled share–based payment. The equity–settled compensation cost is recognized in the consolidated statement of operations under the caption of salaries and benefits, over the requisite service period (Note 17). The total cost of this plan has been totally recognized during the required service period.

– MIP II

On February 19, 2016, the Board of Directors of the Company authorized an extension to the MIP for certain key employees, this plan was named MIP II. In accordance with this plan, the Company granted SARs to key employees, which entitle them to a cash payment after a service period. The amount of the cash payment is determined based on the increase in the share price of the Company between the grant date and the time of exercise. The liability for the SARs is measured initially and at the end of each reporting period until settled at the fair value of the SARs, taking into account the terms and conditions on which the SARs were granted. The compensation cost is recognized in the consolidated statement of operations under the caption of salaries and benefits, over the requisite service period (Note 17).

During the years ended December 31, 2019, 2018 and 2017, the Company recorded an expense (benefit) for Ps.37,760, Ps.(5,052) and Ps.(16,499), respectively, related to MIP II into the consolidated statement of operations.

c) Board of Directors Incentive Plan (BoDIP)

Certain members of the Board of Directors of the Company receive additional benefits through a share–based plan, which has been classified as an equity–settled share–based payment and therefore accounted under IFRS 2 "Shared based payments".

In April 2018, the Board of Directors of the Company authorized a Board of Directors Incentive Plan "BoDIP", for the benefit of certain board members. The BoDIP grants options to acquire shares of the Company or CPOs during a four years period with an exercise price share at Ps.16.12, which was determined on the grant date. Under this plan, no service or performance conditions are required to the board members for exercise the option to acquire shares, and therefore, they have the right to request the delivery of those shares at the time they pay for them.

vii) Employee profit sharing

The Mexican Income Tax Law ("MITL"), establishes that the base for computing current year employee profit sharing shall be the taxpayer's taxable income of the year for income tax purposes, including certain adjustments established in the Income Tax Law, at the rate of 10%. For the years ended December 2019, 2018 and 2017, the employee profit sharing is Ps.22,134, Ps.14,106 and Ps.8,342, respectively, and is presented as an expense in the consolidated statements of operations. Subsidiaries in Central America do not have such profit–sharing benefit, as it is not required by local regulation.

p) Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company applies a single recognition and measurement approach for all leases, except for short–term leases and leases of low–value assets. The Company recognizes lease liabilities to make lease payments and right–of–use assets representing the right to use the underlying assets.

i) Right–of–use assets

The Company recognize right–of–use assets at the commencement date of the lease. Right–of–use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right–of–use assets includes the amount of lease liabilities recognized, initial direct costs incurred, an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, and lease payments made at or before the commencement date less any lease incentives received.

Components of the right–of–use assets are depreciated on a straight–line basis over the shorter of the remining lease term and the estimated useful lives of the assets, as follows:

Aircraft and engines	up to 18 years
Spare engines	up to 14 years
Buildings leases	one to ten years
Maintenance component	up to eight years

ii) Lease Liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset.

The short–term leases and leases of low value assets are recognized as expense on a straight–line basis over the lease term.

During the years ended December 31, 2019, 2018 and 2017, there were no impairment charges recorded in respect of the company right–of–use asset.

iii) Sale and leaseback

The Company enters into sale and leaseback agreements whereby an aircraft or engine is sold to a lessor upon delivery and the lessor agrees to lease such aircraft or engine back to the Company.

Since January 1, 2019, the Company measures the right–of–use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller–lessee. Accordingly, the Company recognizes in the Statement of Operations only the amount of any gain or loss that relates to the rights transferred to the buyer–lessor. The rest of the gain is amortized over the lease term.

Before to the IFRS 16 adoption, the profit or loss related to a sale transaction followed by an operating lease, was accounted for as follows:

(i) Profit or loss was recognized immediately when it was clear that the transaction was established at fair value.
(ii) If the sale price was at or below fair value, any profit or loss was recognized immediately. However, if the loss was compensated for by future lease payments at below market price, such loss was 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 was above fair value, the excess of the price above the fair value was 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.

iv) Return obligations

The aircraft lease agreements of the Company also require that the aircraft and engines be returned to lessors under specific conditions of maintenance. The costs of return, which in most cases are related to scheduled major maintenance, are estimated and recognized ratably as a provision from the time it becomes likely such costs will be incurred and can be estimated reliably. These return costs are recognized on a straight–line basis as a component of variable rent expenses and the provision is included as part of other liabilities, through the remaining lease term. The Company estimates the provision related to airframe, engine overhaul and limited life parts using certain assumptions including the projected usage of the aircraft and the expected costs of maintenance tasks to be performed. For the years ended December 31, 2019, 2018 and 2017, the Company expensed as variable rent of Ps.680,964, Ps.659,106 and Ps.851,410, respectively.

q) Other taxes and fees payable

The Company is required to collect certain taxes and fees from customers on behalf of government agencies and airports and to remit these to the applicable governmental entity or airport on a periodic basis. These taxes and fees include federal transportation taxes, federal security charges, airport passenger facility charges, and foreign arrival and departure fees. These charges are collected from customers at the time they purchase their tickets but are not included in passenger revenue. The Company records a liability upon collection from the customer and discharges the liability when payments are remitted to the applicable governmental entity or airport.

r) Income taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax relating to items recognized directly in equity is recognized in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except, in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry–forward of unused tax credits and any available tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry–forward of unused tax credits and available tax losses can be utilized, except, in respect of deductible temporary differences associated with investments in subsidiaries deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilized.

The Company considers the following criteria in assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilized: (a) whether the entity has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses or unused tax credits can be utilized before they expire; (b) whether it is probable that the Company will have taxable profits before the unused tax losses or unused tax credits expire; (c) whether the unused tax losses result from identifiable causes which are unlikely to recur; and (d) whether tax planning opportunities are available to the Company that will create taxable profit in the period in which the unused tax losses or unused tax credits can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction in OCI.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

The charge for income taxes incurred is computed based on tax laws approved in Mexico, Costa Rica, Guatemala and El Salvador at the date of the consolidated statement of financial position.

s) Derivative and non–derivative financial instruments and hedge accounting

The Company mitigates certain financial risks, such as volatility in the price of jet fuel, adverse changes in interest rates and exchange rate fluctuations, through a risk management program that includes the use of derivative financial instruments and non–derivative financial instrument.

In accordance with IFRS 9, derivative financial instruments and non–derivative financial instruments are recognized in the consolidated statement of financial position at fair value. At inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting, as well as the risk management objective and strategy for undertaking the hedge. The documentation includes the hedging strategy and objective, identification of the hedging instrument, the hedged item or transaction, the nature of the risks being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk(s).

Only if such hedges are expected to be effective in achieving offsetting changes in fair value or cash flows of the hedge item(s) and are assessed on an ongoing basis to determine that they have been effective throughout the financial reporting periods for which they were designated, hedge accounting treatment can be used.

Under the cash flow hedge (CFH) accounting model, the effective portion of the hedging instrument's changes in fair value is recognized in OCI, while the ineffective portion is recognized in current year earnings. During the years ended December 31, 2019, 2018 and 2017, 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 and non–derivative financial instruments that qualify as CFH are recorded in the same caption of the hedged item in the consolidated statement of operations.

Accounting for the time value of options

The Company accounts for the time value of options in accordance with IFRS 9, which requires all derivative financial instruments to be initially recognized at fair value. Subsequent measurement for options purchased and designated as CFH requires that the option's changes in fair value be segregated into its intrinsic value (which will be considered the hedging instrument's effective portion in OCI) and its correspondent changes in extrinsic value (time value and volatility). The extrinsic value changes will be considered as a cost of hedging (recognized in OCI in a separate component of equity) and accounted for in income when the hedged items also are recognized in income.

t) Financial instruments – Disclosures

IFRS 7 requires a three–level hierarchy for fair value measurement disclosures and requires entities to provide additional disclosures about the relative reliability of fair value measurements (Notes 4 and 5).

u) Treasury shares

The Company's equity instruments that are reacquired (treasury shares), are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of treasury shares. Any difference between the carrying amount and the consideration received, if reissued, is recognized in additional paid in capital. Share–based payment options exercised during the reporting period are settled with treasury shares (Note 17).

v) Operating segments

Management of Controladora monitors the Company as a single business unit that provides air transportation and related services, accordingly it has only one operating segment.

The Company has two geographic areas identified as domestic (Mexico) and international (United States of America and Central America) Note 24.

w) Current versus non–current classification

The Company presents assets and liabilities in the consolidated statement of financial position based on current/non–current classification. An asset is current when it is: (i) expected to be realized or intended to be sold or consumed in normal operating cycle, (ii) expected to be realized within twelve months after the reporting period, or, (iii) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as non–current. A liability is current when: (i) it is expected to be settled in normal operating cycle, (ii) it is due to be settled within twelve months after the reporting period, or, (iii) there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. The Company classifies all other liabilities as non–current. Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

x) Impact of new International Financial Reporting Standards

New and amended standards and interpretations already effective

The Company applied for the first–time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2019. The Company has not early adopted any other standard interpretation or amendment that has been issued but is not yet effective. Although these new standards and amendments applied for the first time in 2019, except for IFRS 16, that have a material impact on the annual consolidated financial statements of the Company. The nature and the impact of these changes to each new standard and amendment are described below:

IFRIC 22 — Foreign Currency Transactions and Advance Considerations

IFRIC 22 clarifies that the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non– monetary asset or non–monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non– monetary asset or non–monetary liability arising from the advance consideration.

This interpretation does not have any impact on the Company's consolidated financial statements.

Amendments to IFRS 2 Classification and Measurement of Share–based Payment Transactions

The IASB issued amendments to IFRS 2 Share–based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash–settled share–based payment transaction; the classification of a share–based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share–based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met.

The Company's accounting policy for cash–settled share–based payments is consistent with the approach clarified in the amendments. In addition, the Company has no share–based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share–based payment transaction. Therefore, these amendments do not have any impact on the consolidated financial statements.

IFRIC 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Company applies significant judgement in identifying uncertainties over income tax treatments. Since the Company operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Company determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities.

The Interpretation did not have an impact on the consolidated financial statements of the Company.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

These amendments had no impact on the consolidated financial statements of the Company.

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the consolidated financial statements of the Company as it did not have any plan amendments, curtailments, or settlements during the period.

IFRS 16 Leases

IFRS 16 is effective for annual periods beginning on or after January 1, 2019 and supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC–15 Operating Leases–Incentives and SIC–27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

The Company adopted IFRS 16 using the full retrospective method of adoption, with the date of initial application of January 1, 2019. The Company elected to use the transition provision allowing it to opt not to reassess whether a contract is, or contains, a lease at January 1, 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases according to IAS 17 and IFRIC 4 at the date of initial application.

The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short–term leases), and lease contracts for which the underlying asset is of low value (low–value assets).

Impact of adoption on the consolidated statements of financial position

The effect of adopting IFRS 16 is, as follows:

Impact on the consolidated statement of financial position (increase/(decrease)):

	As of December 31, 2018	As of December 31, 2017	As of January 1, 2017
Assets			
Non–current assets			
Right–of–use–assets	Ps. 31,882,053	Ps. 24,893,882	Ps. 23,500,081
Deferred income tax	2,725,037	2,636,821	3,042,344
Prepaid expenses	(266,959)	(266,959)	(266,959)
Liabilities			
Short–term liabilities:			
Lease liabilities	4,976,454	4,213,417	4,237,065
Other liabilities	(91,889)	(78,494)	(68,548)
Long–term liabilities:			
Lease liabilities	34,588,692	28,310,287	28,474,728
Other liabilities	1,492,260	1,238,088	997,979
Equity			
Retained losses	Ps. (6,625,386)	Ps. (6,419,554)	Ps. (7,365,758)

Impact on the consolidated statement of profit or loss (increase/(decrease)):

	For the year ended December 31, 2018		For the year ended December 31, 2017	
Depreciation expense	Ps.	4,043,691	Ps.	3,437,903
Lease benefit		(5,543,655)		(4,807,378)
Operating income		(1,499,964)		(1,369,475)
Finance cost		1,755,978		1,428,924
Foreign exchange loss (gain), net		31,315		(1,476,893)
Income tax (benefit) expense		(88,216)		405,523
Net loss (income) for the period	Ps.	199,113	Ps.	(1,011,921)

Impact on consolidated statement of cash flows (increase/(decrease)):

	For the year ended December 31, 2018		For the year ended December 31, 2017	
Lease payments		(5,710,907)		(5,032,898)
Net cash flows from operating activities	Ps.	5,710,907	Ps.	5,032,898
Payment of principal portion of lease liabilities		5,710,907		5,032,898
Net cash flows from financing activities	Ps.	(5,710,907)	Ps.	(5,032,898)

Due to the adoption of IFRS 16, it is expected that the Company operating profit should improve, while its interest expense should increase. This is due to the change in the accounting for expenses of leases that were classified as operating leases under IAS 17.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases for which it is the lessee, except for short–term leases and leases of low–value assets. The Company recognized lease liabilities to make lease payments and right–of–use assets representing the right to use the underlying assets. In accordance with the full retrospective method of adoption, the Company applied IFRS 16 at the date of initial application as if it had already been effective at the commencement date of existing lease contracts.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognized those past transactions or events. An entity applies the amendments for annual reporting periods beginning on or after January 1st, 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. Since the Company's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Company.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1st, 2019, with early application permitted.

Since the Company's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Company.

Standards issued but not yet effective

Amendments to IAS 1 and IAS 8: Definition of Material in October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of "material" across the standards and to clarify certain aspects of the definition. The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purposes financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments to the definition of material is not expected to have a significant impact on the Company's consolidated financial statements.

y) Convenience translation

U.S. dollar amounts at December 31, 2019 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.18.8452 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, 2019. Such translation should not be construed as a representation that the peso amounts have been or could be converted into U.S. dollars at this or any other rate. The referred information in U.S. dollars is solely for information purposes and does not represent that the amounts are in accordance with IFRS or the equivalent in U.S. dollars in which the transactions were conducted or in which the amounts presented in Mexican pesos can be translated or realized.

2. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these financial statements requires management to make estimates, assumptions and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of the Company's consolidated financial statements. Note 1 to the Company's consolidated financial statements provides a detailed discussion of the significant accounting policies. Certain of the Company's accounting policies reflect significant judgments, assumptions or estimates about matters that are both inherently uncertain and material to the Company's financial position or results of operations.

Actual results could differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimate is revised. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

For Leases significant accounting judgments, estimates and assumptions refer to Note 1p (iv).

i) LTIP, LTRP and MIP (equity settled)

The Company measures the cost of its equity–settled transactions at fair value at the date the equity benefits are conditionally granted to employees. The cost of equity–settled transactions is recognized in earnings, together with a corresponding increase in treasury shares, over the period in which the performance and/or service conditions are fulfilled. For grants that vest on meeting performance conditions, compensation cost is recognized when it becomes probable that the performance condition will be met. The cumulative expense recognized for equity–settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

The Company measures the cost of equity–settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share–based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model, including the expected life of the share option, volatility and dividend yield, and making assumptions about them. The assumptions and models used for estimating fair value for share–based payment transactions are disclosed in (Note 17).

