THE ROUTE FORWARD

2013
ANNUAL
REPORT

volaris

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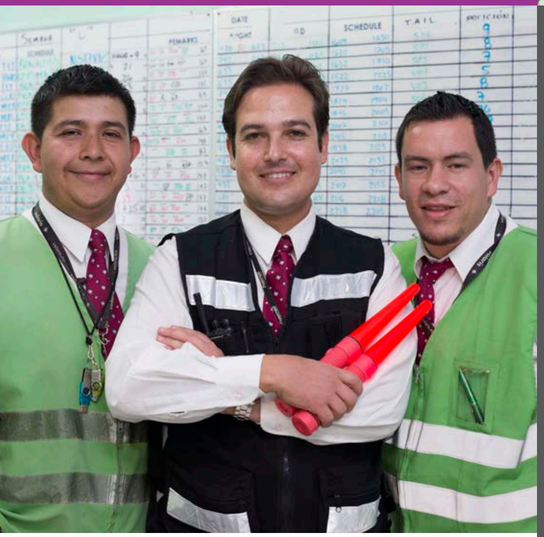


Key Milestones

We received 7 new A320 and returned 4 A319s, maintaining the youngest fleet in Mexico.

Global Initial Public Offering of US$398 million on the Mexican Stock Exchange (BMV) and the New York Stock Exchange (NYSE).

Generation of 43% of the passenger volume growth in 2013 increasing our market share to 23% in both domestic and international markets, effectively becoming the second largest operator among Mexican carriers, according to the Mexican DGAC (*Dirección General de Aeronáutica Civil*).

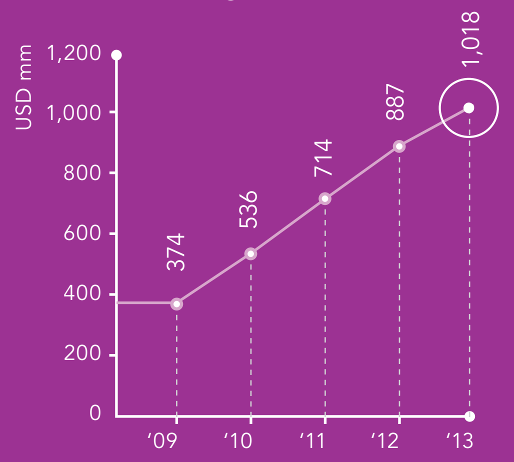
Migration to our new reservations system, called Navitaire, which will enable us to further develop our non-ticket revenues, and helped us re-launch our new webpage.

Launch of 14 new routes, 11 domestic and 3 international and started operations to Phoenix, San Antonio and Chicago – O'Hare in the United States.

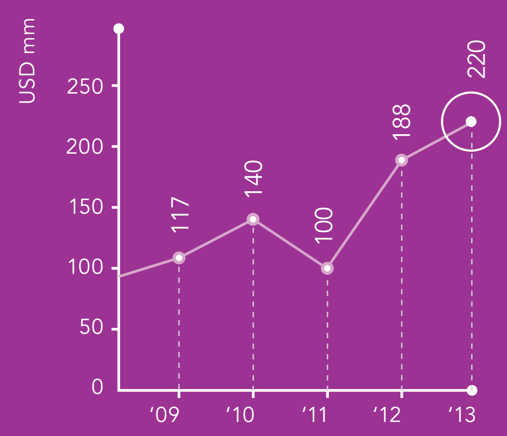
FINANCIAL HIGHLIGHTS

Leading financial performance on strong revenue growth

REVENUE(1)



ADJ. EBITDAR (1)



REVENUE CAGR '09-'13

28%

2013 ADJ. EBITDAR MARGIN

21.6%

Note:
(1) Converted using an average MXN/USD exchange rate for the correspoding period
Source: Company data, airlines public information.

Financial Highlights

Balance sheet well positioned for growth

Our successful IPO provided sufficient capital for growth over the next years. We have a strong balance sheet, with cash of 19% of LTM revenues and net debt negative of Ps.-1.9 billion.

Unaudited (In Mexican pesos, except otherwise indicated)	2013 (US Dollars)*	2013	2012	Variation (%)
Total operating revenues (millions)	994	13,002	11,686	11.3%
Total operating expenses (millions)	970	12,685	11,308	12.2%
EBIT (millions)	24	317	378	(16.1%)
EBIT margin	2.4%	2.4%	3.2%	(0.8pp)
Adjusted EBITDA (millions)	47	619	589	5.0%
Adjusted EBITDA margin	4.8%	4.8%	5.0%	(0.2pp)
Adjusted EBITDAR (millions)	215	2,806	2,475	13.4%
Adjusted EBITDAR margin	21.6%	21.6%	21.2%	0.4pp
Net income (millions)	20	265	203	30.5%
Net margin	2.0%	2.0%	1.7%	0.3pp
Net income excluding special items (millions)**	29	379	203	86.2%
Net margin excluding special items**	2.9%	2.9%	1.7%	1.2pp
Earnings per share:				
Basic (cents)	2.4	31.0	29.4	5.6%
Diluted (cents)	2.4	31.0	29.4	5.6%
Earnings per share excluding special items:				
Basic (cents)**	3.4	44.1	29.4	50.2%
Diluted (cents)**	3.4	44.1	29.4	50.2%
Earnings per ADS*:**				
Basic (cents)	24	310.4	293.9	5.6%
Diluted (cents)	24	310.4	293.9	5.6%
Earnings per ADS excluding special items*:**				
Basic (cents)	33.8	441.3	293.9	50.2%
Diluted (cents)	33.8	441.3	293.9	50.2%
Weighted average shares outstanding:				
Basic	-	865,579,397	732,441,337	18.2%
Diluted	-	865,579,397	732,441,337	18.2%
Available seat miles (ASMs) (millions)	-	10,899	9,244	17.9%
Revenue passenger miles (RPMs) (millions)	-	9,003	7,668	17.4%
Load factor	-	82.6%	82.9%	(0.3pp)
Total operating revenue per ASM (TRASM) (cents)	9.1	119.3	126.4	(5.6%)
Passenger revenue per ASM (RASM) (cents)	7.8	102.0	110.1	(7.3%)
Passenger revenue per RPM (yield) (cents)	9.4	123.5	132.7	(7.0%)
Average fare	95.1	1,243	1,374	(9.5%)
Non-ticket revenue per passenger	16.1	211	204	3.5%
Operating expenses per ASM (CASM) (cents)	8.9	116.4	122.3	(4.9%)
CASM ex fuel (cents)	5.3	69.7	71.2	(2.0%)
Booked passengers (thousands)	-	8,942	7,408	20.7%
Departures	-	68,716	58,806	16.9%
Block hours	-	183,211	158,361	15.7%
Fuel gallons consumed (millions)	-	129.1	112.2	15.0%
Average economic fuel cost per gallon	3.0	39.4	42.1	(6.5%)
Aircraft at end of period	-	44	41	7.3%
Average aircraft utilization (block hours)	-	12.5	12.4	0.5%
Average exchange rate	-	12.8	13.2	(3.0%)

* Peso amounts were converted to U.S. dollars at the rate of Ps.13.0765 for convenience purposes only
** Excludes debt prepayment penalty of Ps.65 million, and reservation system migration costs and other non-recurring items of Ps.48 million
*** Each ADS represents ten CPOs, and each CPO represents a financial interest in one Series A share

MESSAGE FROM OUR CEO

2013 was a crucial year for Volaris. We continued building our market in Mexico and the US, expanding our margins and growing revenues. Our Ultra-Low-Cost Carrier Model was developed with both our long term opportunity and Mexico's short term volatility in mind; it competes most successfully in this environment, creating sustainable value.

The airline industry keeps growing and getting more competitive. For this reason, at Volaris we strive to continue offering low costs and quality services. Our comprehensive strategy *"Tú decides"* has placed us in a situation of greater competitiveness, given that we have stayed focused on providing low fares and a high quality flying experience; enabling our Clients to decide and pay for a range of optional products and services for additional fees. In 2013, we migrated to our new reservations system, which will enable us to further develop our non-ticket revenues and helped us re-launch our new purchase friendly web page.

This year we had a successful Global Initial Public Offering of US$398 million on the Mexican Stock Exchange (BMV) and the New York Stock Exchange (NYSE), becoming the first Mexican airline to trade simultaneously on both exchanges. Thus, we reaffirm our long term growth opportunity, and our ability to surpass challenges the market has, such as a slower economy in Mexico and a rapid growth in the air travel market.

We continue our substantial expansions to renew our commitment to offer the best traveling experiences for our Clients. We achieved successful results for our operational network, adding a significant amount of departures and ASMs. Furthermore, we launched 14 new routes, 11 domestic and three international, and started operations to Phoenix, San Antonio and Chicago – O'Hare in the United States. Despite our focus on the domestic market, we have maintained our number two position in international markets among Mexican carriers, offering us significant expansion opportunities.

We closed the year with 80 routes, connecting 33 cities in Mexico and 13 in the United States, with an average of over 200 daily flight segments. We transported over 8'942,000 Clients, showing a 20.7% increase over 2012. In consequence, we generated 43% of the passenger volume growth in 2013 and increased our market shares to 23%, becoming the second largest operator among Mexican carriers.

We maintain the youngest fleet in Mexico, with an average age of 4.2 years. On 2013 we received seven new Airbus A320 aircraft, six of them with sharklets. The latter ones will help us achieve fuel, CO_2 and cost savings. As of December, 2013 our fleet was comprised of 44 aircraft.

At Volaris, we are aware that our permanence as a company is based on the creation of value for our stakeholders in Mexico and abroad, in a steady, consistent, balanced and responsible manner. Therefore, we strive to have a positive and sustainable impact on the development of the country, society, environment and the communities where we operate. Through our "Flying Together" campaign, we execute concrete actions to support causes which reinforce our social commitment.

On 2013, our most important ones were:

- Socially Responsible Company certification (ESR) for the fourth consecutive year, Gender Equity Certification (MEG), and The Code – ECPAT Certification against children and teenagers' sexual exploitation.
- Successful transportation of 56 organs and tissues for transplants.
- Collection of Ps.1 million with our Carbon Offset Program since it started, to support the *Sierra Gorda's* biosphere reserve in Queretaro.

> **"Global Initial Public Offering of US$398 million on the Mexican Stock Exchange (BMV) and the New York Stock Exchange (NYSE)"**

On 2013 we proved our business model is successful, not only with our modern fleet and expansion on routes, but also with the strengthening of our unbundled fare strategy and culture. This year we proved we are capable of creating and living the best travel experiences, through firm commitment, effort and the highest levels of business ethics, personal integrity and compliance. I want to thank all our Ambassadors, investors, Clients and each person involved in making Volaris a success; if we continue along this path, I'm sure 2014 will continue to bring remarkable success for us.

ENRIQUE BELTRANENA
Chief Executive Officer

COMPANY OVERVIEW

Who we are

Volaris is an ultra-low-cost carrier (ULCC), with "point to point" service, serving Mexico and the US. With the "The Volaris Ultra-Low-Cost Carrier Model" we offer low base fares to build our market, providing quality service and extensive customer choice. We offer more than 200 daily flight segments on routes that connect 33 cities in Mexico and 13 cities in the United States with the youngest aircraft fleet in Mexico. Volaris, proudly Mexican, is recognized as one of the leading new companies in the country.

ROUTES
46

ROIC
15%

AMBASSADORS
2,692

FLEET

20 A319 aircraft

24 A320 aircraft

BOOKED PASSENGERS
8.9 million
20.7% increase

2013 Results

RPMs increased
17.4%

CASM
Ps.116.4 cents

4.9% decrease

TOTAL OPERATING REVENUES
Ps.13,002 million

INCREASE OF
11.3% year over year

EBITDAR
Ps.2,806 million

13.4% increase

Margin of **22%**

NET INCOME
Ps.379 million

increase
86%
(Ps.44.1 cents per share / US$33.8 cents per ADS)

Mission, Vision, Pillars

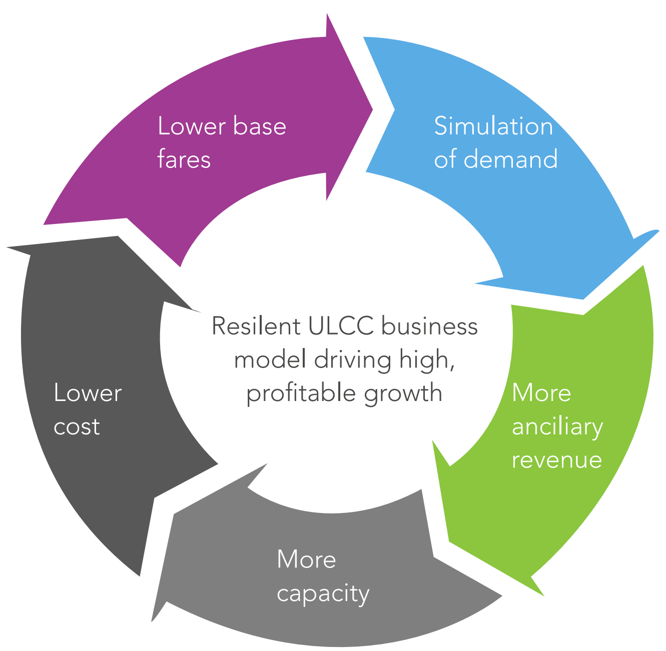
MISSION:
With the best people and low costs, we enable more people to travel… well!

VISION:
Transcend by creating and living the best travel experiences.

PILLARS:
Safety
Customer Service
Sustained Profitability

ULCC Business model

- Low-cost
- Efficient asset utilization
- Unbundled revenue sources



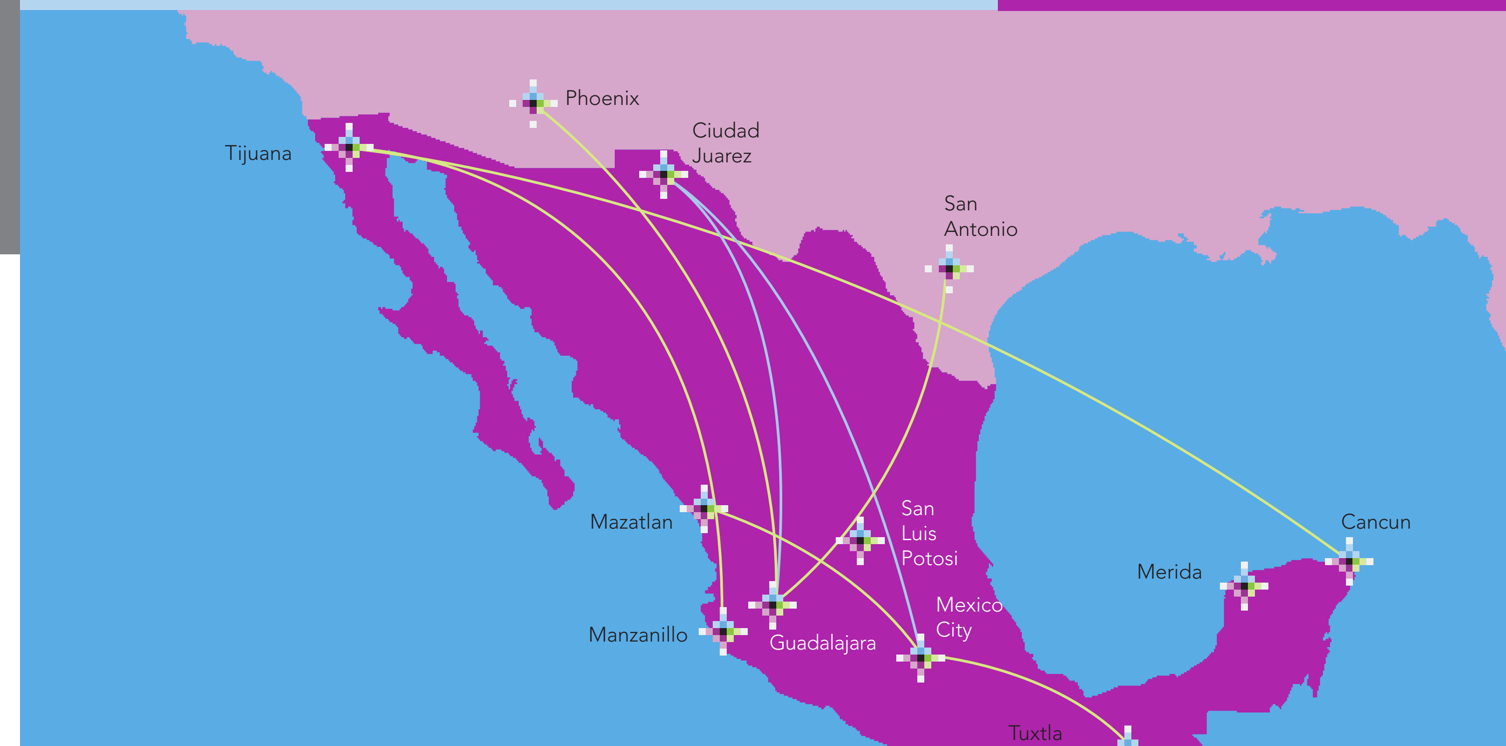
We stimulate new demand in the Mexican market through an aggressive revenue management strategy that drives lower fares, higher load factors and higher non-ticket revenue.

Our Network

16.9%
more departures

We continue our substantial expansions to provide more Clients the best traveling experience.

17.9%
more ASMs



NEW ROUTES

- Resume flights to Merida
- Tuxtla Gutierrez, Chiapas – Mexico City
- Tijuana - Cancun
- Ciudad Juarez – Mexico City
- Ciudad Juarez – Guadalajara
- Mazatlan – Mexico City
- Manzanillo – Tijuana
- Phoenix – Guadalajara / 11th US destination
- San Luis Potosi
- San Antonio – Guadalajara / 12th US destination
- Chicago O'Hare / 13th US destination