SARs plan (cash settled)

The cost of the SARs plan is measured initially at fair value at the grant date, further details of which are given in (Note 17). This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognized in salaries and benefits expense together with the grant date fair value. As with the equity settled awards described above, the valuation of cash settled award also requires using similar inputs, as appropriate.

ii) Deferred taxes

Deferred tax assets are recognized for all available tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management's judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning opportunities to advance taxable profit before expiration of available tax losses.

Tax losses relate to operations of the Company on a stand–alone basis, in conformity with current Tax Law and may be carried forward against taxable income generated in the succeeding years at each country and may not be used to offset taxable income elsewhere in the Company's consolidated group (Note 19).

During the years ended December 31, 2019, 2018 and 2017, the Company used Ps.214,460, Ps.154,353 and Ps.16,378, respectively, of the available tax loss carry–forwards (Note 19).

iii) Fair value measurement of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated statements of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The judgments include considerations of inputs such as liquidity risk, credit risk and expected volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments (Note 4).

iv) Impairment of long–lived assets

The Company assesses whether there are indicators of impairment for long–lived assets and right of use assets, annually and at other times when such indicators exist in the related CGU. Impairment exists when the carrying amount of a long–lived asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less cost to sell and its value–in–use. 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.

v) Allowance for expected credit loss

An allowance for expected credit loss on accounts receivables is established in accordance with the information mentioned in Note 1f) ii).

vi) Leases – Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right–of–use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity–specific estimates (such as the subsidiary's stand–alone credit rating).

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial risk management

The Company's activities are exposed to different financial risks stemmed from exogenous variables which are not under their control but whose effects might be potentially adverse such as: (i) market risk, (ii) credit risk, and (iii) liquidity risk.

The Company's global risk management program is focused on uncertainty in the financial markets and tries to minimize the potential adverse effects on net earnings and working capital requirements. The Company uses derivative financial instruments to hedge part of such risks. The Company does not enter into derivatives for trading or speculative purposes. The sources of these financial risks exposures are included in both "on balance sheet" exposures, such as recognized financial assets and liabilities, as well as in "off–balance sheet" contractual agreements and on highly expected forecasted transactions. These on and off–balance sheet exposures, depending on their profiles, do represent potential cash flow variability exposure, in terms of receiving less inflows or facing the need to meet outflows which are higher than expected, therefore increase the working capital requirements.

Since adverse movements erode the value of recognized financial assets and liabilities, as well some other off–balance sheet financial exposures, there is a need for value preservation, by transforming the profiles of these fair value exposures. The Company has a Finance and Risk Management department, which identifies and measures financial risk exposures, in order to design strategies to mitigate or transform the profile of certain risk exposures, which are taken up to the corporate governance level for approval.

Market risk

a) Jet fuel price risk

Since the contractual agreements with jet fuel suppliers include reference to jet fuel index, the Company is exposed to fuel price risk which might have an impact on the forecasted consumption volumes. The Company's jet fuel risk management policy aims to provide the Company with protection against increases in jet fuel prices. In an effort to achieve the aforesaid, the risk management policy allows the use of derivative financial instruments available on over the counter ("OTC") markets with approved counterparties and within approved limits. Aircraft jet fuel consumed in the years ended December 31, 2019, 2018 and 2017 represented 38%, 38% and 31%, of the Company's operating expenses, respectively. The foreign currency risk is disclosed within subsection b) in this note.

During the year ended December 31, 2019, the Company entered into US Gulf Coast Jet fuel 54 Asian call options designated to hedge 13,492 thousand gallons. Such hedges represented a portion of the projected consumption for the 4Q 2019. Additionally, during the same period, the Company entered into US Gulf Coast Jet Fuel 54 Asian Zero–Cost collar options designated to hedge 70,136 thousand gallons. Such hedges represent a portion of the projected consumption for the 3Q19 and the year 2020.

During the year ended December 31, 2018, the Company entered into US Gulf Coast Jet Fuel 54 Asian Call options and Zero–Cost Collars designated to hedge 45.6 million gallons. Such hedges represent a portion of the projected consumption for the next twelve months. Additionally, as of December 31, 2017, the Company entered into US Gulf Coast Jet Fuel 54 Asian call options designated to hedge 61.1 million gallons. Such hedges represented a portion of the projected consumption for the next nine months of operations.

In accordance with IFRS 9 the Company separates the intrinsic value from the extrinsic value of an option contract; as such, the change in the intrinsic value can be designated as hedge accounting. Because extrinsic value (time and volatility values) of the Asian call options is related to a "transaction related hedged item", it is required to be segregated and accounted for as a cost of hedging in OCI and accrued as a separate component of stockholders' equity until the related hedged item matures and therefore impacts profit and loss.

The underlying (US Gulf Coast Jet Fuel 54) of the options held by the Company is a consumption asset (energy commodity), which is not in the Company's inventory. Instead, it is directly consumed by the Company's fleet at different airport terminals. Therefore, although a non–financial asset is involved, its initial recognition does not generate a book adjustment in the Company's inventories.

Rather, it is initially accounted for in the Company's OCI and a reclassification adjustment is made from OCI to profit and loss and recognized in the same period or periods in which the hedged item is expected to be allocated to profit and loss. Furthermore, the Company hedges its forecasted jet fuel consumption month after month, which is congruent with the maturity date of the monthly serial Asian call and Zero–Cost Collar options.

As of December 31, 2018 and 2017, the fair value of the outstanding US Gulf Coast Jet Fuel Asian call options was Ps.48,199 and Ps.497,403, respectively. As of December 31, 2019 and 2018 for the Zero–Cost Collars it was Ps.133,567 and a (loss) of Ps.(122,948), respectively and are presented as part of the financial assets and financial liabilities in the consolidated statement of financial position. (See Note 5). The Company did not hold any position in Zero–Cost Collars for the period ended 2017.

During the year ended December 31, 2019, the intrinsic value of the Zero–Cost Collars recycled to the fuel cost was an expense of Ps.9,477. As of December 31, 2018, the Company did not have intrinsic value recycled to the fuel cost as settlements started taking place on 2019.

The amount of positive cost of hedging derived from the extrinsic value changes of the jet fuel hedged position as of December 31, 2019 recognized in other comprehensive income totals Ps.133,567 (the positive cost of hedging in December 2018 and 2017 totals Ps.134,096 and Ps.163,836, respectively), and will be recycled to the fuel cost during 2020, as these options expire on a monthly basis and the jet fuel is consumed. During the years ended December 31, 2019, 2018 and 2017, the net (positive) /negative cost of these options recycled to the fuel cost was Ps.61,067, Ps.(402,493) and Ps.26,980, respectively.

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, 2019					
	Jet fuel Zero–Cost Collar collars option contracts maturities					
	1 Half 2020		2 Half 2020		2020 Total	
Jet fuel risk Zero–Cost collars						
Notional volume in gallons (thousands)*		34,480		22,164		56,644
Strike price agreed rate per gallon (U.S. dollars)**	US$	1.63/1.82	US$	1.65/1.81	US$	1.64/1.82
Approximate percentage of hedge (of expected consumption value)		25%		15%		20%
All–in						
Approximate percentage of hedge (of expected consumption value)		25%		15%		20%

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

	Position as of December 31, 2018					
	Jet fuel Asian call and Zero–Cost collars option contracts maturities					
	1 Half 2019		2 Half 2019		2019 Total	
Jet fuel risk Asian Calls						
Notional volume in gallons (thousands)*		12,790		13,842		26,632
Strike price agreed rate per gallon (U.S. dollars) **	US$	1.84		1.84	US$	1.84
Approximate percentage of hedge (of expected consumption value)		10%		10%		10%
Jet fuel risk Zero–Cost collars						
Notional volume in gallons (thousands)*		18,963		–		18,963
Strike price agreed rate per gallon (U.S. dollars) **	US$	1.91/2.46	US$	–	US$	1.91/2.46
Approximate percentage of hedge (of expected consumption value)		15%		–%		15%
All–in						
Approximate percentage of hedge (of expected consumption value)		25%		10%		18%

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

	Position as of December 31, 2017					
	Jet fuel Asian call option contracts maturities					
	1 Half 2018		2 Half 2018		2018 Total	
Jet fuel risk Asian Calls						
Notional volume in gallons (thousands)*		69,518		61,863		131,381
Strike price agreed rate per gallon (U.S. dollars) **	US$	1.6861	US$	1.8106	US$	1.7447
Approximate percentage of hedge (of expected consumption value)		60%		50%		55%

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

The following table illustrates the sensitivity of US Gulf Coast Jet Fuel 54 Zero Cost Collars to a reasonably possible change in fuel prices, with all other variables held constant, on the caption of accumulated other comprehensive income.

The calculations were made considering a parallel movement of +/–5% in the spot price of the US Gulf Coast Jet 54 as of December 31, 2019:

	Sensitivity of position as of December 31, 2019 effect on equity (U.S. dollars)
US Gulf Coast Jet Fuel 54 spot level	
+5%	+4.52M
–5%	–4.52M

Please note this sensitivity was calculated with the net position delta of the portfolio, as change on the underlying price is small enough to be a good proxy

b) Foreign currency risk

Though the Mexican peso is the functional currency of the Company, a significant portion of its operating expenses are denominated in U.S. dollar; thus, Volaris relies on sustained U.S. dollar cash flows coming from operations in the United States of America and Central America to support part of its commitments in such currency, however there's still a mismatch.

Foreign currency risk arises from possible unfavorable movements in the exchange rate which could have a negative impact in the Company's cash flows. To mitigate this risk, the Company may use foreign exchange derivative financial instruments and non–derivative financial instruments.

While most of the Company's revenue is generated in Mexican pesos, although 29% of its revenues came from operations in the United States of America and Central America for the year ended at December 31, 2019 (32% at December 31, 2018 and 30% at December 31, 2017) and U.S. dollar denominated collections accounted for 43%, 38% and 40%, of the Company's total collections in 2019, 2018 and 2017, respectively.

Company's expenditures, particularly those related to aircraft leasing and acquisition, are denominated in U.S. dollar. In addition, although jet fuel for those flights originated in Mexico are paid in Mexican pesos, the price formula is impacted by the Mexican peso /U.S. dollar exchange rate.

The Company's foreign exchange exposure as of December 31, 2019, 2018 and 2017 is as set forth below:

	Thousands of U.S. dollars					
	2019		2018		2017	
Assets:						
Cash and cash equivalents	US$	373,099	US$	279,829	US$	344,038
Other accounts receivable, net		23,620		10,957		13,105
Guarantee deposits		437,499		362,149		377,485
Derivative financial instruments		7,088		3,172		25,204
Total assets	US$	841,306	US$	656,107	US$	759,832
Liabilities:						
Financial debt (Note 5)	US$	176,927	US$	155,455	US$	128,296
Lease liabilities		2,263,849		2,099,218		1,727,890
Suppliers		76,471		51,012		53,729
Other taxes and fees payable		22,486		14,823		10,304
Derivative financial instruments		–		6,246		–
Total liabilities		2,539,733		2,326,754		1,920,219
Net foreign currency position	US$	(1,698,427)	US$	(1,670,647)	US$	(1,160,387)

At April 27, 2020, date of issuance of these financial statements, the exchange rate was Ps.24.6230 per U.S. dollar.

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non–monetary asset or non–monetary liability relating to advance consideration, the date of the transaction is the date on which the Company initially recognizes the non–monetary asset or non–monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Company determines the transaction date for each payment or receipt of advance consideration.

As of December 31, 2019, the Company did not enter foreign exchange rate derivatives financial instruments. All the Company's remaining position in FX plain vanilla forwards matured throughout the first quarter of 2019 (January).

During the year ended December 31, 2018 and 2017, the Company entered into foreign currency forward contracts in U.S. dollars to hedge approximately, 20% and 9% of its future 12 and 6 months of aircraft rental expenses. A portion of the Company's foreign currency forwards position matured throughout the fourth quarter of 2018 (November & December), all of the Company's position in foreign currency forward contracts from 2017 matured throughout the second half of the year (August, September, November and December), therefore there was no outstanding balance as of December 31, 2017.

As of December 31, 2018, the unrealized gains of Ps.14,241, respectively relating to the foreign currency forward contracts is included in OCI.

For the years ended December 31, 2019, 2018 and 2017, the net gains (loss) on the foreign currency forward contracts were Ps.4,199, Ps.52,516 and Ps.(11,290), respectively, which were recognized as part of rental expense in the consolidated statements of operations.

i) Hedging relationships with non–derivative financial instruments

Regarding the foreign currency risk effective since January 1st, 2019, the Company implemented two hedging strategies for forecasted foreign exchange exposures using with non–derivatives financial instruments. In the first hedging strategy the Company has designated a hedge to mitigate the foreign exchange rate risk and foreign exchange variation fluctuation in US dollar denominated forecasted revenues using the financial liabilities corresponding to the leases liability denominated in USD over the term of the remaining leases term. The Company has at December 31, 2019 an amount equivalent to USD$2.1 billion of lease liability designated as hedging forecasted revenues over the remaining lease term.

Additionally, the second strategy consists on a hedging relationship for foreign exchange rate with non– derivative financial instruments in order to mitigate the exchange rate risk and foreign exchange variation (MXN/USD) intrinsic in the US dollar denominated Jet Fuel purchases. For this strategy a portion of the Jet Fuel consumption over the next two years approximately has been designated as hedge item; as hedging instrument the company designated a portion of the guaranteed deposits and cash and cash equivalents denominated in USD. In this hedging relationship for foreign exchange rate with non–derivative financial instruments, the Company designated an amount equivalent to USD$410 million, which represent a portion of the financial assets denominated in USD.

For both hedging relationships follow a Cash Flow Hedging Model, the accounting records corresponding to the recycling of the reserve for hedging of cash flows (called Other Comprehensive Income or OCI, part of the Stakeholders Equity) will be done as it is indicated on IFRS 9, this mean to reclassify the OCI through the accounts of Results in the same period or periods in which the expected hedging for cash flows affect the result of the period; when those sales are recognized as revenue– always adjusting them because of the hedging effects– for the program.

c) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows will fluctuate because of changes in market interest rates.

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long–term debt obligations and flight equipment lease agreements with floating interest rates.

The Company's results are affected by fluctuations in certain benchmark market interest rates due to the impact that such changes may have on operational lease payments indexed to the *London Inter Bank Offered Rate* ("LIBOR").

The Company uses derivative financial instruments to reduce its exposure to fluctuations in market interest rates and accounts for these instruments as an accounting hedge.

In most cases, when a derivative can be tailored within the terms and it perfectly matches cash flows of a leasing agreement, it may be designated as a CFH and the effective portion of fair value variations are recorded in equity until the date the cash flow of the hedged lease payment is recognized in the consolidated statements of operations.

The Irrevocable Trust number CIB/3249, whose trustor is the Company, entered a cap to mitigate the risk due to interest rate increases on the CEBUR coupon payments. The floating rate coupons reference referring to TIIE 28 are limited under the cap to 10% on the reference rate for the life of the CEBUR and haves the same amortization schedule. Thus, the cash flows of the CEBUR are perfectly matched by the hedging instrument. The cap start date was July 19, 2019, and the maturity date is June 20, 2024; consisting of 59 caplets with the same specifications as the CEBUR coupons for reference rate determination, coupon term, and fair value.