Our Fleet

- Switch from A319 to A320
- Sharklet technology
- Maintain high utilization

FLEET

24 A320 aircraft

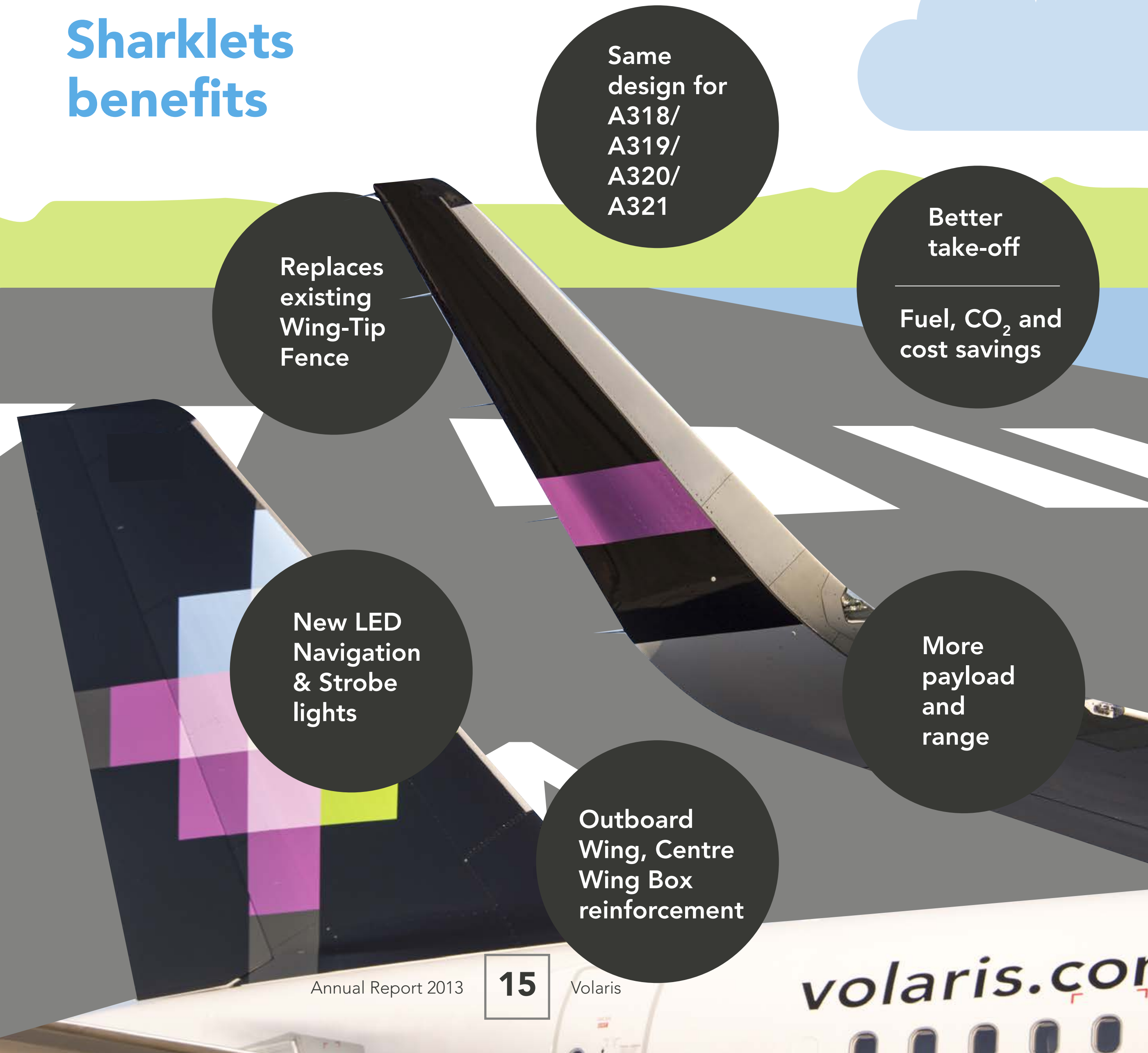
20 A319 aircraft

We focus on fleet utilization and efficiency to acquire higher revenue and lower costs. We are the leaders in terms of utilization at 12.5 flight hours.

44 aircraft

- Average age of 4.2 years
- Seven new Airbus A320 aircraft, six of them with sharklets
- Creation of a retrofit program with our A320's to further increase density from 174 to 179 seats

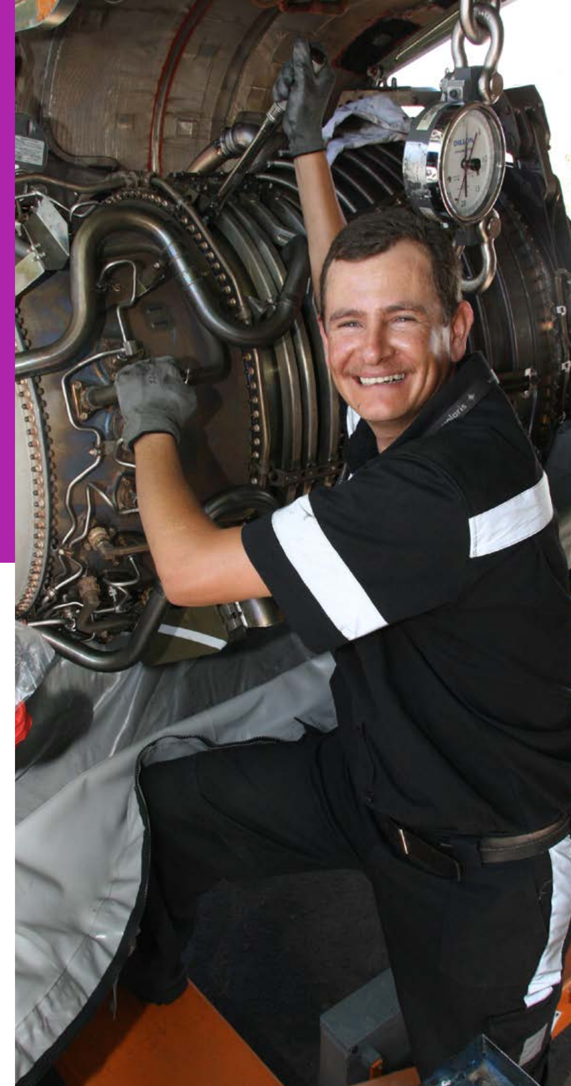
Sharklets benefits



Competitive Advantages

Lowest unit cost structure than any publicly traded airline in Latin America and the US with CASM of Ps. 1.164 (US$ 0.089) due to:

- Efficient and Uniform Fleet
- High Asset Utilization
- Direct Sales Distribution
- Variable, Performance-Based Compensation Structure



ANCILLARY REVENUE GENERATION. Increased non-ticket revenue per passenger flight segment to US$16.1 in 2013 due to our strategy *"Tú decides"* (You decide).

Strong company culture, experienced management team and principal shareholders.

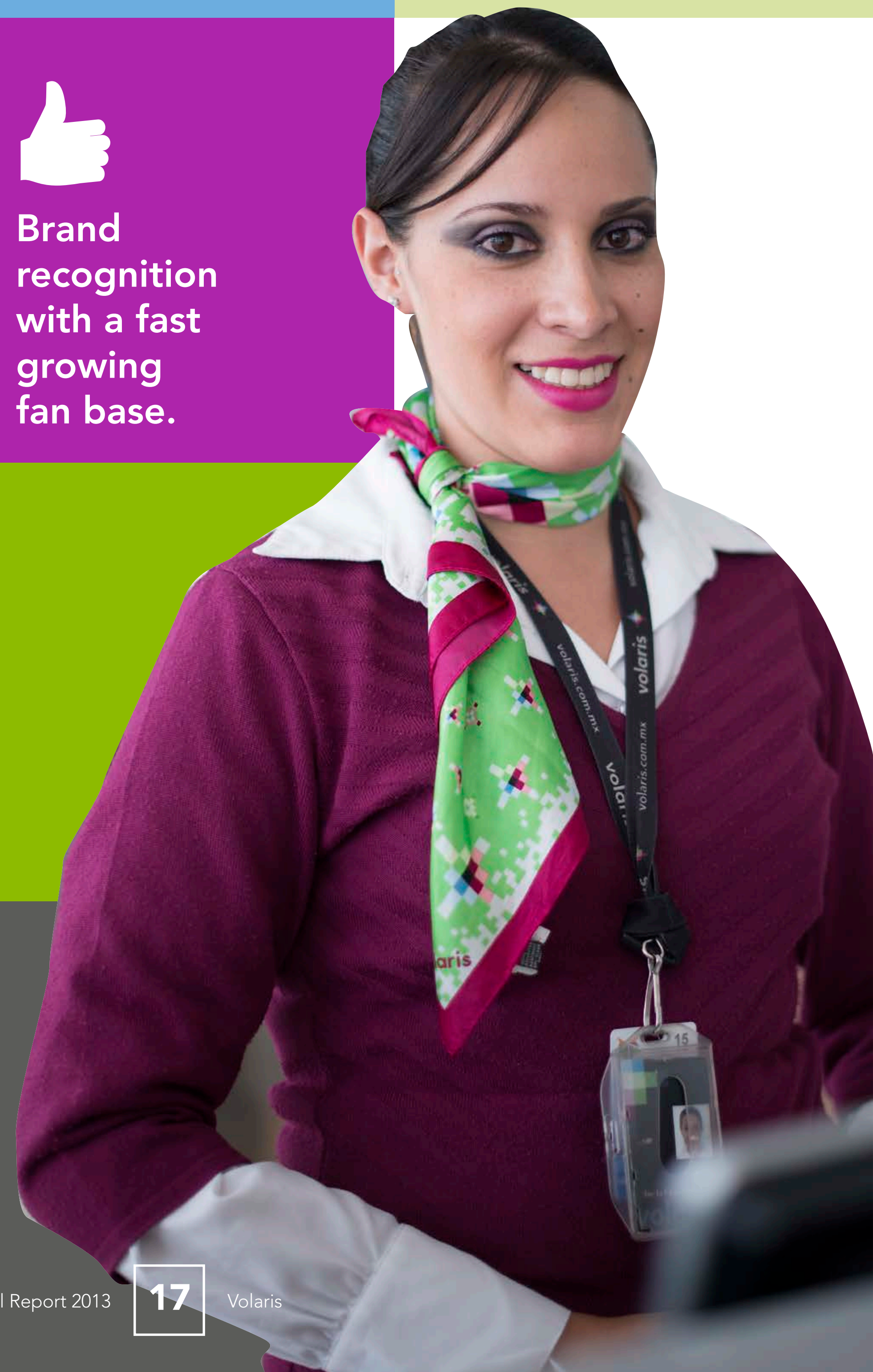
Care focus on VFR, cost-conscious business people and leisure travelers in high growth markets.

Market leading efficiency and performance. Average load factor of 82.6%.

Disciplined approach to market and route selection. Over 50% passenger market share in 51 of our 80 routes.

Brand recognition with a fast growing fan base.

Balance sheet positioned for growth.



COMMERCIAL
STRATEGY

Low fares + high quality flying experience

We strive to deliver on-time performance and a positive traveling experience to all our Clients. We have developed a strategy focused on providing low fares and enabling our passengers to decide and pay for a range of optional products and services for additional fees. Our unbundled strategy *"Tú decides"* – You decide – offers a wide selection of additional services (ancillary products) throughout the complete cycle of flying with us.

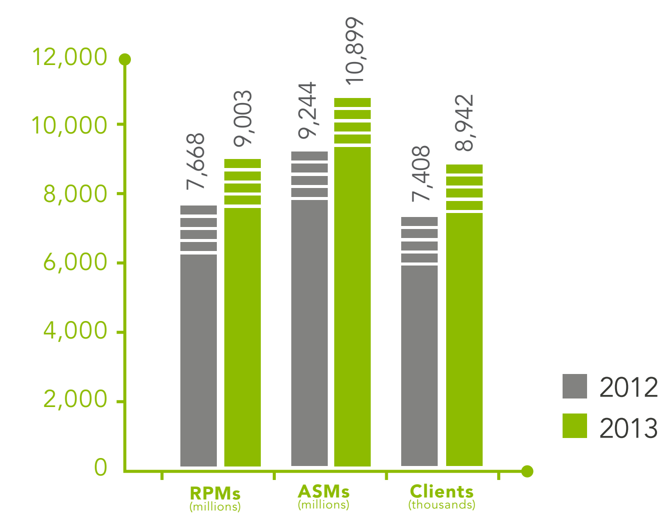
Pre-flight	Flight planning	At the airport	Onboard aircraft	Post-flight
• V-Club subscription (51k active suscriptions) • Co-branded credit cards (50k active holders) • V-shop	• Seat assignment • Change / booking fees • Insurance	• Excess baggage • Checked bag limited to 1 piece (25 kgs.) • Carry-on (oversized) • Strollers • Priority boarding • Counters	• Advertising • Food and beverage	• Hotel rooms • Car rentals • Airport shuttle

2013 additions to our *Tú Decides* strategy:

- Renovated Baggage Policy
- On board food and beverage sales

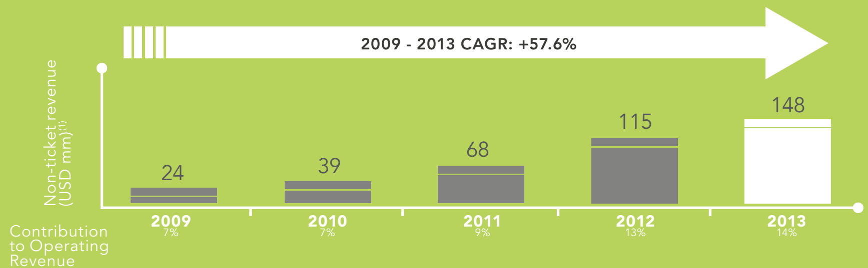
We target passengers who are visiting friends and relatives, or VFR, cost-conscious business people and leisure travelers in Mexico and select destinations in the United States. Our low fares allow us to additionally target executive and luxury bus passengers who travel more than five hours and have successfully stimulated demand for our services among them.

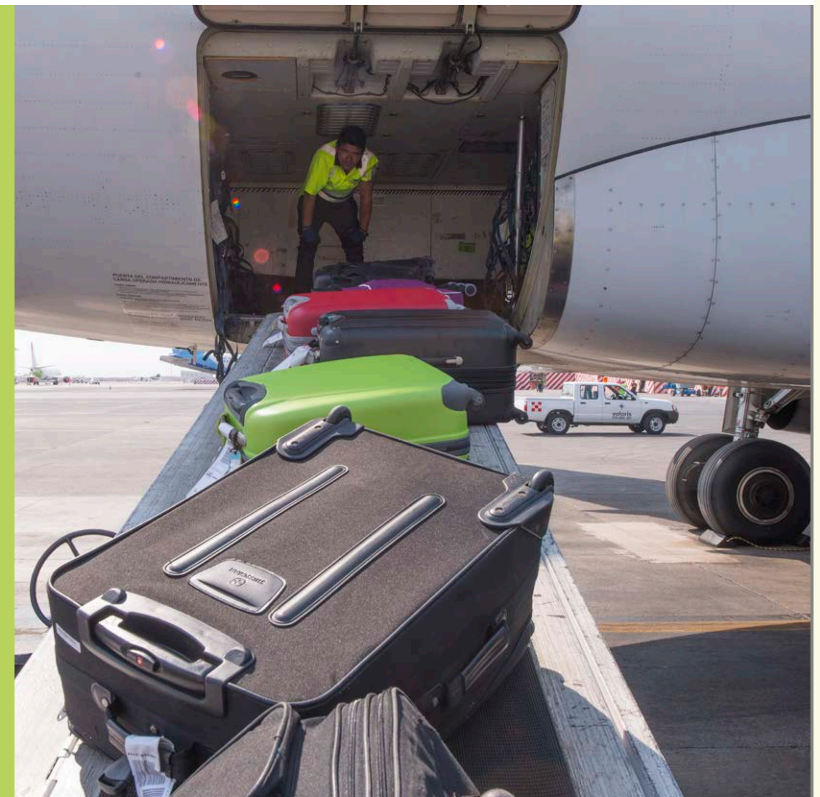
2013 RESULTS



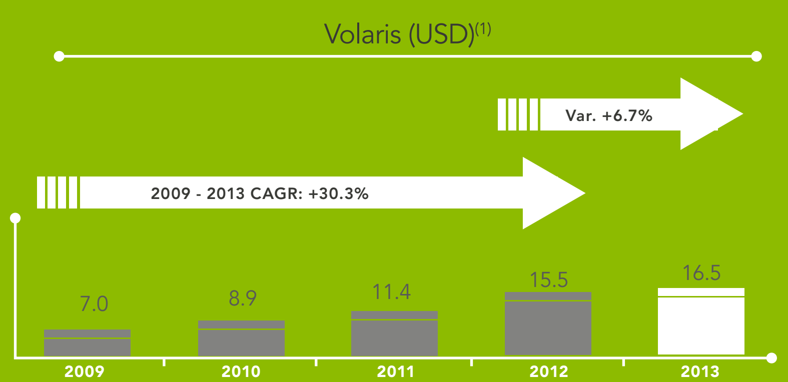
During 2013, our non-ticket revenue reached Ps.1,885 million

INCREASED CONTRIBUTION OF NON-TICKET REVENUE TO THE TOP LINE





NON-TICKET REVENUE PER PASSENGER



Notes:
(1) Converted using an average annual MXN/USD exchange rate.
Source: Company data. Airlines public information.

CARGO

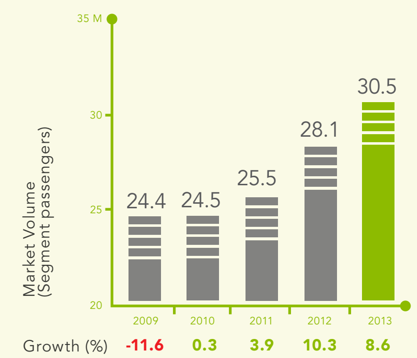
At the end of the year, the domestic market grew 3.1% vs. previous year. We continue being the second largest cargo player among commercial scheduled carriers.

Market Overview

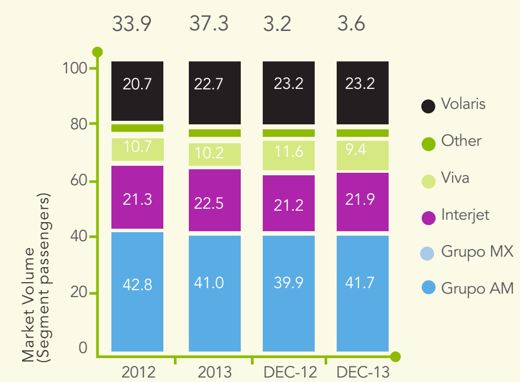
On 2013, the domestic market grew by 8.6% and reached 30.5M passengers and 8.1% internationally with a total of 30.9M passengers.

Despite our focus on the domestic market, we have maintained our number two position in international markets among Mexican carriers, offering us significant expansion opportunities.

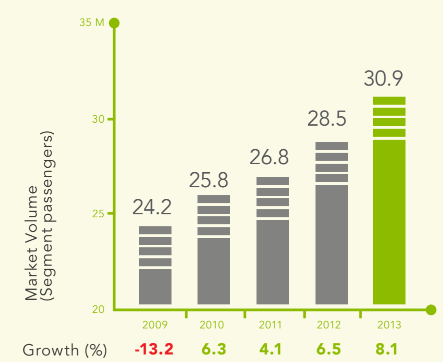
DOMESTIC



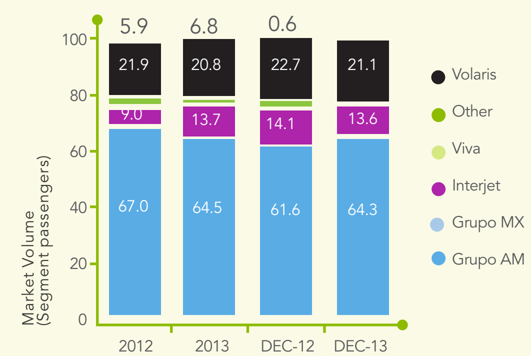
DOMESTIC



INTERNATIONAL

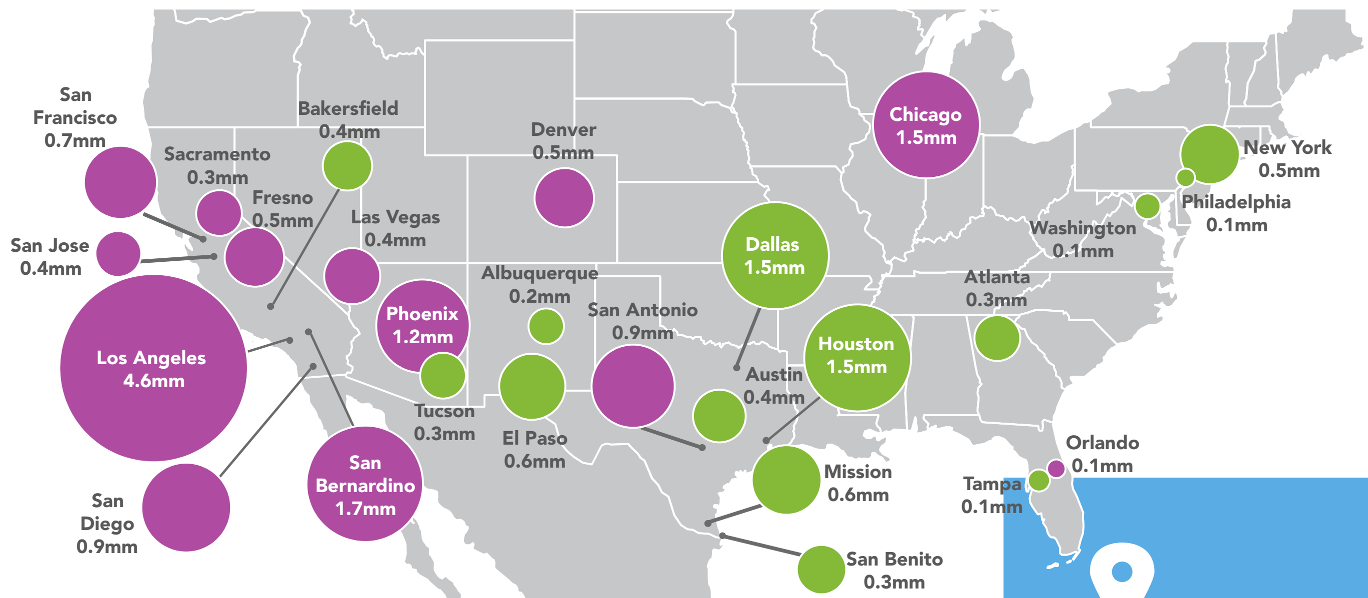


INTERNATIONAL



Source: DGAC

SUBSTANTIAL GROWTH OPPORTUNITY IN THE US-MEXICO VFR / LEISURE TRAVEL MARKET



Denotes Volaris presence (1)