At December 31, 2019, the Company's outstanding hedging contracts in the form of interest rate caps with notional amount of Ps.1.5 billion had fair value of Ps.2,695 recorded in assets.

During the years ended December 31, 2018 and 2017, the Company did not have any outstanding interest rate derivatives.

For the years ended December 31, 2017, the reported loss on the interest rate swaps was Ps.13,827, which was recognized as part of rental expense in the consolidated statements of operations. All the Company's position in the form of interest rate swaps matured on March 31 and April 30, 2017 consequently there is no outstanding balance as of December 31, 2018 and 2017.

d) Liquidity risk

Liquidity risk represents the risk that the Company has insufficient funds to meet its obligations. Because of the cyclical nature of the business, the operations, and its investment and financing needs related to the acquisition of new aircraft and renewal of its fleet, the Company requires liquid funds to meet its obligations.

The Company attempts to manage its cash and cash equivalents and its financial assets, relating the term of investments with those of its obligations. Its policy is that the average term of its investments may not exceed the average term of its obligations. This cash and cash equivalents position is invested in highly liquid short–term instruments through financial entities.

The Company has future obligations related to maturities of bank borrowings, lease liabilities and derivative contracts. The Company's off–balance sheet exposure represents the future obligations related to aircraft purchase contracts. The Company concluded that it has a low concentration of risk since it has access to alternate sources of funding.

The table below presents the Company's contractual principal payments required on its financial liabilities and the derivative financial instruments fair value:

	December 31, 2019		
	Within one year	One to five years	Total
Interest–bearing borrowings:			
Pre–delivery payments facilities (Note 5)	Ps. 1,855,956	Ps. 1,452,553	Ps. 3,308,509
Short–term working capital facilities (Note 5)	200,000	–	200,000
Asset backed trust note (Note 5)	–	1,500,000	1,500,000
Lease liabilities:			
Aircraft, engines, land and buildings leases	4,720,505	35,796,540	40,517,045
Aircraft and engine lease return obligation	383,093	1,469,595	1,852,688
Total	Ps. 7,159,554	Ps. 40,218,688	Ps. 47,378,242

	December 31, 2018		
	Within one year	One to five years	Total
Interest–bearing borrowings:			
Pre–delivery payments facilities (Note 5)	Ps. 734,635	Ps. 2,310,939	Ps. 3,045,574
Short–term working capital facilities (Note 5)	461,260	–	461,260
Derivative financial instruments:			
Jet fuel Asian Zero–Cost collars options contracts	122,948	–	122,948
Lease liabilities:			
Aircraft, engines, land and buildings leases	4,976,454	34,588,692	39,565,146
Aircraft and engine lease return obligation	10,851	1,820,194	1,831,045
Total	Ps. 6,306,148	Ps. 38,719,825	Ps. 45,025,973

	December 31, 2017		
	Within one year	One to five years	Total
Interest–bearing borrowings:			
Pre–delivery payments facilities (Note 5)	Ps. 1,449,236	Ps. 1,079,152	Ps. 2,528,388
Short–term working capital facilities (Note 5)	948,354	–	948,354
Lease liabilities:			
Aircraft, engines, land and buildings leases	4,213,417	28,310,287	32,523,704
Aircraft and engine lease return obligation	193,187	1,454,790	1,647,977
Total	Ps. 6,804,194	Ps. 30,844,229	Ps. 37,648,423

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, 2019, 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 enough for its present requirements and will be sufficient to meet its anticipated requirements for capital expenditures and other cash requirements for the 2019 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, 2019, 2018 and 2017. 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 assessed using the course of thought which market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The assessment of a non–financial asset's fair value considers the market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re–assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Set out below, is a comparison by class of the carrying amounts and fair values of the Company's financial instruments, other than those for which carrying amounts are reasonable approximations of fair values:

	Carrying amount			Fair value		
	2019	2018	2017	**2019**	2018	2017
Asset						
Derivative financial instruments	Ps. 136,262	Ps. 62,440	Ps. 497,403	Ps. 136,262	Ps. 62,440	Ps 497,403
Liabilities						
Financial debt	(5,008,509)	(3,506,834)	(3,476,742)	(5,194,316)	(3,515,550)	(3,481,741)
Derivative financial instruments	–	(122,948)	–	–	(122,948)	–
Total	Ps. (4,872,247)	Ps. (3,567,342)	Ps. (2,979,339)	Ps. (5,058,054)	Ps. (3,576,058)	Ps. (2,984,338)

The following table summarizes the fair value measurements at December 31, 2019:

	Fair value measurement							
	Quoted prices in active markets Level 1		Significant observable inputs Level 2		Significant unobservable inputs Level 3		Total	
Assets								
Derivatives financial instruments:								
Jet fuel Zero–Cost collar options contracts*	Ps.	–	Ps.	133,567	Ps.	–	Ps.	133,567
Interest rate Caps		–		2,695		–		2,695
Liabilities for which fair values are disclosed:								
Interest–bearing loans and borrowings**		–		(5,194,316)		–		(5,194,316)
Net	Ps.	–	Ps.	(5,058,054)	Ps.	–	Ps.	(5,058,054)

* Jet fuel forwards levels and LIBOR curve.

** LIBOR curve and TIIE Mexican interbank rate. Includes short–term and long–term debt.

There were no transfers between level 1 and level 2 during the period.

The following table summarizes the fair value measurements at December 31, 2018:

	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.	48,199	Ps.	–	Ps.	48,199
Foreign currency forward		–		14,241		–		14,241
Liabilities								
Derivatives financial instruments:								
Jet fuel Asian Zero–Cost collars options contracts*		–		(122,948)		–		(122,948)
Liabilities for which fair values are disclosed:								
Interest–bearing loans and borrowings**		–		(3,515,550)		–		(3,515,550)
Net	Ps.	–	Ps.	(3,576,058)	Ps.	–	Ps.	(3,576,058)

* Jet fuel forwards levels and LIBOR curve.

** LIBOR curve and TIIE Mexican interbank rate. Includes short–term and long–term debt.

There were no transfers between level 1 and level 2 during the period.

The following table summarizes the fair value measurements at December 31, 2017:

	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.	497,403	Ps.	–	Ps.	497,403
Liabilities for which fair values are disclosed:								
Interest–bearing loans and borrowings**		–		(3,481,741)		–		(3,481,741)
Net	Ps.	–	Ps.	(2,984,338)	Ps.	–	Ps.	(2,984,338)

* Jet fuel forwards levels and LIBOR curve.

** LIBOR curve and TIIE Mexican interbank rate. Includes short–term and long–term debt.

There were no transfers between level 1 and level 2 during the period.

The following table summarizes the (loss) gain from derivatives financial instruments recognized in the consolidated statements of operations for the years ended December 31, 2019, 2018 and 2017:

Instrument	Financial statements line	**2019**		2018		2017	
Jet fuel Asian call options contracts	Fuel	Ps.	(61,069)	Ps.	402,493	Ps.	(26,980)
Jet fuel Zero–Cost collars contracts	Fuel		(9,477)		–		–
Foreign currency forward	Aircraft and engine rent expenses		4,199		52,516		(11,290)
Interest rate swap contracts	Aircraft and engine rent expenses		–		–		(13,827)
Interest rate cap	Finance cost		(1,282)		–		–
Total		Ps.	(67,629)	Ps.	455,009	Ps.	(52,097)

The following table summarizes the net gain (loss) on CFH before taxes recognized in the consolidated statements of comprehensive income for the years ended December 31, 2019, 2018 and 2017:

Consolidated statements of other comprehensive gain (loss) income

Instrument	Financial statements line	2019		2018		2017	
Jet fuel Asian call options contracts	OCI	Ps.	11,148	Ps.	(174,984)	Ps.	(54,202)
Jet fuel Zero cost collars	OCI		256,515		(122,948)		–
Interest rate swap contracts	OCI		–		–		14,144
Foreign currency contracts	OCI		(14,241)		14,241		(2,090)
Interest rate cap	OCI		(4,023)		–		–
Non derivative financial instruments	OCI		14,096		–		–
Total		Ps.	263,495	Ps.	(283,691)	Ps.	(42,148)

The exchange rates used to translate the above amounts to Mexican pesos at December 31, 2019, 2018 and 2017 were Ps.18.8452, Ps.19.6829 and Ps.19.7354, respectively, per U.S. dollar.

5. FINANCIAL ASSETS AND LIABILITIES

At December 31, 2019, 2018 and 2017, 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

	2019		2018		2017	
Derivative financial instruments designated as cash flow hedges (effective portion recognized within OCI)						
Jet fuel Asian call options	Ps.	–	Ps.	48,199	Ps.	497,403
Jet fuel Zero–Cost collars		133,567		–		–
Foreign currency forward contracts		–		14,241		–
Interest rate cap		2,695		–		–
Total financial assets	Ps.	136,262	Ps.	62,440	Ps.	497,403
Presented on the consolidated statements of financial position as follows:						
Current	Ps.	133,567	Ps.	62,440	Ps.	497,403
Non–current	Ps.	2,695	Ps.	–	Ps.	–

b) Financial debt

(i) At December 31, 2019, 2018 and 2017, the Company's short–term and long–term debt consists of the following:

	2019		2018		2017	
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, 2022, bearing annual interest rate at the three–month LIBOR plus a spread of 260 basis points.	Ps.	3,308,509	Ps.	3,045,574	Ps.	2,528,388
II. The Company issued in the Mexico market Asset backed trust notes ("CEBUR"), in Mexican pesos, maturing on June 20th, 2024 bearing annual interest rate at TIIE 28 days plus 175 basis points.		1,459,871		–		–
III. In December 2016, the Company entered into a short–term working capital facility with Banco Nacional de México S.A. ("Citibanamex") in Mexican pesos, bearing annual interest rate at TIIE 28 days plus a 90 basis points.		–		461,260		948,354
IV. In December 2019, the Company entered into a short–term working capital facility with Banco Sabadell S.A., Institución de Banca Multiple ("Sabadell") in Mexican pesos, bearing annual interest rate at TIIE 28 days plus a 120 basis points.		200,000		–		–
V. Amortized transaction costs		(22,472)		–		–
VI. Accrued interest and other financial cost		30,061		16,364		5,972
		4,975,969		3,523,198		3,482,714
Less: Short–term maturities		2,086,017		1,212,259		2,403,562
Long–term	Ps.	2,889,952	Ps.	2,310,939	Ps.	1,079,152

TIIE: Mexican interbank rate

(ii) The following table provides a summary of the Company's scheduled principal payments of financial debt and accrued interest at December 31, 2019:

	2020	2021	2022	2023	2024	Total
Santander/Bancomext	Ps. 1,881,676	Ps. 1,428,534	Ps. 24,019	Ps. –	Ps. –	Ps. 3,334,229
CEBUR	4,341	250,000	500,000	500,000	209,871[1]	1,464,212
Banco Sabadell	200,000	–	–	–	–	200,000
Total	Ps. 2,086,017	Ps. 1,678,534	Ps. 524,019	Ps. 500,000	Ps. 209,871	Ps. 4,998,441

[1] This amount includes the repurchase of asset backed trust notes

iii) Since 2011, the Company has financed the pre–delivery payments with Santander/Bancomext for the acquisition of its aircraft through a revolving financing facility.

The "Santander/Bancomext" loan agreement provides for certain covenants, including limits to the ability to, among others:

i) Incur debt above a specified debt basket unless certain financial ratios are met.
ii) Create liens.
iii) Merge with or acquire any other entity without the previous authorization of the Banks.
iv) Dispose of certain assets.
v) Declare and pay dividends or make any distribution on the Company's share capital unless certain financial ratios are met.

At December 31, 2019, 2018 and 2017, the Company was in compliance with the covenants under the above–mentioned loan agreement.

For purposes of financing the pre–delivery payments, Mexican trusts were created whereby, the Company assigned its rights and obligations under the Airbus Purchase Agreement with Airbus S.A.S. ("Airbus"), including its obligation to make pre–delivery payments to the Mexican trusts, and the Company guaranteed the obligations of the Mexican trusts under the financing agreement (Deutsche Bank Mexico, S.A. Trust 1710 and 1711).

At December 31, 2019, the Company have available credit lines totaling Ps.9,005,008, of which Ps.6,649,358 were related to financial debt (Ps.1,640,849 were undrawn) and Ps.2,355,650 were related to letters of credit (Ps.86,066 were undrawn). At December 31, 2018, the Company have available credit lines totaling Ps.6,721,139, of which Ps.4,063,947 were related to financial debt and Ps.2,657,192 were related to letters of credit (Ps.1,048,241 were undrawn). At December 31, 2017, the Company had available credit lines totaling Ps.7,368,346, of which Ps.4,616,861 were related to financial debt and Ps.2,751,485 were related to letters of credit (Ps.1,739,775 were undrawn).

On June 20, 2019, the Company, through its subsidiary Concesionaria issued 15,000,000 asset backed trust notes under the ticket VOLARCB 19 for the amount of Ps.1.5 billion Mexican pesos through the Irrevocable Trust number CIB/3249 created by Concesionaria. The issuance amount is part of a program approved by the Mexican National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores) for an amount of up to Ps.3.0 billion Mexican pesos.

The notes have a five year maturity annual reductions of Ps.250,000, Ps.500,000, Ps.500,000 and Ps.250,000 in 2021, 2022, 2023 and 2024, respectively, with a floating one–month coupon rate referenced to TIIE 28 plus with a 175 basis point spread. The notes starts amortizing at the end of the second year.

The asset backed trust notes structure operate on specific rules and provide a DSCR "Debt Service Coverage Ratio" which is computed by comparing the Mexican Peso collections over the previous six months to the next 6 months of debt service. In general, there is a found retention event if the ratio is less than 2.5 and or equal to 1.75 times. The amortization of the debt of the asset backed trust notes begins in July of 2021. In addition, early amortization applies if:

i) The Debt Coverage Ratio is less than 1.75 on any of the determination dates;
ii) A retention event that is not rectified in a period of 90 consecutive days;
iii) The debt service reserve account of the Series of any Series maintains an amount less than the balance required in the service account of the debt of the Series of that Series on two or more consecutive payment dates. (at the close of business on that payment dates);
iv) The update of a new insolvency event in relation to the Concesionaria Vuela;
v) Updating a new event of default

In December 2019, the Company entered into a short–term working capital facility with Banco Sabadell S.A., Institución de Banca Multiple ("Sabadell") in Mexican pesos, bearing annual interest rate at TIIE 28 days plus a 120 basis points. The "Sabadell" working capital facility has the following covenant:

i) Joint obligor (Concesionaria) must represent 85% of EBITDA of the holding

In 2019, we were in compliance with the covenants under the terms and conditions of the asset backed trusted notes and short–term working capital facilities.

Changes in liabilities arising from financing activities

At December 31, 2019, 2018 and 2017, the changes in liabilities from financing activities from the Company are summarized in the following table:

	January 1, 2019	Net cash Flows	Accrued Interest	Foreign exchange movement	Current vs non– current reclassification and other	December 31, 2019
Current interest–bearing loans and borrowings	Ps. 1,212,259	Ps. (633,609)	Ps. 13,698	Ps. (41,173)	Ps. 1,534,842	Ps. 2,086,017
Non–current interest – bearing loans and borrowings	2,310,939	2,273,143	–	(122,466)	(1,571,664)	2,889,952
Total liabilities from financing activities	Ps. 3,523,198	Ps. 1,639,534	Ps. 13,698	Ps. (163,639)	Ps. (36,822)	Ps. 4,975,969

	January 1, 2018	Net cash Flows	Accrued Interest	Foreign exchange movement	Current vs non– current reclassification and other	December 31, 2018
Current interest–bearing loans and borrowings	Ps. 2,403,562	Ps. (793,363)	Ps. 10,392	Ps. 71,380	Ps. (479,712)	Ps. 1,212,259
Non–current interest – bearing loans and borrowings	1,079,152	808,620	–	(56,945)	480,112	2,310,939
Total liabilities from financing activities	Ps. 3,482,714	Ps. 15,257	Ps. 10,392	Ps. 14,435	Ps. 400	Ps. 3,523,198

	January 1, 2017	Net cash Flows	Accrued Interest	Foreign exchange movement	Current vs non– current reclassification and other	December 31, 2017
Current interest–bearing loans and borrowings	Ps. 1,051,237	Ps. 419,350	Ps. (130)	Ps. 25,924	Ps. 907,181	Ps. 2,403,562
Non–current interest – bearing loans and borrowings	943,046	1,093,808	–	(50,521)	(907,181)	1,079,152
Total liabilities from financing activities	Ps. 1,994,283	Ps. 1,513,158	Ps. (130)	Ps. (24,597)	Ps. –	Ps. 3,482,714

c) Other financial liabilities

	2019	2018	2017
Derivative financial instruments designated as CFH (effective portion recognized within OCI):			
Zero–Cost Collar options	Ps. –	Ps. 122,948	Ps. –
Total financial liabilities	Ps. –	Ps. 122,948	Ps. –
Presented on the consolidated statements of financial position as follows:			
Current	Ps. –	Ps. 122,948	Ps. –
Non–current	Ps. –	Ps. –	Ps. –

6. CASH AND CASH EQUIVALENTS

An analysis of this caption is as follows:

	2019	2018	2017
Cash in banks	Ps. 4,612,927	Ps. 1,061,150	Ps. 963,162
Short–term investments	3,231,125	4,796,554	5,982,314
Cash on hand	44,880	5,238	5,403
Restricted funds held in trust related to debt service reserves	91,040	–	–
Total cash and cash equivalents	Ps. 7,979,972	Ps. 5,862,942	Ps. 6,950,879

As of December 31, 2019, the Company recorded a portion of advance ticket sales by an amount of Ps.91,040 as a restricted fund (Note 1 and 6). The restricted funds held in Trust are used to constitute the debt service reserves and cannot be used for purposes other than those established in the contract of the Trust.

7. RELATED PARTIES

a) **An analysis of balances due from/to related parties at December 31, 2019, 2018 and 2017 is provided below.**
All companies are considered affiliates, since the Company's primary shareholders or directors are also direct or indirect shareholders of the related parties:

	Type of transaction	Country of origin	2019	2018	2017	Terms
Due from:						
Frontier Airlines Inc. ("Frontier")	Code–share	USA	Ps. 23,442	Ps. 8,266	Ps. –	30 days
			Ps. 23,442	Ps. 8,266	Ps. –	
Due to:						
One Link, S.A. de C.V. ("One Link")	Call center fees	El Salvador	Ps. 39,838	Ps. –	Ps. 24,980	30 days
Frontier Airlines Inc. ("Frontier")	Code–share	USA	16,246	2,751	–	30 days
Aeromantenimiento, S.A. ("Aeroman")	Aircraft and engine maintenance	Mexico/El Salvador	1,474	15,024	15,951	30 days
Mijares, Angoitia, Cortés y Fuentes, S.C.	Professional fees	Mexico	996	–	–	30 days
			Ps. 58,554	Ps. 17,775	Ps. 40,931	

b) **During the years ended December 31, 2019, 2018 and 2017, the Company had the following transactions with related parties:**

Related party transactions	Country of origin	2019	2018	2017
Revenues:				
Transactions with affiliates				
Frontier Airlines Inc				
Code–share	USA	Ps. 208,968	Ps. 8,358	Ps. –
Expenses:				
Transactions with affiliates				
Aeromantenimiento, S.A.				
Aircraft and engine maintenance	Mexico/El Salvador	Ps. 201,624	Ps. 341,726	Ps. 249,266
Servprot, Human Capital Int., Onelink, MACF				
Call center fees and other professional fees	Mexico/El Salvador	41,467	4,800	202,689
Aeromantenimiento, S.A.				
Technical support	Mexico/El Salvador	5,815	4,796	8,088

Frontier started having transactions with the Company in September 2018. During the years ended December 31, 2017 the Company did not have any revenue transactions with related parties.

As of December 31, 2019, 2018 and 2017, there have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2019, 2018 and 2017, no provision for expected credit losses had been recognized.

c) **Servprot**
Servprot S.A. de C.V. ("Servprot") is a related party because Enrique Beltranena, the Company's President and Chief Executive Officer, and Rodolfo Montemayor, who served as an alternate member of our board of directors until April 19, 2018, are shareholders of such company. Servprot provides security services for Mr. Beltranena and his family, as well as for Mr. Montemayor. As of December 31, 2019, 2018 and 2017 Servprot did not have net balance under this agreement. During the years ended December 31, 2019, 2018 and 2017 the Company expensed Ps.3,120, Ps.2,804 and Ps.1,838, respectively for this concept.

d) **Aeroman**
Aeroman was a related party until July 24, 2019, because Roberto José Kriete Ávila, former member of the Company's board of directors is shareholder of Aeroman. The Company entered into an aircraft repair and maintenance service agreement with Aeroman on January 1, 2017. This agreement provides that the Company must use Aeroman, exclusively for aircraft repair and maintenance services, subject to availability. Under this agreement, Aeroman provides inspection, maintenance, repair and overhaul services for aircraft. The Company makes payments under this agreement depending on the services performed. This agreement is for a 5 years term. As of December 31, 2019, 2018 and 2017, the balances due under the agreement with Aeroman were Ps.1,474, Ps.15,024 and Ps.15,951, respectively. The Company incurred expenses in aircraft, engine maintenance and technical support under this agreement of Ps.207,439, Ps.346,522 and Ps.251,731 for the years ended December 31, 2019, 2018 and 2017, respectively.

e) **Human Capital International**
Human Capital International HCI, S.A. de C.V. ("Human Capital International"), was a related party until April 19, 2018, because Rodolfo Montemayor Garza, a former member of the Company's board of directors, is founder and chairman of the board of directors of Human Capital International. Human Capital International provided the Company with services regarding the selection and hiring of executives. As of December 31, 2019, 2018 and 2017, Human Capital International did not have net balance under this agreement. For the years ended December 31, 2019, 2018 and 2017, the Company recognized an expense under this agreement of Ps.0, Ps.324 and Ps.816, respectively.

f) **OneLink**
Onelink, S.A. de C.V. ("Onelink") was a related party until December 31, 2017, because Marco Baldocchi, a member of the board, was a director of Onelink. As of October 24, 2019 Onelink, Holdings, S.A. ("Onelink Holdings") and its subsidiary Onelink are once again related parties, because Mr. Rodrigo Antonio Escobar Nottebohm, an alternate board member of Onelink Holdings, became an alternate Director of the Company. Pursuant to this agreement, Onelink received calls from the customers to book flights and provides customers with information about fares, schedules and availability.

As of December 31, 2019, 2018 and 2017, the account payable under this agreement was Ps.39,838, Ps.0 and Ps.24,980, respectively. For the years ended December 31, 2019, 2018 and 2017, Company recognized an expense under this agreement of Ps.37,026, Ps.0 and Ps.200,035, respectively.

g) SearchForce

SearchForce was a related party because William Dean Donovan, a member of the board, is a director of the Company. Pursuant to this agreement, SearchForce provided until 2017 consultation services, reports, findings, analysis or other deliverables to us regarding the software and the implementation of the internet marketing strategy developed to the Company at its request. As of December 31, 2019, 2018 and 2017, SearchFroce did not have net balance under this agreement. The Company recognized an expense under this agreement of Ps.0, Ps.0 and Ps.1,946 for the years ended December 31, 2019, 2018 and 2017, respectively.

h) Mijares, Angoitia, Cortés y Fuentes

Mijares, Angoitia, Cortés y Fuentes, S.C. ("MACF") is a related party because Ricardo Maldonado Yañez and Eugenio Macouzet de León, member and alternate member, respectively, of the board of the Company since April 2018, are partners of the Company. As of December 31, 2019, MACF, the balance due under the agreement was Ps.996. As of December 31, 2018, and 2017, MACF did not have net balance under this agreement. For the year ended December 31, 2019, 2018 and 2017, the Company expensed Ps.1,321, Ps.1,672 and Ps.0, respectively, for this concept.

i) Frontier

Frontier is a related party because Mr. William A. Franke and Brian H. Franke are members of the board of the Company and Frontier as well as Indigo Partners have significant investments in both Companies. As of December 31, 2019, and 2018, the account receivable under this agreement was Ps.23,442 and Ps.8,266, respectively. Additionally, as of December 31, 2019, and 2018, the account payable under this agreement was Ps.16,246 and Ps.2,751, respectively. For the year ended December 31, 2019 and 2018 the Company recognized revenue under this agreement of Ps.208,968 and Ps.8,358, respectively.

j) Directors and officers

During the year ended December 31, 2019, 2018 and 2017, the chairman and the independent members of the Company's board of directors received an aggregate compensation of approximately Ps.8,085, Ps.7,178 and Ps.8,993, respectively, and the rest of the directors received a compensation of Ps.4,367, Ps.5,217 and Ps.7,834, respectively.

During the years ended December 31, 2019, 2018 and 2017, all the Company's senior managers received an aggregate compensation of short and long–term benefits of Ps.237,846, Ps.180,001 and Ps.134,370, respectively, these amounts were recognized in salaries and benefits in the consolidated statement of operations.

For the years ended December 31, 2019, 2018 and 2017 the cost of the share–based payments transactions (MIP and LTIP) were Ps.49,659, Ps.19,980 and Ps.13,508, respectively. The cost (benefit) of the cash–settled payments transactions MIP II and SARs were Ps.40,724, Ps. (5,238) and Ps. (25,498), respectively (Note 17).

The Company has a short–term benefit plan for certain personnel whereby cash bonuses are awarded for meeting certain Company's performance target. During the years ended December 31, 2019, 2018 and 2017, the Company recorded a provision in the amount of Ps.80,634, Ps.50,000 and Ps.0 respectively.

8. OTHER ACCOUNTS RECEIVABLE, NET

An analysis of other accounts receivable at December 31, 2019, 2018 and 2017, is detailed below:

		2019		2018		2017
Current:						
Credit cards	Ps.	389,634	Ps.	96,646	Ps.	191,322
Other accounts receivable		189,904		101,487		117,582
Other points of sales		102,002		71,054		54,719
Travel agencies and insurance commissions		76,975		39,806		27,925
Affinity credit card		49,040		55,172		40,517
Cargo clients		46,600		41,408		34,655
Airport services		42,894		9,991		5,898
Employees		29,681		27,274		8,878
Benefits from suppliers		26,989		68,946		–
Marketing services receivable		7,024		7,999		13,435
Settlement receivable		2,422		–		–
Insurance claims		143		–		1,345
		963,308		519,783		496,276
Allowance for credit losses		(40,308)		(11,304)		(17,809)
	Ps.	923,000	Ps.	508,479	Ps.	478,467

Accounts receivable have the following aging:

Days	2019 Impaired	2019 Not impaired	Total 2019	2018 Impaired	2018 Not impaired	Total 2018	2017 Impaired	2017 Not impaired	Total 2017
0–30	Ps. 5,804	Ps. 722,651	Ps. 728,455	Ps. 8,725	Ps. 388,644	Ps. 397,369	Ps. 16,962	Ps. 415,847	Ps. 432,809
31–60	–	64,983	64,983	–	69,648	69,648	–	38,705	38,705
61–90	–	19,274	19,274	–	27,138	27,138	–	17,918	17,918
91–120	34,504	116,092	150,596	2,579	23,049	25,628	847	5,997	6,844
	Ps. 40,308	Ps. 923,000	Ps. 963,308	Ps. 11,304	Ps. 508,479	Ps. 519,783	Ps. 17,809	Ps. 478,467	Ps. 496,276

The movement in the allowance for credit losses from January 1, 2017 to December 31, 2019 is as follows:

Balance as of January 1, 2017	Ps.	(19,317)
Write–offs		6,228
Increase in allowance		(4,720)
Balance as of December 31, 2017		(17,809)
Write–offs		17,126
Increase in allowance		(10,621)
Balance as of December 31, 2018		(11,304)
Write–offs		11,389
Increase in allowance		(40,393)
Balance as of December 31, 2019	Ps.	(40,308)

9. INVENTORIES

An analysis of inventories at December 31, 2019, 2018 and 2017 is as follows:

	2019	2018	2017
Spare parts and accessories of flight equipment	Ps. 294,390	Ps. 289,737	Ps. 285,185
Miscellaneous supplies	7,518	7,534	9,665
	Ps. 301,908	Ps. 297,271	Ps. 294,850

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, 2019, 2018 and 2017, the amount of consumption of inventories, recorded as an operating expense as part of maintenance expense was Ps.284,687, Ps.290,206 and Ps.242,265, respectively.