Denotes other cities with large Mexican origin populations (1,2)

Notes:
(1) Represents Mexican origin population figures as per population data released on May 26, 2011
(2) Mexican origin is based on self-described ancestry, lineage, heritage, nationality group or country of birth.
Source: Pew Research Hispanic Center

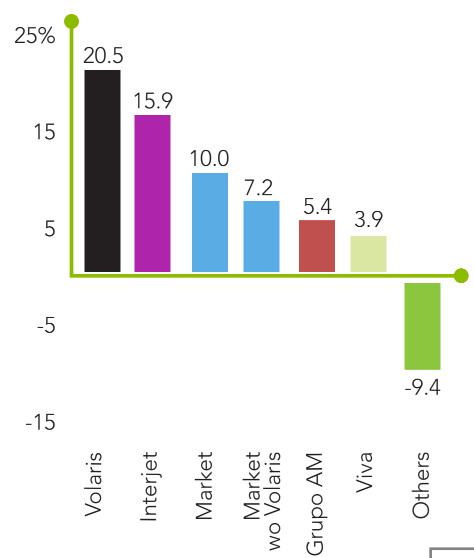
Significant Mexican origin population[2] of 33.5 million in the US.

We've had a substantial contribution to the market's growth.

This year we were the main force behind it, growing 4.6 times faster in the domestic market and 2.9 times in the international one than the rest of our competitors. Furthermore, we were the source of 43% of the growth generated by Mexican carriers.

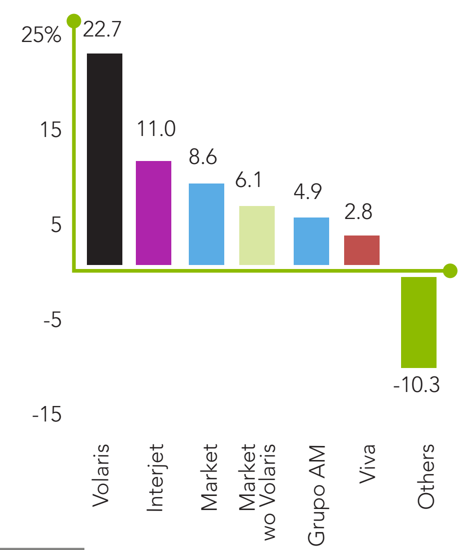
DOMESTIC MARKET

Passenger Growth - 2013
(2013 vs. 2012)



INTERNATIONAL MARKET

Passenger Growth - 2013
(2013 vs. 2012)



Source: DGAC

Market Presence

VOLARIS' DESTINATIONS

Over 200 daily flight segments connecting 33 cities in Mexico and 13 cities in the United States. We have expanded our routes from five to 80.

OPERATIONS:

- Top five airports in Mexico, based on number of passengers, comprising Cancun, Guadalajara, Mexico City, Monterrey and Tijuana.
- Thirteen cities of the United States with some of the most populous Mexican communities.

CORPORATE GOVERNANCE

At Volaris we follow the best international practices of Corporate Governance.

All members of our governance team are professionals and have vast experience and knowledge in several sectors such as aviation, business services, marketing, finance and economics.

Board of Directors

Our Board of Directors is comprised by eleven members, four of them are independent.

The members of our Board are elected annually at our ordinary general meeting of shareholders. All of them hold their positions for one year and may be reelected.

Name	Title	Alternate
Gilberto Perezalonso Cifuentes	Independent Director and Chairman of the Board	
Carlos Miguel Mendoza Valencia	Director	
Brian H. Franke	Director	Andrew Broderick
William A. Franke	Director	John R. Wilson
Harry F. Krensky	Director	Alberto Moreno Ruiz Esparza
Roberto José Kriete Ávila	Director	Rodrigo Salcedo Moore
Rodolfo Montemayor Garza	Director	Dean Donovan
Jorge Antonio Vargas Diez Barroso	Director	Marco Baldocchi Kriete
José Luis Fernández Fernández	Independent Director	
Joaquín Alberto Palomo Déneke	Independent Director	
John A. Slowik	Independent Director	

Our Board is required to approve transactions and establish guidelines involving conflicts of interest based upon the opinion of our corporate governance committee and may request the opinion of a third party expert.

Management Team

Name	Position
Enrique Beltranena Mejicano	Chief Executive Officer
Fernando Suárez Gerard	Chief Financial
Holger Blankenstein	Chief Commercial Officer
James Nides	Chief Operating Officer
Jaime Pous	General Counsel

Committees

In compliance with the Mexican Securities Market Law we have established two committees to assist our Board of Directors and Management Team with their obligations.

AUDIT AND CORPORATE GOVERNANCE COMMITTEE

Name	Position
José Luis Fernández Fernández	Chairman of the Audit and Corporate Governance Committee, Independent Director
Joaquín Alberto Palomo Déneke	Independent Director
John A. Slowik	Independent Director

COMPENSATION AND NOMINATIONS COMMITTEE

Name	Position
Roberto José Kriete Ávila	Chairman
Brian H. Franke	Member
Harry F. Krensky	Member
Rodolfo Montemayor Garza	Member

Code of Ethics

We have adopted a Code of Ethics in which we establish our foremost values, standards and the Volaris Culture, all of which regulate our daily operations. We declare our views concerning no discrimination, equal opportunities, customer service, among others.

We firmly believe in creating a satisfactory and decent work place for our Ambassadors. Therefore, they will deliver a more favorable performance and we'll provide a premium quality service for our Clients.

Each person is our most significant concern, and respecting their dignity is our foremost priority.

Risk management

Due to the fact that we operate in an extremely competitive industry, we have identified business and industry risks that may affect us.

During 2013, we received the SOX certification, guaranteeing we comply with all control requirements as a public company. We established an Internal Control Methodology which focuses on risk identification, planning and evaluation. Furthermore, all our managers, directors, CEO and CFO have been trained on this new control system.

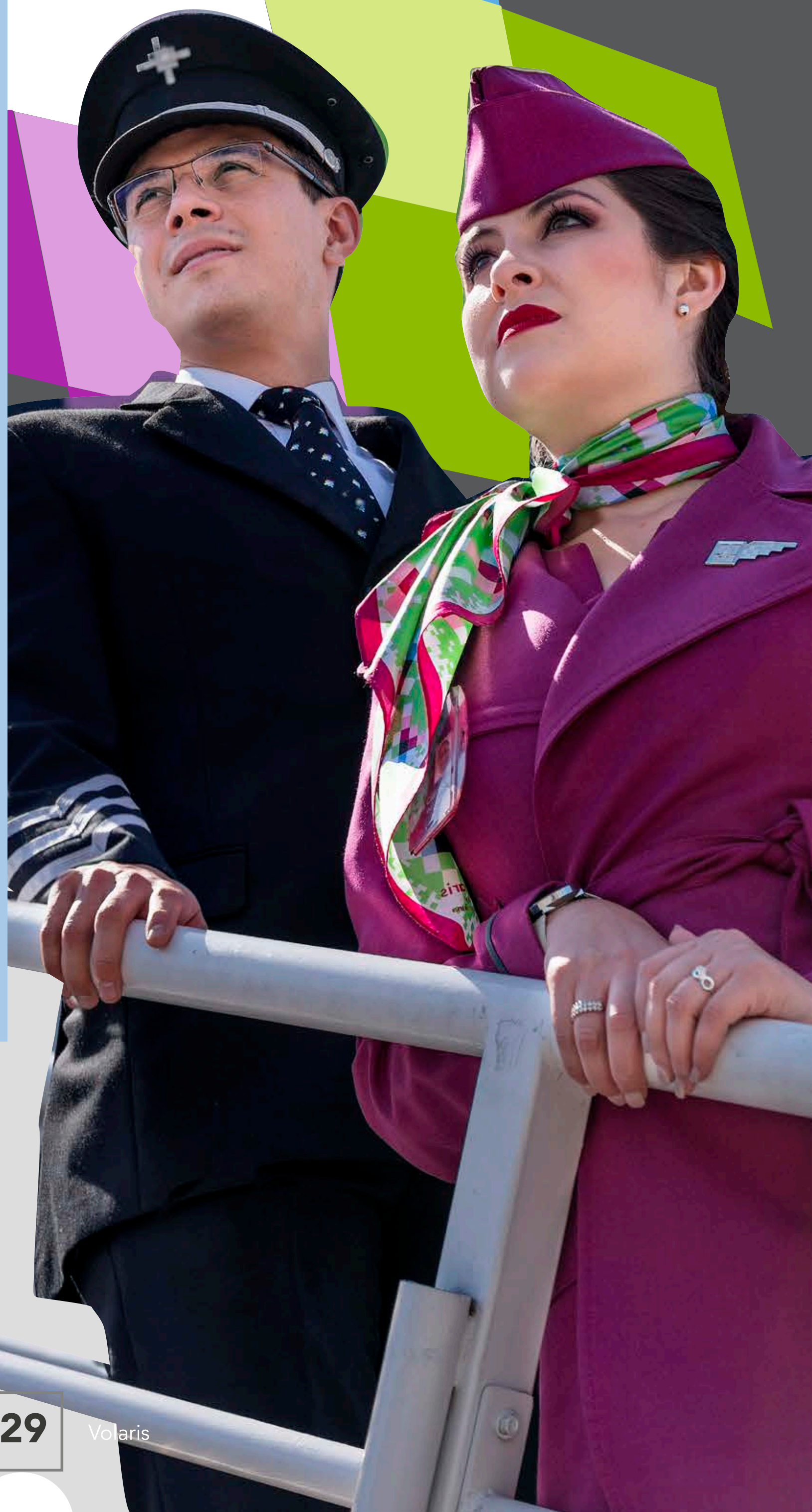
In addition, all our operations are subject to FCPA requirements to ensure transparency and no corruption at Volaris.