10. PREPAID EXPENSES AND OTHER CURRENT ASSETS

An analysis of prepaid expenses and other current assets at December 31, 2019, 2018 and 2017 is as follows:

	2019	2018	2017
Advances to suppliers	Ps. 283,340	Ps. 198,174	Ps. 87,536
Advances to components suppliers	209,557	67,446	220,095
Other prepaid expenses	115,054	40,655	56,146
Prepaid insurance	88,941	76,896	68,712
Sales commission to travel agencies (Note 1d)	84,239	59,620	54,501
Advances for constructions of aircraft and engines	–	–	13,764
	Ps. 781,131	Ps. 442,791	Ps. 500,754

11. GUARANTEE DEPOSITS

An analysis of this caption at December 31, 2019, 2018 and 2017 is as follows:

	2019	2018	2017
Current asset:			
Aircraft maintenance deposits paid to lessors (Note 1j)	Ps. 576,505	Ps. 729,899	Ps. 1,317,663
Deposits for rental of flight equipment	–	1,220	17,178
Other guarantee deposits	23,822	59,516	18,052
	600,327	790,635	1,352,893
Non–current asset:			
Aircraft maintenance deposits paid to lessors (Note 1j)	5,853,924	5,765,122	5,631,304
Deposits for rental of flight equipment	1,750,966	531,261	441,110
Other guarantee deposits	39,531	41,113	25,838
	7,644,421	6,337,496	6,098,252
	Ps. 8,244,748	Ps. 7,128,131	Ps. 7,451,145

12. ROTABLE SPARE PARTS, FURNITURE AND EQUIPMENT, NET

	Gross value			Accumulated depreciation and impairment			Net carrying value		
	At December 31, 2019	At December 31, 2018	At December 31, 2017	**At December 31, 2019**	At December 31, 2018	At December 31, 2017	**At December 31, 2019**	At December 31, 2018	At December 31, 2017
Leasehold improvements to flight equipment	Ps. 4,220,672	Ps. 3,424,778	Ps. 2,575,495	Ps. (2,679,884)	Ps. (2,210,189)	Ps. (1,882,996)	Ps. 1,540,788	Ps. 1,214,589	Ps. 692,499
Pre–delivery payments	4,507,770	3,672,090	2,783,303	–	–	–	4,507,770	3,672,090	2,783,303
Flight equipment	1,287,102	932,642	830,145	(553,852)	(268,320)	(199,223)	733,250	664,322	630,922
Construction and improvements in process	474,240	142,738	193,607	–	–	–	474,240	142,738	193,607
Constructions and improvements	172,460	132,446	131,503	(131,510)	(117,211)	(106,335)	40,950	15,235	25,168
Computer equipment	47,566	44,563	30,113	(34,495)	(28,016)	(20,790)	13,071	16,547	9,323
Workshop tools	26,875	23,454	20,500	(22,023)	(20,085)	(18,229)	4,852	3,369	2,271
Electric power equipment	20,412	15,438	15,439	(11,400)	(10,316)	(9,185)	9,012	5,122	6,254
Communications equipment	14,099	12,305	11,229	(8,322)	(7,394)	(6,502)	5,777	4,911	4,727
Workshop machinery and equipment	16,301	9,530	8,405	(6,092)	(5,049)	(4,345)	10,209	4,481	4,060
Motorized transport equipment platform	15,026	5,496	5,587	(5,392)	(5,050)	(4,701)	9,634	446	886
Service carts on board	7,675	5,403	5,403	(5,554)	(5,277)	(5,021)	2,121	126	382
Office furniture and equipment	70,709	66,546	44,749	(34,049)	(28,240)	(22,454)	36,660	38,306	22,295
Allowance for obsolescence	(3,000)	–	–	–	–	–	(3,000)	–	–
Total	Ps. 10,877,907	Ps. 8,487,429	Ps. 6,655,478	Ps. (3,492,573)	Ps. (2,705,147)	Ps. (2,279,781)	Ps. 7,385,334	Ps. 5,782,282	Ps. 4,375,697

* *During the years ended December 31, 2019, 2018 and 2017, the Company capitalized borrowing costs of Ps.456,313, Ps.357,920 and Ps.193,389, respectively. The amount of this line is net of disposals of capitalized borrowing costs related to sale and leaseback transactions of Ps.328,571, Ps.242,678 and Ps.110,274, respectively.*

	Flight equipment	Constructions and improvements	Computer equipment	Office furniture and equipment	Electric power equipment	Workshop Tools	Motorized transport equipment platform	Communications equipment	Workshop machinery and equipment	Service carts on board	Allowance for obsolescence	Pre–delivery payments	Construction and improvements in process	Leasehold improvements to flight equipment	Total
Net book amount as of December 31, 2016	Ps. 577,498	Ps. 35,013	Ps. 7,200	Ps. 17,657	Ps. 6,928	Ps. 4,585	Ps. 1,357	Ps. 3,555	Ps. 3,618	Ps. 758	Ps. –	Ps. 1,206,330	Ps. 255,374	Ps. 405,135	Ps. 2,525,008
Additions	115,558	–	1,845	6,805	–	–	–	–	123	–	–	1,707,805	206,932	545,164	2,584,232
Disposals and transfers	(930)	–	–	(15)	–	–	–	–	–	–	–	(213,947)	(3,555)	(101,224)	(319,671)
Borrowing costs, net*	–	–	–	–	–	–	–	–	–	–	–	83,115	–	–	83,115
Other movements	–	10,371	4,087	1,649	620	–	–	1,968	1,041	–	–	–	(265,144)	244,712	(696)
Depreciation	(61,204)	(20,216)	(3,809)	(3,801)	(1,294)	(2,314)	(471)	(796)	(722)	(376)	–	–	–	(401,288)	(496,291)
As of December 31, 2017	630,922	25,168	9,323	22,295	6,254	2,271	886	4,727	4,060	382	–	2,783,303	193,607	692,499	4,375,697
Cost	830,145	131,503	30,113	44,749	15,439	20,500	5,587	11,229	8,405	5,403	–	2,783,303	193,607	2,575,495	6,655,478
Accumulated depreciation	(199,223)	(106,335)	(20,790)	(22,454)	(9,185)	(18,229)	(4,701)	(6,502)	(4,345)	(5,021)	–	–	–	(1,882,996)	(2,279,781)
Net book amount as of December 31, 2017	630,922	25,168	9,323	22,295	6,254	2,271	886	4,727	4,060	382	–	2,783,303	193,607	692,499	4,375,697
Additions	366,371	689	5,316	652	–	2,673	–	1,050	1,040	–	–	1,485,643	142,703	687,260	2,693,397
Disposals and transfers	(261,866)	–	–	–	–	–	–	–	(2)	–	–	(712,098)	(89)	–	(974,055)
Borrowing costs, net*	–	–	–	–	–	–	–	–	–	–	–	115,242	–	–	115,242
Other movements	–	67	9,123	21,568	–	281	42	26	110	–	–	–	(193,483)	162,023	(243)
Depreciation	(71,105)	(10,689)	(7,215)	(6,209)	(1,132)	(1,856)	(482)	(892)	(727)	(256)	–	–	–	(327,193)	(427,756)
As of December 31, 2018	664,322	15,235	16,547	38,306	5,122	3,369	446	4,911	4,481	126	–	3,672,090	142,738	1,214,589	5,782,282
Cost	932,642	132,446	44,563	66,546	15,438	23,454	5,496	12,305	9,530	5,403	–	3,672,090	142,738	3,424,778	8,487,429
Accumulated depreciation	(268,320)	(117,211)	(28,016)	(28,240)	(10,316)	(20,085)	(5,050)	(7,394)	(5,049)	(5,277)	–	–	–	(2,210,189)	(2,705,147)
Net book amount as of December 31, 2018	664,322	15,235	16,547	38,306	5,122	3,369	446	4,911	4,481	126	–	3,672,090	142,738	1,214,589	5,782,282
Additions	692,186	5,596	1,730	1,461	2,487	3,137	–	355	4,278	2,273	(3,000)	1,412,790	525,556	661,954	3,310,803
Disposals and transfers	(538,370)	–	(131)	(10)	–	–	–	(2)	(35)	–	–	(704,852)	(3,957)	–	(1,247,357)
Borrowing costs, net*	–	–	–	–	–	–	–	–	–	–	–	127,742	–	–	127,742
Other movements	–	34,840	1,999	2,757	2,487	284	9,529	1,446	2,529	–	–	–	(190,097)	133,939	(287)
Depreciation	(84,888)	(14,721)	(7,074)	(5,854)	(1,084)	(1,938)	(341)	(933)	(1,044)	(278)	–	–	–	(469,694)	(587,849)
As of December 31, 2019	733,250	40,950	13,071	36,660	9,012	4,852	9,634	5,777	10,209	2,121	(3,000)	4,507,770	474,240	1,540,788	7,385,334
Cost	1,287,102	172,460	47,566	70,709	20,412	26,875	15,026	14,099	16,301	7,675	(3,000)	4,507,770	474,240	4,220,672	10,877,907
Accumulated depreciation	(553,852)	(131,510)	(34,495)	(34,049)	(11,400)	(22,023)	(5,392)	(8,322)	(6,092)	(5,554)	–	–	–	(2,679,884)	(3,492,573)
Net book amount as of December 31, 2019	Ps. 733,250	Ps. 40,950	Ps. 13,071	Ps. 36,660	Ps. 9,012	Ps. 4,852	Ps. 9,634	Ps. 5,777	Ps. 10,209	Ps. 2,121	Ps.(3,000)	Ps. 4,507,770	Ps. 474,240	Ps. 1,540,788	Ps. 7,385,334

a) Depreciation expense for the years ended December 31, 2019, 2018 and 2017, was Ps.587,849, Ps.427,756 and Ps.496,291, respectively. Depreciation charges for the year are recognized as a component of operating expenses in the consolidated statements of operations.

b) In October 2005 and December 2006, the Company entered into purchase agreements with Airbus and International Aero Engines AG ("IAE") for the purchase of aircraft and engines, respectively. Under such agreements and prior to the delivery of each aircraft and engine, the Company agreed to make pre–delivery payments, which were calculated based on the reference price of each aircraft and engine, and following a formula established for such purpose in the agreements.

In 2011, the Company amended the agreement with Airbus for the purchase of 44 A320 family aircraft to be delivered from 2015 to 2020. The new order includes 14 A320CEO ("Current Engine Option Aircraft") and 30 A320NEO. Additionally, during December 2017, the Company amended the agreement with Airbus for the purchase of 80 A320 family aircraft to be delivered from 2022 to 2026. The new order includes 46 A320NEO and 34 A321NEO. Under such agreement and prior to the delivery of each aircraft, the Company agreed to make pre–delivery payments, which shall be calculated based on the reference price of each aircraft, and following a formula established for such purpose in the agreement.

In November 2018, the Company amended the agreement with Airbus to reschedule the remaining 26 fleet deliveries between 2019 and 2022. Also, in this amendment Volaris used its rights on the Airbus Purchase Agreement to convert six A320NEO into A321NEO.

On August 16, 2013, the Company entered into certain agreements with IAE and United Technologies Corporation Pratt & Whitney Division ("P&W"), which included the purchase of the engines for 14 A320CEO and 30 A320NEO respectively, to be delivered between 2014 and 2022. This agreement also included the purchase of one spare engine for the A320CEO fleet (which was received during the fourth quarter of 2016) and six spare engines for the A320NEO fleet to be received from 2017 to 2022. In November 2015, the Company amended the agreement with the engine supplier to provide major maintenance services for the engines of sixteen aircrafts (10 A320NEO and 6 A321NEO). This agreement also includes the purchase of three spare engines, two of them for the A320NEO fleet, and one for the A321NEO fleet.

The Company received credit notes from P&W in December 2017 of Ps.58,530 (US$3.06 million), which are being amortized on a straight–line basis, prospectively during the term of the agreement. As of December 31, 2018, and 2017, the Company amortized a corresponding benefit from these credit notes of Ps.4,878 and Ps.1,219, respectively, which is recognized as an offset to maintenance expenses in the consolidated statements of operations.

During the years ended December 31, 2019, 2018 and 2017, the amounts paid for aircraft and spare engine pre–delivery payments were of Ps.1,412,790 (US$75.0 million), Ps.1,485,643 (US$77.1 million) and Ps.1,707,805 (US$90.0 million), respectively.

The current purchase agreement with Airbus requires the Company to accept delivery of 103 Airbus A320 family aircraft during the following six years (from January 2020 to November 2026). The agreement provides for the addition of 103 Aircraft to its fleet as follows: eight in 2020, thirteen in 2021, thirteen in 2022, sixteen in 2023, thirteen in 2024, fifteen in 2025 and twenty–five in 2026.

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

During the years ended December 31, 2019, 2018 and 2017 the Company entered into aircraft and spare engines sale and leaseback transactions, resulting in a gain of Ps.284,759, Ps.609,168 and Ps.65,886, respectively, that was recorded under the caption other income in the consolidated statement of operations, only the amount of gains that relates to the rights transferred to the buyer–lessor. The rest of the gains are amortized under the lease term (Note 20).

c) During December 2017, the Company entered into an updated total support agreement with Lufthansa for 66 months, with an effective date on July 1, 2018. This agreement includes similar terms and conditions as the original agreement.

As part of this agreement, the Company received credit notes of Ps.28,110 (US$1.5 million), which are being amortized on a straight–line basis, prospectively during the term of the agreement. As of December 31, 2019, and 2018, the Company amortized a corresponding benefit from these credit notes of Ps.5,230 and Ps.7,191, respectively, recognized as an offset to maintenance expenses in the consolidated statements of operations.

d) On September 5, 2019, the Company acquired one previously leased A319 aircraft from the lessor, which was accounted for a cost for a total amount of Ps. 392,076 (US$19,600). This transaction did not generate any gain or loses in our consolidated statements of operations.

The Company identified the major components as separate parts at their respective cost. These major components of the aircraft are presented as part of the aircraft and depreciated over their useful life.

During the month of December, the Company sold the recently acquire aircraft engines in by a sale and lease back transaction. As of December 31, 2019, the carry amount of the remaining owned aircraft and the depreciation was Ps.54,771 and Ps.1,787, respectively.

13. INTANGIBLE ASSETS, NET

The composition and movement of intangible assets is as follows:

	Useful life years	Gross value			Accumulated amortization			Net carrying amount		
		At December 31,								
		2019	2018	2017	**2019**	2018	2017	**2019**	2018	2017
Software	1 – 4	Ps. 579,360	Ps. 503,467	Ps. 441,803	Ps. (411,963)	Ps. (324,343)	Ps. (251,383)	Ps. 167,397	Ps. 179,124	Ps. 190,420

Balance as of January 1, 2017	Ps.	114,041
Additions		130,908
Disposals		(1,976)
Amortization		(52,396)
Exchange differences		(157)
Balance as of December 31, 2017		190,420
Additions		71,007
Disposals		(9,368)
Amortization		(72,885)
Exchange differences		(50)
Balance as of December 31, 2018		179,124
Additions		**77,325**
Disposals		**–**
Amortization		**(87,667)**
Exchange differences		**(1,385)**
Balance as of December 31, 2019	Ps.	167,397

Software amortization expense for the years ended December 31, 2019, 2018 and 2017 was Ps.87,667, Ps.72,885 and Ps.52,396, respectively. These amounts were recognized in depreciation and amortization in the consolidated statements of operations.

14. LEASES

The most significant leases are as follows:

a) Aircraft and engine represent the Company´s most significant lease agreements. At December 31, 2019, the Company leases 81 aircraft (77 and 71 as of December 31, 2018 and 2017, respectively) and 14 spare engines under operating leases (10 and eighth as of December 31, 2018 and 2017, respectively) that have maximum terms through 2033. These leases are generally guaranteed by either deposit in cash or letters of credits.

Composition of the fleet and spare engines, leases*:

Aircraft Type	Model	**At December 31, 2019**	At December 31, 2018	At December 31, 2017
A319	132	3	4	6
A319	133	4	4	6
A320	233	39	39	39
A320	232	2	4	4
A320NEO	271N	17	12	6
A321	231	10	10	10
A321NEO	271N	6	4	–
		81	77	71

Engine spare Type	Model	At December 31, 2019	At December 31, 2018	At December 31, 2017
V2500	V2524–A5	2	–	–
V2500	V2527M–A5	3	3	3
V2500	V2527E–A5	3	3	3
V2500	V2527–A5	2	2	2
PW1100	PW1127G–JM	3	2	–
PW1100	PW1133G–JM	1	–	–
		14	10	8

* 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, 2019, the Company added seven new leased aircraft to its fleet (three A320 NEO´s acquired through sale and leaseback transactions under our existing Airbus purchase agreement and four obtained directly from the lessor´s). Also, the Company extended the lease term of one spare engine (effective from 2019) and returned two aircraft to their respective lessors. All the aircraft incorporated through the lessor´s aircraft order book was not subject to sale and leaseback transactions.