SOCIAL RESPONSIBILITY

We are a socially responsible Company; as such we have a firm commitment to safeguard the environment, our Clients and Ambassadors.

Some of our key milestones on Sustainability were:

- Socially Responsible Company (ESR) certification for the fourth consecutive year, Gender Equity Certification (MEG) and The Code – ECPAT Certification against children and teenagers' sexual exploitation.
- Collection of Ps.1 million with our Carbon Offset Program since it started, to support the *Sierra Gorda's* biosphere reserve in Queretaro.
- Successful transportation of 56 organs and tissues for transplants.



FINANCIAL
RESULTS

Management Discussion and Analysis

OPERATING REVENUES
2012 compared to 2013

	For the years ended December 31			
	2012	2013	Variation	
	(In thousands of pesos, except for % and operating data)			
Operating Revenues				
Passenger	10,176,747	11,117,327	940,580	9.2%
Non-ticket	1,509,668	1,885,144	**375,476**	**24.9%**
Total operating revenues	11,686,415	13,002,471	1,316,056	11.3%
Operating Data				
Capacity (in ASMs in thousands)	9,244,425	10,899,486	1,655,061	17.9%
Load factor	83%	83%	0%	(0.4%)
Booked passengers (in thousands)	7,408	8,942	1,534	20.7%
Average ticket revenue per booked passenger	1,374	1,243	(130)	(9.5%)
Average non-ticket revenue per booked passenger	204	211	7	3.5%
Revenue passenger miles (RPMs in thousands)	7,668,202	9,002,831	1,334,629	17.4%

Passenger Revenue. The 9.2% increase in passenger revenue in 2013 was primarily due to growth in ASMs capacity resulting from the incorporation of three new net aircraft. We also benefited from a 20.7% increase in booked passengers. Our traffic as measured in terms of RPMs increased by 17.4% in 2013, also resulted from the incorporation of three new net aircraft.

In addition, these year-over-year operating increases were partially offset by a lower base fare due to a slower economic environment and an increase in the domestic competitive market.

Non-ticket Revenue. The 24.9% increase in non-ticket revenue in 2013 was primarily driven by a 20.7% increase in booked passengers, which resulted in more passengers purchased non ticket items, and a 3.5% increase in average non-ticket revenue per passenger, mainly attributed to changes to our baggage policy, which significantly improved revenue by channel.

OPERATING EXPENSES, NET
2012 compared to 2013

	For the years ended December 31			
	2012	2013	Variation	
	(In thousands of pesos, except for %)			
Other operating income	(68,800)	(111,277)	(42,477)	61.7%
Fuel	4,730,089	5,085,829	355,740	7.5%
Aircraft and engine rent expense	1,885,696	2,187,339	301,643	16.0%
Salaries and benefits	1,302,971	1,563,239	260,268	20.0%
Landing, take-off and navigation expenses	1,639,945	1,923,673	283,728	17.3%
Sales, marketing and distribution expenses	751,919	704,146	(47,773)	(6.4%)
Maintenance expenses	498,836	572,114	73,278	14.7%
Other operating expenses	356,517	458,500	101,983	28.6%
Depreciation and amortization	211,002	301,531	90,529	42.9%
Total operating expenses, net	11,308,175	12,685,094	1,376,919	12.2%

Total operating expenses, net increased 12.2% in 2013 primarily as a result of the growth of our operations and higher fuel costs and the other factors described below.

Other Operating Income. Other operating income increased Ps.42.5 million, or 61.7% in 2013, primarily because of higher gains from sale and lease back transactions.

Fuel. Fuel expense increased 7.5% in 2013 as a result of an increase in fuel gallons consumed of a 15.0% increase in fuel gallons consumed of which, in turn, was due to an increase in capacity and operations, partially offset by a lower average economic fuel cost per gallon capacity and operations, partially offset by a lower average economic fuel cost per gallon. During the years ended December 31, 2013 and 2012, we entered into fuel swap contracts that gave rise to a gain of Ps.6,694 and Ps.19,984, respectively. These instruments qualify for hedge accounting. Accordingly, the effects of the hedges were presented as part of the cost of fuel.

Aircraft and Engine Rent Expense.
Aircraft and engine rent expense increased 16.0%. This increase was primarily driven by: i) seven new A-320 aircraft and a new one engine received during 2013 in the amount of Ps.195.5 million, ii) seven new A-320 aircraft received during 2012 in the amount of Ps.229.5 million and a iii) highly increase in our supplemental and contingent rents of Ps.14.6 million. These increases were partially offset by: i) a decreased in the aircraft rents, as a result of the extension of some engine lease agreements in the amount of Ps.38.9, ii) a decrase of Ps.60.4 million related to the redelivery of four aircraf to the lessors, and iii) the appreciation of approximately 3.4% of the average exchange rate of the Mexican peso against rate of the U.S. dollar in an amount of Ps.39.1 million.

Salaries and Benefits. The 20.0% increase in salaries and benefits in 2013 was primarily the result of growing our operations by 16.9% (measured in departures), which required a 4.8% increase in our total employees, primarily the pilot and flight attendant workforce required to operate the three new net aircraft incorporated to our fleet during 2013.

Landing, Take-off and Navigation Expenses.
The 17.3% increase in landing, take-off and navigation expenses in 2013 was primarily due to a 24.3% increase in the number of airports served. In addition, our booked passengers increased 20.7%, and our operations based on departures increased 16.9%.

Maintenance Expenses.
The 14.7%increase in maintenance expenses in 2013 was the result of a 7.3% increase in the size of our fleet due to the addition of three net aircraft in 2013. Additionally, the maintenance costs increased due to the aging of our fleet (4.2 years as of December 31, 2013), which requires more comprehensive work during routine scheduled maintenance, as well as the timing of the maintenance checks performed during 2013 as compared to 2012.

Other Operating Expenses.
Other operating expenses increased 28.6%. This was due to i) additional administrative support expenses, due to the expansion of our flight operations, ii) additional technical and communication support required, due to the growth of our operations and iii) an increase in onboard service costs due to more passengers transported during 2013. Additionally, during 2013 the Company incurred in additional costs related to the penalty of the cancellation of one IT contract by an amount of Ps.21.8 million, and equity transaction costs related to the IPO, in connection with its existing shares by an amount of Ps.9.4 million.

Depreciation and Amortization.
Depreciation and amortization increased 42.9% in 2013 primarily due to the amortization of major maintenance events, previously capitalized under the deferral method. During 2013 and 2012, we recorded Ps.210.5 million and Ps.126.3 million respectively as amortization of major maintenance leasehold improvement costs.

OPERATING RESULTS
2012 compared to 2013

	For the years ended December 31			
	2012	2013	Variation	
	(In thousands of pesos, except for %)			
Operating Results				
Total operating revenues	11,686,415	13,002,471	1,316,056	11.3%
Total operating expenses, net	11,308,175	12,685,094	1,376,919	12.2%
Operating income	378,240	317,377	(60,863)	(16.1%)

Operating Income. As a result of the factors outlined above, our operating income was Ps.317.4 million in 2013, a 16.1% decrease compared to our operating income of Ps.378.2 million in 2012.

FINANCIAL RESULTS
2012 compared to 2013

	For the years ended December 31			
	2012	2013	Variation	
	(In thousands of pesos, except for %)			
Financing Results				
Finance income	13,611	24,774	11,163	82.0%
Finance cost	(89,731)	(125,737)	36,006	(40.1%)
Exchange (loss) gain, net	(95,322)	66,428	161,750	n.a.
Total financing results	(171,442)	(34,535)	136,907	(79.9%)

Total Financing Results. The variation in financing results was primarily due to we recorded a net exchange gain related to the depreciation of the peso against the U.S. dollar in 2013. This exchange gain was partially offset by an increase in our finance cost associated to the debt prepayment premium of Ps.65.2 million paid during 2013.

INCOME TAX EXPENSE AND NET INCOME
2012 compared to 2013

	For the years ended December 31			
	2012	2013	Variation	
	(In thousands of pesos, except for %)			
Net income				
Income before income tax	206,798	282,842	76,044	36.8%
Income tax expense	(3,481)	(17,550)	(14,069)	>100%
Attribution of net income (loss)				
Equity holders of the parent	215,239	268,678	53,439	24.8%
Non-controlling interest	(11,922)	(3,386)	8,536	(71.6%)
Net income	203,317	265,292	61,975	30.5%

We recorded net income of Ps.265.3 million in 2013 compared to a net income of Ps.203.3 million in 2012. At December 31, 2013 and 2012, we had tax loss carry-forwards amounting to Ps.2,056.4 million and Ps.2,014.9 million, respectively. These losses relate to operations of the Controladora and of its subsidiaries on a stand-alone basis, which in conformity with current Mexican Income Tax Law may be carried forward against taxable income generated in the succeeding ten years and may not be used to offset taxable income elsewhere in our consolidated group. During the years ended December 31, 2013 and 2012 we used Ps.219,205 and Ps.256,589, respectively, of the available tax loss carry-forwards.

Controladora Vuela Compañía de Aviación, S.A.B. de C.V. and subsidiaries (D.B.A. Volaris)

Consolidated Financial Statements

Years Ended December 31, 2013, 2012 and 2011
with Report of Independent Registered Public Accounting Firm

volaris

2013 ANNUAL REPORT

Contents:

Report of Independent Registered Public Accouting Firm

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

We have audited the accompanying consolidated statements of financial position of Controladora Vuela Compañía de Aviación, S.A.B. de C.V. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Controladora Vuela Compañía de Aviación, S.A.B. de C.V. and subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

Francisco Álvarez Del Campo

Mexico City, Mexico
April 24, 2014

Consolidated Statements of Financial Position

(In thousands of Mexican pesos)

	(Thousands of U.S.dollars) 2013		At December 31, 2013		2012
Assets					
Current assets:					
Cash and cash equivalents (Note 6)	US$	187,418	Ps. 2,450,773	Ps.	822,076
Accounts receivable:					
Related parties (Note 7)		68	885		3,619
Other accounts receivable, net (Note 8)		20,632	269,795		237,331
Recoverable taxes		25,349	331,479		146,366
Inventories (Note 9)		8,705	113,835		97,150
Prepaid expenses and other current assets (Note 10)		24,698	322,971		267,874
Financial instruments (Note 3)		851	11,133		2,360
Guarantee deposits (Note 11)		38,167	499,089		238,242
Total current assets		305,888	3,999,960		1,815,018
Non–current assets:					
Rotable spare parts, furniture and equipment, net (Note 12)		102,575	1,341,323		1,195,319
Intangible assets, net (Note 13)		6,063	79,282		60,235
Deferred income tax (Note 19)		23,288	304,525		319,969
Guarantee deposits (Note 11)		199,096	2,603,481		2,244,665
Other assets		3,763	49,213		54,045
Assets classified as held for sale (Note 12)		–	–		12,307
Total assets	US$	640,673	Ps. 8,377,784	Ps.	5,701,558
Liabilities and equity					
Short–term liabilities:					
Unearned transportation revenue	US$	106,563	Ps. 1,393,469	Ps.	1,258,670
Accounts payable:					
Suppliers		40,802	533,555		520,345
Related parties (Note 7)		232	3,036		3,399
Accrued liabilities (Note 15a)		78,972	1,032,682		805,791
Taxes and fees payable (Note 1q)		45,806	598,976		560,418
Financial instruments (Note 3)		2,435	31,845		37,011
Financial debt (Note 5)		20,531	268,468		527,383
Other liabilities (Note15c)		727	9,498		8,880
Total short–term liabilities		296,068	3,871,529		3,721,897
Long–term liabilities:					
Financial instruments (Note 3)		5,682	74,306		110,702
Financial debt (Note 5)		22,470	293,824		632,540
Accrued liabilities (Note 15b)		10,521	137,584		139,774
Other liabilities (Note 15c)		870	11,381		7,155
Employee benefits (Note 16)		402	5,260		4,111
Deferred income taxes (Note 19)		1,645	21,530		10,712
Total liabilities		337,658	4,415,414		4,626,891

	(Thousands of U.S.dollars) 2013		At December 31, 2013		2012
Equity (Note 18):					
Capital stock		227,397	2,973,559		2,376,098
Treasury shares		(8,238)	(107,730)		(133,723)
Contributions for future capital increases		–	1		1
Legal reserve		2,925	38,250		38,250
Additional paid–in capital		136,561	1,785,744		(190,850)
Accumulated losses		(50,546)	(660,967)		(929,645)
Accumulated other comprehensive losses		(5,084)	(66,487)		(107,910)
Total equity attributable to equity holders of the parent		303,015	3,962,370		1,052,221
Non–controlling interest		–	–		22,446
Total equity		303,015	3,962,370		1,074,667
Total liabilities and equity	US$	640,673	Ps. 8,377,784	Ps.	5,701,558

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

Consolidated Statements of Operations

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

	(Thousands of U.S. dollars, except for earnings per share) 2013		For the years ended December 31, 2013		2012		2011
Operating revenues (Note1d):							
Passenger	US$ 850,176	Ps.	11,117,327	Ps.	10,176,747	Ps.	8,036,275
Non–ticket	144,162		1,885,144		1,509,668		842,341
	994,338		13,002,471		11,686,415		8,878,616
Other operating income (Note 20)	(8,509)		(111,277)		(68,800)		(73,831)
Fuel	388,929		5,085,829		4,730,089		3,823,232
Aircraft and engine rent expense (Note 14c)	167,273		2,187,339		1,885,696		1,508,135
Landing, take–off and navigation expenses	147,109		1,923,673		1,639,945		1,281,583
Salaries and benefits	119,546		1,563,239		1,302,971		1,120,359
Sales, marketing and distribution expenses	53,848		704,146		751,919		750,474
Maintenance expenses	43,751		572,114		498,836		379,626
Other operating expenses (Note 20)	35,063		458,500		356,517		359,046
Depreciation and amortization (Notes 12 and 13)	23,059		301,531		211,002		102,977
Operating income (loss)	24,269		317,377		378,240		(372,985)
Finance income (Note 21)	1,895		24,774		13,611		5,539
Finance cost (Note 21)	(9,615)		(125,737)		(89,731)		(57,718)
Exchange gain (loss), net	5,080		66,428		(95,322)		110,150
Income (loss) before income tax	21,629		282,842		206,798		(315,014)
Income tax expense (Note 19)	(1,342)		(17,550)		(3,481)		(476)
Net income (loss)	US$ 20,287	Ps.	265,292	Ps.	203,317	Ps.	(315,490)
Attribution of net income (loss):							
Equity holders of the parent	US$ 20,546	Ps.	268,678	Ps.	215,239	Ps.	(293,540)
Non–controlling interest	(259)		(3,386)		(11,922)		(21,950)
Net income (loss)	US$ 20,287	Ps.	265,292	Ps.	203,317	Ps.	(315,490)
Earnings (loss) per share basic:	US$ 0.024	Ps.	0.310	Ps.	0.294*	Ps.	(0.403)*
Earnings (loss) per share diluted:	US$ 0.024	Ps.	0.310	Ps.	0.294*	Ps.	(0.403)*

* Per share amounts in the Company's consolidated statements of operations reflect the retrospective application of the stock split adopted on June 11, 2013 (Note 18).

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, except for earnings per share) 2013		For the years ended December 31, 2013		2012		2011
Net income (loss) for the year	US$ 20,287	Ps.	265,292	Ps.	203,317	Ps.	(315,490)
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)	3,657		47,819		16,325		(66,720)
Income tax effect	(1,097)		(14,346)		(4,900)		20,016
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:							
Remeasurement gain (loss) of employee benefits (Note 16)	843		11,026		(235)		(5,823)
Income tax effect	(235)		(3,076)		(101)		1,749
Other comprehensive income (loss) for the year, net of tax	US$ 3,168	Ps.	41,423	Ps.	11,089	Ps.	(50,778)
Total comprehensive income (loss) for the year, net of tax	US$ 23,455	Ps.	306,715	Ps.	214,406	Ps.	(366,268)
Attributable to:							
Equity holders of the parent	US$ 23,714	Ps.	310,101	Ps.	216,449	Ps.	(339,351)
Non–controlling interest	(259)		(3,386)		(2,043)		(26,917)
	US$ 23,455	Ps.	306,715	Ps.	214,406	Ps.	(366,268)

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

Consolidated Statements of Changes in Equity

For the years ended December 31, 2013, 2012 and 2011
(In thousands of Mexican pesos)
Attributable to the equity holders of the parent

	Capital stock	Treasury shares	Contributions for future capital increases	Legal reserve	Additional paid–in capital	Accumulated losses	Employee benefits	Cash flow hedges	Total	Non–controlling interest	Total equity
Balance as of January 1, 2011	Ps. 1,966,313	Ps. –	Ps. 1	Ps. –	Ps. –	Ps. (813,094)	Ps. (3,898)	Ps. (59,411)	Ps. 1,089,911	Ps. 136,096	Ps. 1,226,007
Legal reserve	–	–	–	38,250	–	(38,250)	–	–	–	–	–
Net loss for the period	–	–	–	–	–	(293,540)	–	–	(293,540)	(21,950)	(315,490)
Other comprehensive loss items	–	–	–	–	–	–	(4,085)	(41,726)	(45,811)	(4,967)	(50,778)
Total comprehensive income	–	–	–	–	–	(293,540)	(4,085)	(41,726)	(339,351)	(26,917)	(366,268)
Balance as of December 31, 2011	1,966,313	–	1	38,250	–	(1,144,884)	(7,983)	(101,137)	750,560	109,179	859,739
Capital stock increase (Note 18c)	498,632	–	–	–	–	–	–	–	498,632	–	498,632
Unpaid treasury shares (Note 17)	–	(133,723)	–	–	–	–	–	–	(133,723)	–	(133,723)
Unpaid capital and treasury shares (Note 18c)	(88,847)	–	–	–	–	–	–	–	(88,847)	–	(88,847)
Acquisition of non–controlling interest (Note 18c)	–	–	–	–	(190,850)	–	–	–	(190,850)	(84,690)	(275,540)
Net income for the period	–	–	–	–	–	215,239	–	–	215,239	(11,922)	203,317
Other comprehensive (loss) income items	–	–	–	–	–	–	(342)	1,552	1,210	9,879	11,089
Total comprehensive income	–	–	–	–	–	215,239	(342)	1,552	216,449	(2,043)	214,406
Balance as of December 31, 2012	2,376,098	(133,723)	1	38,250	(190,850)	(929,645)	(8,325)	(99,585)	1,052,221	22,446	1,074,667
Net proceeds from initial public offering (Note 18b)	508,614	–	–	–	2,044,313	–	–	–	2,552,927	–	2,552,927
Capital stock increase (Note 1a)	88,847	–	–	–	–	–	–	–	88,847	–	88,847
Acquisition of non–controlling interest (Note 1a)	–	–	–	–	(69,787)	–	–	–	(69,787)	(19,060)	(88,847)
Exercise of stock options (Note 17)	–	25,993	–	–	–	–	–	–	25,993	–	25,993
Management incentive plan cost (Note 17)	–	–	–	–	2,068	–	–	–	2,068	–	2,068
Net income for the period	–	.	–	–	–	268,678	–	–	268,678	(3,386)	265,292
Other comprehensive income items	–	–	–	–	–	–	7,950	33,473	41,423	–	41,423
Total comprehensive income			–	–	–	268,678	7,950	33,473	310,101	(3,386)	306,715
Balance as of December 31, 2013	Ps. 2,973,559	Ps. (107,730)	Ps. 1	Ps. 38,250	Ps. 1,785,744	Ps. (660,967)	Ps. (375)	Ps. (66,112)	Ps. 3,962,370	Ps. –	Ps. 3,962,370
Balance as of December 31,2013	US$ 227,397	US$ (8,238)	US$ –	US$ 2,925	US$ 136,561	US$ (50,546)	US$ (29)	US$ (5,055)	US$ 303,015	US$ –	US$ 303,015