During the year ended December 31, 2019, the Company also leased two NEO spare engines (based on the terms of the Pratt and Whitney purchase agreement FMP) and two CEO spare engines to its fleet. These four engines incorporated were subject to sale and leaseback transactions and their respective lease agreements were accounted as leases. Additionally, during 2019 the Company extended the lease term of one spare engine (effective from November 2019).

During the year ended December 31, 2018, the Company added ten new leased aircraft to its fleet (acquired three A320 NEO's through sale leaseback transactions under our existing Airbus purchase agreement and seven obtained directly from the lessors). Also, the Company extended the lease term of Aircraft (effective from 2019) and two spare engines (effective from February and April 2018), and returned four aircraft to their respective lessors.

During the year ended December 31, 2018, the Company also added two NEO spare engines to its fleet based on the terms of the Pratt and Whitney purchase agreement (FMP). These two engines incorporated were subject to sale and leaseback transactions.

During the year ended December 31, 2017, the Company added five aircraft to its fleet (acquired one A320 NEO's through sale leaseback transactions under our existing Airbus purchase agreement and four obtained directly from the lessors). Also, the Company returned three aircraft to their respective lessors. All the aircraft incorporated through the lessor´s aircraft order book were not subject to sale and leaseback transactions. Additionally, during 2017 the Company extended the lease term of three aircraft (effective from 2018) and two spare engines (effective from July 2017 and September 2017, respectively). Such leases were not subject to sale and leaseback transactions.

Set out below are the carrying amounts of right–of–use assets recognized and the movements during the period:

	Aircraft leases	Spare engine leases	Land and building leases	Total
As at 1 January 2017 (adjusted)	Ps. 23,047,879	Ps. 220,554	Ps. 231,648	Ps. 23,500,081
Additions	4,665,330	157,225	9,149	4,831,704
Depreciation on right of use assets	(3,306,249)	(77,750)	(53,904)	(3,437,903)
As at 31 December 2017 (adjusted)	24,406,960	300,029	186,893	24,893,882
Additions	10,585,188	387,480	59,194	11,031,862
Depreciation on right of use assets	(3,865,979)	(107,813)	(69,899)	(4,043,691)
As at 31 December 2018 (adjusted)	31,126,169	579,696	176,188	31,882,053
Additions	6,676,492	230,200	42,992	6,949,684
Depreciation on right of use assets	(4,490,572)	(132,698)	(79,701)	(4,702,971)
As at 31 December 2019	Ps. 33,312,089	Ps. 677,198	Ps. 139,479	Ps. 34,128,766

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2019	2018 (Adjusted)	2017 (Adjusted)
As at 1 January	Ps. 39,565,146	Ps. 32,523,704	Ps. 32,711,793
Additions	7,186,613	11,038,578	4,897,420
Accretion of interest	2,037,540	1,683,330	1,381,680
Foreign exchange effect	(1,772,452)	30,441	(1,434,291)
Payments	(6,499,802)	(5,710,907)	(5,032,898)
As at 31 December	Ps. 40,517,045	Ps. 39,565,146	Ps. 32,523,704
Current	4,720,505	4,976,454	4,213,417
Non–current	35,796,540	34,588,692	28,310,287

The following are the amounts recognized in profit or loss:

	As of December 31, 2019	As of December 31, 2018 (Adjusted)	As of December 31, 2017 (Adjusted)
Depreciation of right–of–use assets	Ps. (4,702,971)	Ps. (4,043,691)	Ps. (3,437,903)
Interest expense on lease liabilities	(2,128,162)	(1,755,978)	(1,428,924)
Aircraft and engine variable expenses	(961,657)	(956,010)	(1,429,595)
Total amount recognized in profit or loss	Ps. (7,792,790)	Ps. (6,755,679)	Ps. (6,296,422)

The Company had total cash outflows for leases of Ps.6,499,802 in 2019 (Ps.5,710,907 in 2018 and Ps.5,032,898 in 2017).

i) Return obligations

The aircraft lease agreements of the Company also require that the aircraft and engines be returned to lessors under specific conditions of maintenance. The costs of return, which in no case are related to scheduled major maintenance, are estimated and recognized ratably as a provision from the time it becomes likely such costs will be incurred and can be estimated reliably. These return costs are recognized on a straight–line basis as a component of supplemental rent and the provision is included as part of other liabilities, through the remaining lease term.

The Company estimates the provision related to airframe, engine overhaul and limited life parts using certain assumptions including the projected usage of the aircraft and the expected costs of maintenance tasks to be performed. For the years ended December 31, 2019, 2018 and 2017, the Company expensed as supplemental rent Ps.680,964, Ps.659,106 and Ps.851,410, respectively.

15. ACCRUED LIABILITIES

a) An analysis of accrued liabilities short – term at December 31, 2019, 2018 and 2017 is as follows:

		2019		2018		2017
Fuel and traffic accrued expenses	Ps.	1,507,659	Ps.	1,315,363	Ps.	1,106,913
Maintenance and aircraft parts accrued expenses		120,254		79,280		194,366
Sales, marketing and distribution accrued expenses		230,935		283,538		143,758
Maintenance deposits		132,085		141,371		132,519
Salaries and benefits		296,829		187,072		114,781
Accrued administrative expenses		81,124		67,306		90,459
Deferred revenue from V Club membership		35,465		59,557		76,261
Information and communication accrued expenses		67,808		45,008		44,638
Supplier services agreement		10,634		10,634		10,634
Benefits from suppliers		–		–		1,473
Advances from travel agencies		542		482		650
Others		48,526		77,985		51,474
	Ps.	2,531,861	Ps.	2,267,596	Ps.	1,967,926

b) Accrued liabilities long–term at December 31, 2019, 2018 and 2017 is as follows:

		2019		2018		2017
Supplier services agreement	Ps.	55,905	Ps.	66,539	Ps.	77,174
Benefits from suppliers		19,439		–		–
Other		15,452		8,964		15,274
	Ps.	90,796	Ps.	75,503	Ps.	92,448

c) An analysis of other liabilities is as follows:

		Balance as of January 1, 2019		Increase for the year		Payments		Balance as of December 31, 2019
Aircraft and engine lease return obligation	Ps.	1,831,045	Ps.	725,506	Ps.	703,863	Ps.	1,852,688
Employee profit sharing (Note 16)		14,984		22,134		13,021		24,097
	Ps.	1,846,029	Ps.	747,640	Ps.	716,884	Ps.	1,876,785
Short–term maturities							Ps.	407,190
Long–term							Ps.	1,469,595

		Balance as of January 1, 2018		Increase for the year		Payments		Balance as of December 31, 2018
Aircraft and engine lease return obligation (Adjusted)	Ps.	1,647,977	Ps.	1,015,391	Ps.	832,323	Ps.	1,831,045
Employee profit sharing (Note 16)		9,063		14,106		8,185		14,984
	Ps.	1,657,040	Ps.	1,029,497	Ps.	840,508	Ps.	1,846,029
Short–term maturities							Ps.	25,835
Long–term							Ps.	1,820,194

	Balance as of January 1, 2017		Increase for the year		Payments		Balance as of December 31, 2017	
Aircraft and engine lease return obligation (Adjusted)	Ps.	1,408,039	Ps.	1,099,597	Ps.	859,659	Ps.	1,647,977
Employee profit sharing (Note 16)		10,695		8,342		9,974		9,063
	Ps.	1,418,734	Ps.	1,107,939	Ps.	869,633	Ps.	1,657,040
Short–term maturities							Ps.	202,250
Long–term							Ps.	1,454,790

During the years ended December 31, 2019, 2018 and 2017 no cancellations or write–offs related to these liabilities were recorded.

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, 2019, 2018 and 2017, are as follows:

		2019		2018		2017
Analysis of net period cost:						
Current service cost	Ps.	8,214	Ps.	4,977	Ps.	3,657
Interest cost on benefit obligation		1,872		1,424		1,000
Net period cost	Ps.	10,086	Ps.	6,401	Ps.	4,657

Changes in the defined benefit obligation are as follows:

		2019		2018		2017
Defined benefit obligation at January 1,	Ps.	18,153	Ps.	19,289	Ps.	13,438
Net period cost charged to profit or loss:						
Current service cost		8,214		4,977		3,657
Interest cost on benefit obligation		1,872		1,424		1,000
Remeasurement losses in other comprehensive income:						
Actuarial changes arising from changes in assumptions		10,192		(5,989)		1,776
Payments made		(225)		(1,548)		(582)
Defined benefit obligation at December 31,	Ps.	38,206	Ps.	18,153	Ps.	19,289

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

	2019	2018	2017
Financial:			
Discount rate	7.18%	9.91%	7.72%
Expected rate of salary increases	5.50%	5.65%	5.50%
Annual increase in minimum salary	4.00%	4.15%	4.00%
Biometric:			
Mortality [1]	EMSSA 09, CEPAL* 2010 EL SALVADOR, CEPAL* 2010 COSTA RICA	EMSSA 09	EMSSA 09
Disability [2]	IMSS–97	IMSS–97	IMSS–97

(1) Mexican Experience of social security (EMSSA), Economic Commission for Latin America and the Caribbean (CEPAL for its Spanish acronym).

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

Accruals for short–term employee benefits at December 31, 2019, 2018 and 2017, respectively, are as follows:

		2019		2018		2017
Employee profit–sharing (Note 15c)	Ps.	24,097	Ps.	14,984	Ps.	9,063

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

17. SHARE–BASED PAYMENTS

a) LTRP

On November 6, 2014, the shareholders of the Company and the shareholders of its subsidiary Servicios Corporativos, approved an amendment to the current LTRP for the benefit of certain key employees, based on the recommendations of the Board of Directors of the Company at its meetings held on July 24 and August 29, 2014. For such purposes on November 10, 2014 an irrevocable Administrative Trust was created by Servicios Corporativos and the key employees. The new plan was restructured and named LTIP, which consists of a share purchase plan (equity–settled transaction) and SARs plan (cash settled).

On October 18, 2018, the Board of Directors of the Company approved a new long–term retention plan LTRP for certain executives of the Company, through which the beneficiaries of the plan, will receive shares of the Company once the service conditions are met. This plan does not include cash compensations granted through appreciation rights on the Company's shares. The retention plans granted in previous periods under LTRP will continue in full force and effect until their respective due dates and the cash compensation derived from them will be settled according to the conditions established in each plan.

b) LTIP

– Share purchase plan (equity–settled)

Under the share purchase plan (equity– settled), in November 2014 certain key employees of the Company were granted with a special bonus by an amount of Ps.10,831, to be used to purchase Company's shares. The plan consisted in:

(i) Servicios Corporativos granted a bonus to each key executive;
(ii) The bonus amount by Ps.7,059, net of withheld taxes, was transferred on November 11, 2014, as per the written instructions of each key employees, to the Administrative Trust for the acquisition of Series A shares of the Company through an intermediary authorized by the BMV based on the Administration Trust's Technical Committee instructions;
(iii) Subject to specified terms and conditions set forth in the Administrative Trust, the acquired shares were in escrow under the Administrative Trust for its administration until the vesting period date for each key executive, date as of which the key executive can fully dispose of the shares and instruct as desired.
(iv) The share purchase plan provides that if the terms and conditions are not met by the vesting period date, then the shares would be sold in the BMV, and Servicios Corporativos would be entitled to receive the proceeds of the sale of shares.
(v) The key employees' account balance will be tracked by the Administrative Trust. The Administrative Trust's objectives are to acquire Series A shares on behalf of the key employees and to manage the shares granted to such key executive based on instructions set forth by the Technical Committee.

As the Administrative Trust is controlled and therefore consolidated by Controladora, shares purchased in the market and held within the Administrative Trust are presented for accounting purposes as treasury stock in the consolidated statement of changes in equity.

In November 2019, 2018 and 2017, the extensions to the LTIP were approved by the Company's shareholder's and Company's Board of Directors, respectively. The total cost of the extensions approved were Ps.86,772 (Ps.56,407 net of withheld taxes), Ps.63,961 (Ps.41,590 net of withheld taxes), Ps.15,765 (Ps.10,108 net of withheld taxes), respectively. Under the terms of the incentive plan, certain key employees of the Company were granted a special bonus that was transferred to the Administrative Trust for the acquisition of Series A shares of the Company.

As of December 31, 2019, 2018 and 2017, the number of shares into the Administrative Trust associated with the Company's share purchase payment plans is as follows:

	Number of Series A shares
Outstanding as of January 1st, 2017	618,048 *
Purchased during the year	547,310
Granted during the year	–
Exercised/vested during the year	(345,270)
Forfeited during the year	–
Outstanding as of December 31, 2017	820,088 *
Purchased during the year	3,208,115
Granted during the year	–
Exercised/vested during the year	(353,457)
Forfeited during the year	(121,451)
Outstanding as of December 31, 2018	3,553,295 *
Purchased during the year	2,694,600
Granted during the year	–
Exercised/vested during the year	(959,614)
Forfeited during the year	(173,090)
Outstanding as of December 31, 2019	5,115,191 *

* These shares are presented as treasury shares in the consolidated statement of financial position as of December 31, 2019, 2018 and 2017.

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

Number of Series A shares	Vesting period
2,211,269	November 2019 – 2020
2,005,716	November 2020 – 2021
898,206	November 2021 – 2022
5,115,191	

In accordance with IFRS 2, the share purchase plans are classified as equity–settled transactions on the grant date. This valuation is the result of multiplying the total number of Series A shares deposited in the Administrative Trust and the price per share, plus the balance in cash deposited in the Administrative Trust.

For the years ended December 31, 2019, 2018 and 2017, the compensation expense recorded in the consolidated statement of operations amounted to Ps.49,659, Ps.19,980 and Ps.13,508, respectively. All shares held in the Administrative Trust are considered outstanding for both basic and diluted (loss) earnings per share purposes, since the shares are entitled to dividend if and when declared by the Company.

During 2019 and 2018, some key employees left the Company; therefore, the vesting conditions were not fulfilled. In accordance with the terms of the plan, Servicios Corporativos is entitled to receive the proceeds of the sale of such shares, the number of forfeited shares as of December 31, 2019 and 2018, were (173,090) and (121,451), respectively.

– SARs (cash settled)

On November 6, 2014, the Company granted 4,315,264 SARs to key employees that entitle them to a cash payment and vest as long as the employee continues to be employed by the Company at the end of each anniversary, during a 3 years period. The total amount of the appreciation rights granted under this plan at the grant date was Ps.10,831 at such date.

Under the LTIP extensions, the number of SARs granted to certain key executives of the Company were Ps.0, Ps.0 and 3,965,351, which amounts to Ps.0, Ps.0 and Ps.15,765, for the years ended December 31, 2019, 2018 and 2017, respectively. The SARs vest as long as the employee continues to be employed by the Company at the end of each anniversary, during a three years period.

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, 2019, 2018 and 2017 were Ps.1,901, Ps.537 and Ps.723, 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, 2019, 2018 and 2017, the Company recorded a expense (benefit) of Ps.2,964, Ps.(186) and Ps.(8,999), 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–Scholes option pricing model, taking into account the terms and conditions on which the SARs were granted (vesting schedule in tables below).

Number of SARs	Exercisable date
725,193	November 2020
725,193*	

* Includes forfeited SARs of 32,616, 484,656 and 145,769 for the years ended December 31, 2019, 2018 and 2017, respectively.

During the years ended December 31, 2019, 2018 and 2017, the Company made a cash payment to key employees related to the SARs plan in the amount of Ps.2,395, Ps.0 and Ps.6,021, respectively.

Such payments were determined based on the increase in the share price of the Company from the grant date to the exercisable date.

c) MIP

– MIP I

In April 2012, the Board of Directors authorized a MIP for the benefit of certain key employees, subject to shareholders' approval. On December 21, 2012, the shareholders approved the MIP consisting of: (i) the issuance of an aggregate of 25,164,126 Series A and Series B shares, representing 3.0% of the Company's fully diluted capital stock; (ii) a grant of options to acquire shares of the Company or CPOs having shares as underlying securities for which, as long as certain conditions occur, the employees will have the right to request the delivery of those shares (iii) the creation of an Administrative Trust to deposit such shares in escrow until they are delivered to the officers or returned to the Company in the case that certain conditions do not occur; and (iv) the execution of share sale agreements setting forth the terms and conditions upon which the officers may exercise its shares at Ps.5.31 (five Mexican pesos 31/100) per share.

On December 24, 2012, the Administrative Trust was created and the share sale agreements were executed. On December 27, 2012, the trust borrowed Ps.133,723 from the Company and immediately after; the trust paid the Company the same amount borrowed as purchase price for the shares.

The share sale agreements provide that the officers may pay for the shares at the same price upon the occurrence of either an initial public offering of the Company's capital stock or a change of control and as long as they remain employees until the options are exercised, with a maximum term of ten years. Upon payment of the shares by the officers to the Management Trust, it must pay such amount back to the Company as repayment of the loan, for which the Company charges no interest.

The MIP has been classified as equity–settled, by which, the grant date, fair value is fixed and is not adjusted by subsequent changes in the fair value of capital instruments. Equity–settled transactions are measured at fair value at the date the equity benefits are conditionally granted to employees. The total cost of the MIP determined by the Company was Ps.2,722 to be recognized from the time it becomes probable the performance condition will be met over the vesting period. Total cost of the MIP related to the vested shares has been fully recognized in the consolidated statements of operations during the vesting years.

This cost was determined by using the improved Binomial valuation model from Hull and White, on the date in which the plan had already been approved by the shareholders and a shared understanding of the terms and conditions of the plan was reached with the employees (December 24, 2012, defined as the grant date), with the following assumptions:

	2012
Dividend yield (%)	0.00%
Volatility (%)	37.00%
Risk–free interest rate (%)	5.96%
Expected life of share options (years)	8.8
Exercise share price (in Mexican pesos Ps.)	5.31
Exercise multiple	1.1
Fair value of the stock at grant date	1.73

The expected volatility reflects the assumption that the historical volatility of comparable companies is indicative of future trends, which may not necessarily be the actual outcome.

Under the methodology followed by the Company, at the grant date and December 31, 2012, the granted shares had no positive intrinsic value.

In 2019, 2018 and 2017, the key employees exercised 2,780,000, 2,003,876 and 120,000 Series A shares. As a result, the key employees paid to the Management Trust Ps.14,773, Ps.10,654 and Ps.638 corresponding to the exercised shares for the years ended December 31, 2019, 2018 and 2017, respectively.

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, 2016	12,557,857	Ps.	5.31	Ps.	66,733
Granted during the year	–		–		–
Forfeited during the year	–		–		–
Exercised during the year	(120,000)		5.31		(638)
Outstanding as of December 31, 2017	12,437,857	Ps.	5.31	Ps.	66,095
Granted during the year	–		–		–
Forfeited during the year	–		–		–
Exercised during the year	(2,003,876)		5.31		(10,654)
Outstanding as of December 31, 2018	10,433,981	Ps.	5.31	Ps.	55,441
Granted during the year	–		–		–
Forfeited during the year	–		–		–
Exercised during the year	(2,780,000)		5.31		(14,773)
Outstanding as of December 31, 2019	7,653,981	Ps.	5.31	Ps.	40,668

At December 31, 2019, 2018 and 2017, 7,653,981, 10,433,981 and 12,437,857 share options pending to exercise were considered as treasury shares, respectively.

– MIP II

On February 19, 2016, the Board of Directors of the Company authorized an extension to the MIP for certain key employees. Such extension was modified as of November 6, 2016. Under MIP II, 13,536,960 share appreciation rights of our Series A shares were granted to be settled annually in cash in a period of five years in accordance with the established service conditions. In addition, a five–year extension to the period in which the employees can exercise MIP II once the SARs are vested was approved.

Fair value of the SARs is measured at each reporting period using a Black–Scholes option pricing model, taking into consideration the terms and conditions granted to the employees. The amount of the cash payment is determined based on the increase in our share price between the grant date and the settlement date.

The carrying amount of the liability relating to the SARs as of December 31, 2019, 2018 and 2017 was Ps.70,567, Ps.32,807 and Ps.37,858, 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, 2019, 2018 and 2017, the Company recorded a (benefit) expense of Ps.37,760, Ps. (5,052) and Ps. (16,499), respectively, in the consolidated statement of operations. No SARs were exercised during 2018.

The vesting schedule is summarized in the table below:

Number of SARs	Vesting date
2,825,840	February 2020
3,391,020	February 2021
6,216,860*	

* Includes forfeited SARs of 0, 1,563,520 and 0, for the years ended December 31, 2019, 2018 and 2017, respectively.

The expense (benefit) recognized for the Company’s retention plans during the year is shown in the following table:

		2019		2018		2017
(Benefit) expense arising from cash–settled share–based payments transactions	Ps.	40,724	Ps.	(5,238)	Ps.	(25,498)
Expense arising from equity–settled share–based payments transactions		49,659		19,980		13,508
Total expense (benefit) arising from share–based payments transactions	Ps.	90,383	Ps.	14,742	Ps.	(11,990)

d) Board of Directors Incentive Plan (BoDIP)

Certain members of the Board of Directors of the Company receive additional benefits through a share–based plan, which has been classified as an equity–settled share–based payment and therefore accounted under IFRS 2 "Shared based payments".

In April 2018, the Board of Directors of the Company authorized a Board of Directors Incentive Plan "BoDIP", for the benefit of certain board members. The BoDIP grants options to acquire shares of the Company or CPOs during a four years period with an exercise price share at Ps.16.80, Ps.16.12 and Ps.26.29 for the years ended 2019, 2018 and 2017, respectively, which was determined on the grant date. Under this plan, no service or performance conditions are required to the board members for exercise the option to acquire shares, and therefore, they have the right to request the delivery of those shares at the time they pay for them.

For such purposes on August 29, 2018 the Trust Agreement number CIB/3081 was created by Controladora Vuela, Compañia de Aviación S.A.B de C.V as trustee and CIBanco, S.A., Institucion de Banco Multiple as trustor. The number of shares hold as of December 31, 2019 available to be exercised is 2,072,344.

18. EQUITY

As of December 31, 2019, the total number of the Company's authorized shares was 1,011,876,677; represented by common registered shares, issued and with no par value, fully subscribed and paid, comprised as follows:

	Shares		
	Fixed Class I	Variable Class II	Total shares
Series A shares (1)	10,478	923,814,326	923,824,804
Series B shares (1)	13,702	88,038,171	88,051,873
	24,180	1,011,852,497	1,011,876,677
Treasury shares (Note 17)	–	(15,136,057)	(15,136,057)*
	24,180	996,716,440	996,740,620

* The number of forfeited shares as of December 31, 2019 were 294,541, which are include in treasury shares.

As of December 31, 2018, the total number of the Company's authorized shares was 1,011,876,677; represented by common registered shares, issued and with no par value, fully subscribed and paid, comprised as follows:

	Shares		
	Fixed Class I	Variable Class II	Total shares
Series A shares (1)	10,478	923,814,326	923,824,804
Series B shares (1)	13,702	88,038,171	88,051,873
	24,180	1,011,852,497	1,011,876,677
Treasury shares (Note 17)	–	(15,212,365)	(15,212,365) *
	24,180	996,640,132	996,664,312

* The number of forfeited shares as of December 31, 2018 were 121,451, which are include in treasury shares.

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

As of December 31, 2017, the total number of the Company's authorized shares was 1,011,876,677; represented by common registered shares, issued and with no par value, fully subscribed and paid, comprised as follows:

	Shares		
	Fixed Class I	Variable Class II	Total shares
Series A shares	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)	–	(13,257,945)	(13,257,945)
	24,180	998,594,552	998,618,732

All shares representing the Company's capital stock, either Series A shares or Series B shares, grant the holders the same economic rights and there are no preferences and/or restrictions attaching to any class of shares on the distribution of dividends and the repayment of capital. Holders of the Company's Series A common stock and Series B common stock are entitled to dividends when, and if, declared by a shareholders' resolution. The Company's revolving line of credit with Santander and Bancomext limits the Company's ability to declare and pay dividends in the event that the Company fails to comply with the payment terms thereunder. Only Series A shares from the Company are listed.

During the years ended December 31, 2019, 2018 and 2017, the Company did not declare any dividends.

a) Earnings (loss) per share
Basic earnings (loss) per share ("EPS or LPS") amounts are calculated by dividing the net income (loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS or LPS amounts are calculated by dividing the profit (loss) attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares, if any), by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares (to the extent that their effect is dilutive).

The following table shows the calculations of the basic and diluted earnings (loss) per share for the years ended December 31, 2019, 2018 and 2017.

	At December 31,		
	2019	2018 (Adjusted)	2017 (Adjusted)
Net income (loss) for the period	Ps. 2,639,063	Ps. (942,882)	Ps. 278,671
Weighted average number of shares outstanding (in thousands):			
Basic	1,011,877	1,011,877	1,011,877
Diluted	1,011,877	1,011,877	1,011,877
EPS – LPS:			
Basic	2.608	(0.932)	0.275
Diluted	2.608	(0.932)	0.275

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorization of these financial statements.

b) In accordance with the Mexican Corporations Act, the Company is required to allocate at least 5% of the net income of each year to increase the legal reserve. This practice must be continued until the legal reserve reaches 20% of capital stock. As of December 31, 2019, 2018 and 2017, the Company's legal reserve was Ps.291,178 or 9.8% our capital stock.

At an ordinary general shareholders' meeting held on April 19, 2017 the shareholders approved to increase legal reserve in the amount of Ps.252,928. As of December 31, 2019, 2018 and 2017 the Company's legal reserve has not reached the 20% of its capital stock.

c) Any distribution of earnings in excess of the net tax profit account (Cuenta de utilidad fiscal neta or "CUFIN") balance will be subject to corporate income tax, payable by the Company, at the enacted income tax rate at that time. A 10% withholding tax is imposed on dividends distributions to individuals and foreign shareholders from earnings generated starting January 1, 2014.

d) Shareholders may contribute certain amounts for future increases in capital stock, either in the fixed or variable capital. Said contributions will be kept in a special account until the shareholders meeting authorizes an increase in the capital stock of the Company, at which time each shareholder will have a preferential right to subscribe and pay the increase with the contributions previously made. As it is not strictly regulated in Mexican law, the shareholders meeting may agree to return the contributions to the shareholders or even set a term in which the increase in the capital stock has to be authorized.

19. INCOME TAX

a) In accordance with the MITL, the Company and its Mexican subsidiaries are subject to income tax and each files its tax returns on an individual entity basis and the related tax results are included in the accompanying consolidated financial statements. The income tax is computed taking into consideration the taxable and deductible effects of inflation, such as depreciation calculated on Adjusted assets values. Taxable income is increased or reduced by the effects of inflation on certain monetary assets and liabilities through the annual inflation adjustment.

(i) Based on the approved law, corporate income tax rate for 2019 and thereafter is 30%.

(ii) The tax rules include limits in the deductions of the exempt compensation amount certain items, as follows: Wages and benefits paid to workers 47% of income paid to workers and in certain cases up to 53% (holiday bonus, savings fund, employee profit sharing, seniority premiums) will be deductible for employers. As a result, certain wage and salary provisions have difference between tax and book values at year–end.

(iii) The MITL sets forth criteria and limits for applying some deductions, such as: the deduction of payments which, in turn, are exempt income for workers, contributions for creating or increasing provisions for pension funds, contributions to the Mexican Institute of Social Security payable by the worker that are paid by the employer, as well as the possible non–deduction of payments made to related parties in the event of failing to meet certain requirements.

(iv) Taxable income for purposes of the employee profit sharing is the same used for the Corporate Income Tax except for certain items.

(v) A 10% withholding tax is imposed on dividends distributions to individuals and foreign shareholders from earnings generated starting January 1, 2014.

The income tax rates for 2019, 2018 and 2017 in Guatemala, Costa Rica and El Salvador are 25%, 30%, and 30% respectively.

b) For the years ended December 31, 2019, 2018 and 2017, the Company reported on a consolidated basis taxable income of Ps.938,304, Ps.777,513 and Ps.171,046, respectively, which was partially offset by tax losses from prior years.

In accordance with the MITL and Costa Rican Income Tax Law (CRITL), tax losses may be carried forward against taxable income generated in the succeeding ten and three years, respectively. Carryforward tax losses are Adjusted based on inflation.

c) An analysis of consolidated income tax expense for the years ended December 31, 2019, 2018 and 2017 is as follows:

Consolidated statements of operations

	2019		2018		2017	
Current year income tax expense	Ps.	(281,491)	Ps.	(232,824)	Ps.	(51,313)
Deferred income tax (expense) benefit		(813,340) (1)		582,644 (2)		(186,273) (3)
Total income tax (expense) benefit	Ps.	(1,094,831)	Ps.	349,820	Ps.	(237,586)

(1) Includes translation effect by Ps.(2,278)
(2) Includes translation effect by Ps.2,680
(3) Includes translation effect by Ps.936

Consolidated statements of comprehensive income

	2019		2018		2017	
Deferred tax related to items recognized in OCI during the year						
Net (loss) gain on cash flow hedges	Ps.	(74,820)	Ps.	85,107	Ps.	12,017
Remeasurement gain (loss) of employee benefits		3,058		(1,797)		533
Deferred tax charged to OCI	Ps.	(71,762)	Ps.	83,310	Ps.	12,550

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

	2019	2018	2017
Statutory income tax rate	30.00%	30.00%	30.00%
Non-deductible expenses	0.19%	(2.51%)	5.71%
Unrecorded deferred taxes on tax losses	0.27%	(3.96%)	21.31%
Foreign countries difference with Mexican statutory rate	0.11%	(0.02%)	0.48%
Inflation of tax losses	(0.21%)	1.16%	(2.20%)
Amendment tax return effects and other tax adjustments	(0.51%)	0.05%	3.78%
Inflation on furniture, intangible and equipment	(0.48%)	2.08%	(7.19%)
Annual inflation adjustment	(0.05%)	0.26%	(5.87%)
	29.32%	27.06%	46.02%

Mexican income tax matters

For Mexican purposes, corporate income tax is computed on accrued basis. MITL requires taxable profit to be determined by considering revenue net of tax deductions. Prior years' tax losses can be utilized to offset current year taxable income. Income tax is determined by applying the 30% rate on the net amount after tax losses utilization.

For tax purposes, income is considered taxable at the earlier of: (i) the time the revenue is collected, (ii) the service is provided or (iii) the time of the issuance of the invoice. Expenses are deductible for tax purposes generally on accrual basis, with some exceptions, once the requirements established in the tax law are fulfilled.

Central America (Guatemala, Costa Rica and El Salvador)

According to Guatemala Corporate Income tax law, under the regime on profits from business activities, net operating losses cannot offset taxable income in prior or future years. For the year ended December 31, 2019 and 2018, the Company obtained a net operating (loss) income of Ps.(1,085) and Ps.8,549, respectively.

According to Costa Rica Corporate Income tax law, under the regime on profits from business activities, net operating losses can offset taxable income in a term of three years. For the years ended December 31, 2019, 2018 and 2017, the Company generated net operating losses for an amount of Ps.50,246, Ps.170,731 and Ps.300,613, respectively, for which no deferred tax asset has been recognized.

According to El Salvador Corporate Income tax law, under the regime on profits from business activities, net operating losses cannot offset taxable income in prior or future years. For the year ended December 31, 2019, the Company obtained a net operating loss of Ps.32,494.

e) An analysis of consolidated deferred taxes is as follows:

	2019		2018		2017	
	Consolidated statement of financial position	Consolidated statement of operations	Consolidated statement of financial position	Consolidated statement of operations	Consolidated statement of financial position	Consolidated statement of operations
			Adjusted		Adjusted	
Deferred income tax assets:						
Lease liability	Ps. 12,155,114	Ps. 313,137	Ps. 11,841,977	Ps. 2,108,422	Ps. 9,733,555	Ps. (59,235)
Unearned transportation revenue	797,063	61,708	735,355	699,414	35,941	(29,814)
Extension lease agreement	459,343	(137,639)	596,982	82,421	514,562	113,443
Intangible	446,849	(13,741)	460,590	(2,621)	463,211	(18,415)
Provisions	351,345	60,655	290,690	(4,175)	294,865	(48,439)
Tax losses available for offsetting against future taxable income	303,970	(5,350)	309,320	(33,759)	343,079	309,758
Allowance for doubtful accounts	14,089	9,187	4,902	(2,422)	7,324	433
Employee benefits	11,463	2,958	5,446	1,456	5,786	1,222
Employee profit sharing	7,227	2,734	4,493	1,777	2,716	(490)
Non derivative financial instruments	4,229	4,229	–	–	–	–
Financial instruments	(38,865)	–	35,956	–	(49,151)	–
	14,511,827	297,878	14,285,711	2,850,513	11,351,888	268,463
Deferred income tax liabilities:						
Right of use asset	10,236,929	672,311	9,564,618	2,096,458	7,468,160	354,352
Supplemental rent	1,706,949	111,430	1,595,519	32,156	1,563,363	223,753
Rotable spare parts, furniture and equipment, net	884,476	239,452	645,024	168,107	476,917	108,890
Prepaid expenses and other assets	179,061	88,683	90,378	(25,686)	116,064	(239,586)
Inventories	90,287	1,392	88,895	726	88,169	15,286
Other prepayments	27,728	(4,329)	32,057	(1,212)	33,269	(7,023)
	13,125,430	1,108,939	12,016,491	2,270,549	9,745,942	455,672
	Ps. 1,386,397	Ps. (811,061)	Ps. 2,269,220	Ps. 579,964	Ps. 1,605,946	Ps. (187,209)

Reflected in the consolidated statement of financial position as follows:

	2019	2018	2017
Deferred tax assets	Ps. 1,542,536	Ps. 3,392,240	Ps. 3,222,228
Deferred tax liabilities	(156,139)	(1,123,020)	(1,616,282)
Deferred tax assets, net	Ps. 1,386,397	Ps. 2,269,220	Ps. 1,605,946

A reconciliation of deferred tax asset, net is as follows:

	2019	2018	2017
Opening balance as of January 1,	Ps. 2,269,220	Ps. 1,605,946	Ps. 1,780,605
Deferred income tax (expense) benefit during the current year recorded on profits	(811,061)	579,964	(187,209)
Deferred income tax (expense)benefit during the current year recorded in accumulated other comprehensive income (loss)	(71,762)	83,310	12,550
Closing balance as of December 31,	Ps. 1,386,397	Ps. 2,269,220	Ps. 1,605,946

At December 31, 2019, 2018 and 2017, the table shown above includes deferred income tax asset recognized by Concesionaria and Operaciones Volaris (2018), Comercializadora (2017) for tax losses carry–forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

According to IAS 12, *Income Taxes*, a deferred tax asset should be recognized for the carry–forward of available tax losses to the extent that it is probable that future taxable income will be available against which the available tax losses can be utilized. In these regards, the Company has recognized at December 31, 2019, 2018 and 2017 a deferred tax asset for tax losses of Ps.303,970, Ps.309,320 and Ps.343,079, respectively.

During 2017, the Company recognized a deferred tax asset for the carry–forward of available tax losses of Concesionaria, Comercializadora and Operaciones Volaris, based on the positive evidence of the Company to generate taxable profit related to the same taxation authority against which the available tax losses can be utilized before they expire. Positive evidence includes Concesionaria's actions to increase its aircraft fleet in the following years, increase in flight frequencies, and routes, inside and outside of Mexico; the profit of Comercializadora and Operaciones Volaris, respectively, is derived directly from Concesionaria's operations.

An analysis of the available tax losses carry–forward of the Company at December 31, 2019 is as follows:

Year of loss		Historical loss		Adjusted tax loss		Utilized		Total remaining amount	Year of expiration
2016	Ps.	26,658	Ps.	26,658	Ps.	26,658	Ps.	–	2019
2017		228,413		228,413		88,752		139,661	2020
2017		1,068,498		1,176,068		218,110		957,958	2027
2018		170,049		170,049		–		170,049	2021
2018		3,192		3,299		3,299		–	2028
2019		50,246		50,246		–		50,246	2024
2019		4,922		5,028		–		5,028	2029
	Ps.	1,551,978	Ps.	1,659,761	Ps.	336,819	Ps.	1,322,942	

A breakdown of available tax loss carry–forward of Controladora and its subsidiaries at December 31, 2019 is as follows:

		Historical loss		Adjusted tax loss		Utilized		Total remaining amount
Comercializadora	Ps.	4,922	Ps.	5,028	Ps.	–	Ps.	5,028
Concesionaria		1,067,836		1,175,351		217,393		957,958
Operaciones Volaris		3,853		4,016		4,016		–
Vuela Aviación		475,367		475,366		115,410		359,956
	Ps.	1,551,978	Ps.	1,659,761	Ps.	336,819	Ps.	1,322,942
Unrecognized NOLs								(309,710)
							Ps.	1,013,232
Tax rate								30%
Deferred income tax							Ps.	303,970

f) At December 31, 2019 the Company had the following tax balances:

		2019
Adjusted contributed capital account (Cuenta de capital de aportación or "CUCA")	Ps.	4,028,022
CUFIN*		3,847,209

* The calculation comprises all the subsidiaries of the Company.

20. OTHER OPERATING INCOME AND EXPENSES

An analysis of other operating income is as follows:

		2019		2018		2017
Gain on sale and leaseback	Ps.	284,759	Ps.	609,168	Ps.	65,886
Loss on sale of rotable spare parts furniture and equipment		(8,954)		(2,356)		(908)
Administrative benefits		–		–		27,180
Other income		51,403		15,161		4,607
	Ps.	327,208	Ps.	621,973	Ps.	96,765

An analysis of other operating expenses is as follows:

		2019		2018		2017
Administrative and operational support expenses	Ps.	581,181	Ps.	536,079	Ps.	539,101
Technology and communications		381,055		385,841		373,394
Passenger services		65,477		70,337		59,261
Insurance		74,661		60,892		54,569
Others		10,553		5,949		7,933
	Ps.	1,112,927	Ps.	1,059,098	Ps.	1,034,258

21. FINANCE INCOME AND COST

An analysis of finance income is as follows:

		2019		2018		2017
Interest on cash and equivalents	Ps.	201,191	Ps.	152,437	Ps.	105,151
Interest on asset backed trust notes		6,525		–		–
Interest on recovery of guarantee deposits		83		166		644
	Ps.	207,799	Ps.	152,603	Ps.	105,795

An analysis of finance cost is as follows:

	2019		2018		2017	
Leases financial cost	Ps.	2,128,162	Ps.	1,755,978	Ps.	1,428,924
Interest on asset backed trust notes		80,314		–		–
Cost of letter credit notes		49,856		57,277		42,294
Bank fees and others		3,607		6,141		5,279
Interest on debts and borrowings*		1,660		56,916		37,565
Other finance costs		6,230		–		1,219
	Ps.	2,269,829	Ps.	1,876,312	Ps.	1,515,281

* The borrowing costs related to the acquisition or construction of qualifying assets are capitalized as part of the cost of the asset (Note 12). Interest expense not capitalized is related to the short–term working capital facility from Citibanamex.

	2019		2018		2017	
Interest on debts and borrowings	Ps.	457,973	Ps.	414,836	Ps.	230,954
Capitalized interest (Note 12)		(456,313)		(357,920)		(193,389)
Net interest on debts and borrowing in the consolidated statements of operations	Ps.	1,660	Ps.	56,916	Ps.	37,565

22. COMPONENTS OF OTHER COMPREHENSIVE INCOME (LOSS)

An analysis of the other comprehensive income for the years ended December 31, 2019, 2018 and 2017 is as follows:

	2019		2018		2017	
Derivative financial instruments:						
Reclassification of call options and forwards during the year to profit or loss (Note 4)	Ps.	–	Ps.	(455,009)	Ps.	52,097
Extrinsic value of changes on jet fuel Asian call options		11,148		227,509		(81,182)
Extrinsic value of changes on jet fuel Zero cost collars		256,515		(122,948)		–
(Loss) gain of the matured foreign currency forward contracts		(14,241)		66,757		(13,380)
Gain of the not–yet matured interest rate swap contracts		–		–		317
Loss of the interest rate Cap		(4,023)		–		–
Non derivative financial instruments		14,096		–		–
Total	Ps.	263,495	Ps.	(283,691)	Ps.	(42,148)

23. COMMITMENTS AND CONTINGENCIES

Aircraft related commitments and financing arrangements

Committed expenditures for aircraft purchase and related flight equipment related to the Airbus purchase agreement, including estimated amounts for contractual prices escalations and pre–delivery payments, will be as follows:

	Commitment expenditures in U.S. dollars		Commitment expenditures equivalent in Mexican pesos (1)	
2020	US$	141,218	Ps.	2,661,281
2021		164,856		3,106,744
2022		606,842		11,436,059
2023		793,967		14,962,467
2024 and thereafter		2,688,321		50,661,947
	US$	4,395,204	Ps.	82,828,498

(1) Using the exchange rate as of December 31, 2019 of Ps.18.8452.

All aircraft acquired by the Company through the Airbus purchase agreement through December 31, 2019 have been executed through sale and leaseback transactions.

In addition, we have commitments to execute sale and leaseback over the next three years. The estimated proceeds from these commitments are as follows:

	Aircraft sale prices estimated			
	in U.S. dollars		in Mexican pesos	
2020	US$	396,470	Ps.	7,471,556
2021		691,940		13,039,748
2022		102,400		1,929,748
	US$	1,190,810	Ps.	22,441,052

The future lease payments for these non–cancellable sale and leaseback contracts are as follows:

	Aircraft leases			
	in U.S. dollars		in Mexican pesos	
2020	US$	20,847	Ps.	392,866
2021		57,190		1,077,757
2022		86,025		1,621,158
2023		88,259		1,663,259
2024 and thereafter		806,786		15,204,044
	US$	1,059,107	Ps.	19,959,084

Litigation

The Company is a party to legal proceedings and claims that arise during the ordinary course of business. The Company believes the ultimate outcome of these matters will not have a material adverse effect on the Company's financial position, results of operations, or cash flows.

24. OPERATING SEGMENTS

The Company is managed as a single business unit that provides air transportation services. The Company has two geographic segments identified below:

	2019		2018		2017	
Operating revenues:						
Domestic (Mexico)	Ps.	24,594,797	Ps.	18,493,476	Ps.	17,272,946
International:						
United States of America and Central America*		10,230,824		8,811,674		7,515,240
Non–derivative financial instruments		(72,949)		–		–
Total operating revenues	Ps.	34,752,672	Ps.	27,305,150	Ps.	24,788,186

* United States of America represents approximately 29%, 31% and 29% of total revenues from external customers in 2019, 2018 and 2017, respectively.

Revenues are allocated by geographic segments based upon the origin of each flight. The Company does not have material non–current assets located in foreign countries.

25. SUBSEQUENT EVENTS

Subsequent to December 31, 2019 and through April 27, 2020:

a) On February 21, 2020, the Mexican federal government through the Mexican Communications and Transportation Ministry granted to the Company, through its subsidiary Concesionaria Vuela Compañía de Aviación, S.A.P.I. de C.V. the renewal of the Concession to provide air transportation services for passengers, cargo and mail throughout Mexico and abroad, contained in the Title TAN–OR–VCV, for a period of twenty (20) years starting from May 9, 2020.

b) Subsequent to the closing date of the financial statements as of December 31, 2019, there has been a significant variation in the exchange rate from Ps.18.8452 to Ps.24.6230 per dollar to April 27, 2020 which represent a depreciation of 30.7% of the Mexican Peso.

c) The ongoing outbreak of COVID–19 was first reported on December 31, 2019 in Wuhan, Hubei Province, China. From Wuhan, the disease spread rapidly to other parts of China as well as other countries, including Mexico and the United States, growing into a global pandemic. Since the outbreak began, countries have responded by taking various measures including imposing quarantines and medical screenings, restricting travel, limiting public gatherings and suspending certain activities. The Company decreased capacity as measured by available seat miles (ASMs) for the month of April 2020 by approximately 80% of total operation versus the originally published schedule, due to the negative effects of COVID–19, declared a pandemic by the World Health Organization, and related governmental travel restrictions, which have significantly reduced the demand for global air transportation.

On April 21, 2020, the General Health Council (GHG) announced that Mexico is in "Phase 3" of the spread of the COVID–19, the most serious stage, as transmission of the virus is intensifying. Mexico has extended governmental restrictions to contain the COVID–19 until May 30, 2020 and plans to begin easing up restrictions from June 1, 2020 onwards if the current measures are successful. As result, Volaris will carry out a capacity reduction for the month of May 2020 of approximately 90% versus the originally scheduled capacity.

d) The Company has taken actions to preserve liquidity and sustain its operations during the period, establishing supplier's payment deferral agreements, reducing management´s and operational staff compensations under temporary and voluntary leave of absence, deferring and cutting capital expenditures to the minimum and non–essential operational expenses and other certain measures, while the operations are significantly reduced as a result of the COVID–19, pandemic.

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