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 2013	For the years ended December 31, 2013	2012	2011
Operating activities				
Income (loss) before income tax	US$ 21,629	Ps. 282,842	Ps. 206,798	Ps. (315,014)
Non–cash adjustment to reconcile profit before tax to net cash flows from operating activities:				
Depreciation and amortization (Notes 12 and 13)	23,059	301,531	211,002	102,977
Provision for doubtful accounts (Note 8)	651	8,515	3,442	10,901
Finance income	(1,895)	(24,774)	(13,611)	(5,539)
Finance cost	9,615	125,737	89,731	57,718
Foreign exchange	(4,332)	(56,652)	(70,292)	176,587
Financial instruments	2,300	30,075	16,590	27,717
Net gain on disposal of intangible, rotable spare parts, furniture and equipment and gain of sale and leaseback of aircraft (Note 20)	(7,262)	(94,968)	(46,683)	(71,754)
Employee benefits (Note 16)	117	1,527	1,208	1,109
Aircraft and engine lease extension benefit and other benefits by services agreement (Note 1j and 15b)	(3,470)	(45,376)	(26,738)	(10,428)
Management incentive plan (Note 17)	158	2,068	–	–
Cash flows from operating activities before changes in working capital	40,570	530,525	371,447	(25,726)
Changes in operating assets and liabilities:				
Related parties	181	2,371	755	(4,944)
Other accounts receivable	(3,144)	(41,113)	(80,609)	(28,922)
Recoverable taxes	(13,885)	(181,562)	(70,919)	(17,072)
Inventories	(1,276)	(16,685)	(17,140)	(35,225)
Prepaid expenses	(6,577)	(86,007)	(80,767)	(59,245)
Other assets	370	4,832	(2,543)	(47,174)
Guarantee deposits	(47,388)	(619,663)	(311,255)	(800,588)
Suppliers	1,010	13,210	(15,119)	88,127
Accrued liabilities	17,296	226,171	146,375	209,671
Taxes payable	3,420	44,722	124,595	173,577
Unearned transportation revenue	10,308	134,799	433,280	320,578
Financial instruments	(2,492)	(32,585)	(16,719)	(24,777)
Other liabilities	3,811	49,837	13,797	98,952
	2,204	28,852	495,178	(152,768)
Interest received	1,895	24,774	8,084	5,539
Income tax paid	(1,137)	(14,869)	(5,814)	(476)
Net cash flows provided by (used in) operating activities	2,962	38,757	497,448	(147,705)

	Thousands of U.S. dollars 2013	For the years ended December 31, 2013	2012	2011
Investing activities				
Acquisitions of rotable spare parts, furniture and equipment (Note12)	(85,607)	(1,119,442)	(830,305)	(1,193,844)
Acquisitions of intangible assets (Note 13)	(3,178)	(41,558)	(25,900)	(21,055)
Proceeds from disposals of rotable spare parts, furniture and equipment (Note 12)	64,931	849,074	1,043,366	586,869
Net cash flows provided by (used in) investing activities	(23,854)	(311,926)	187,161	(628,030)
Financing activities				
Net proceeds from initial public offering (Note 18)	197,160	2,578,161	–	–
Transaction costs on issue of shares	(2,933)	(38,352)	–	–
Proceeds from exercised treasury shares (Note 17)	1,989	25,993	–	–
Interest paid	(5,007)	(65,468)	(127,375)	(55,224)
Debt prepayment premium (Note 5)	(4,987)	(65,206)	–	–
Payments of financial debt	(77,905)	(1,018,722)	(694,292)	(261,387)
Proceeds from financial debt	33,962	444,098	549,769	878,984
Net cash flows (used in) provided by financing activities	142,279	1,860,504	(271,898)	562,373
Increase (decrease) in cash and cash equivalents	121,387	1,587,335	412,711	(213,362)
Net foreign exchange differences on the cash balance	3,164	41,362	(31,703)	(22,483)
Cash and cash equivalents at beginning of year	62,867	822,076	441,068	676,913
Cash and cash equivalents at end of year	US$ 187,418	Ps. 2,450,773	Ps. 822,076	Ps. 441,068
Non cash investing and financing transactions:				
Corporate restructure	US$ –	Ps. –	Ps. 276,062	Ps. –
Acquisition of non–controlling interest with parent shares	5,337	69,787	–	–

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

Notes to Consolidated Financial Statements

For the years ended December 31, 2013, 2012 and 2011
(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") was incorporated in Mexico in accordance with Mexican Corporate laws on October 27, 2005.

Controladora and its subsidiaries (the "Company") are domiciled in Mexico, City at Av. Antonio Dovali Jaime No. 70, 13th Floor, Tower B, Colonia Zedec Santa Fe, Mexico D.F.

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

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

Concesionaria made its first commercial flight as a low–cost airline on March 13, 2006. The Company operates under the trade name of "Volaris".

The Company's consolidated financial statements and notes were authorized for issuance by the Company's Chief Executive Officer Enrique Beltranena and Chief Financial Officer Fernando Suarez on February 24, 2014. Those consolidated financial statements and notes were then approved by the Company's Board of Directors and by the Shareholders on April 24, 2014. The accompanying consolidated financial statements were approved for issuance in the Company's annual report on Form 20-F by the Company's Chief Executive Officer and Chief Financial Officer on April 24, 2014, and subsequent events have been considered through that date (See Note 25).

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.

a) Relevant events

Initial public offering ("IPO")

On September 23, 2013, the Company completed its dual listing IPO on the New York Stock Exchange and on the Mexican Stock Exchange, and on September 18, 2013 it started trading under the ticker symbol "VLRS" and "VOLAR", respectively (Note 18b).

Acquisition of additional interest in Concesionaria

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

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

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

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

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

b) Basis of preparation

Statement of compliance

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries at December 31, 2013 and 2012 and for the three years in the period ended December 31, 2013, and were prepared in accordance with International Financial Reporting Standards as issued by the *International Accounting Standards Board* ("IFRS"), using Mexican pesos as the functional and reporting currency.

Basis of measurement and presentation

The accompanying consolidated financial statements have been prepared under the historical–cost convention, except for derivative financial instruments that are measured at fair value. The carrying value of recognized financial assets and liabilities that are designated and accounted for as cash flow hedges are recognized as an adjustment of changes in fair values attributable to the risks that are being hedged.

Non–controlling interests represent the portion of profits or losses and net assets representing ownership interests in subsidiaries not held by the Company. Non–controlling interests are presented separately in the consolidated statements of comprehensive income and in equity in the consolidated statement of financial position separately from the Company's own equity.

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

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 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, 2013 and 2012, for accounting purposes the companies included in the Group are as follows:

Name	Principal Activities	Country	% Equity interest 2013	2012
Concesionaria	Air transportation services for passengers, cargo and mail throughout Mexico and abroad	Mexico	100.00%	97.95%
Comercializadora Volaris, S.A. de C.V.	Ground transportation services in Mexico	Mexico	100.00%	98.00%
Servicios Corporativos Volaris, S.A. de C.V.	Payroll	Mexico	100.00%	98.00%
Servicios Administrativos Volaris, S.A. de C.V	Payroll	Mexico	100.00%	98.00%
Deutsche Bank México, S.A., Trust 1462	Predelivery payments financing (Note 5)	Mexico	100.00%	100.00%
Deutsche Bank México, S.A., Trust 1484	Predelivery payments financing (Note 5)	Mexico	100.00%	100.00%
Deutsche Bank México, S.A., Trust 1498	Predelivery payments financing (Note 5)	Mexico	100.00%	100.00%
Irrevocable Administrative Trust number F/307750	Administration trust	Mexico	100.00%	100.00%
Irrevocable Administrative and Safeguard Trust, denominated F/1405 "DAIIMX/VOLARIS"	Share administration trust	Mexico	100.00%	–

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 statement of comprehensive income from the date the Company gains control until the date the Company ceases to control the subsidiary.

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

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

d) Revenue recognition

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

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

Non–ticket revenue includes: cargo services, fees charged to passengers for excess baggage, travel assistance, advance seat selection, carriage of sports equipment check–in, commission from sales of insurance, airport passenger facility charges for no show tickets and other services by third parties. All such revenues are collected from passengers and recognized as non–ticket revenue when the service has been provided, which is typically the flight date.

e) Cash and cash equivalents

Cash and cash equivalents are represented by bank deposits and highly liquid investments with maturities of 90 days or less at the original purchase date.

For the purpose of the consolidated statements of cash flows, cash and cash equivalent consist of cash and short–term deposits as defined above, net of outstanding bank overdrafts. As of December 31, 2013 and 2012, the Company did not have any outstanding bank overdrafts.

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 and measurement

Financial assets are classified as (i) financial assets at fair value through profit or loss, (ii) loans and receivables, (iii) held–to–maturity investments, (iv) available–for–sale financial assets, or as (v) derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

At December 31, 2013 and 2012, the Company does not have held–to–maturity investments or available–for–sale financial assets.

All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

Loans and receivables

Loans and receivables and other accounts receivables are non–derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the Effective Interest Rate ("EIR") method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statements of operations. The losses arising from impairment are recognized in the consolidated statements of operations in finance costs for loans and in other operating expenses for receivables.

This category generally applies to trade and other receivables (Note 8).

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

a) The rights to receive cash flows from the asset have expired;

b) The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either (i) the Company has transferred substantially all the risks and rewards of the asset, or (ii) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset; or

c) When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

ii) Impairment of financial assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

For the years ended December 31, 2013, 2012 and 2011, the Company did not record any losses for impairment of financial assets.

iii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as (i) financial liabilities at fair value through profit or loss, (ii) loans and borrowings, or as (iii) derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments that are not designated as hedging instruments in hedge relationships as defined by IAS 39.

Gains or losses on financial liabilities held for trading are recognized in the income statement. Financial liabilities as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. During the years ended December 31, 2013, 2012 and 2011 the Company has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

After initial recognition, 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 acquisition 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 category generally applies to interest–bearing loans and borrowings (Note 5).

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 receivables and provision for doubtful receivables

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

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

h) Inventories

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

i) Intangibles assets

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

The Company records impairment charges on intangible assets used in operations when events and circumstances indicate that the assets or related cash generating unit may be impaired or when 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, 2013, 2012 and 2011, there were no indicators of impairment and therefore no impairment charges were recorded in respect of the Company's value of intangible assets.

j) Guarantee deposits

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

Aircraft maintenance deposits paid to lessors

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

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

Maintenance deposits expected to be recovered from lessors are reflected as guarantee deposits in the accompanying consolidated statement of financial position. The portion of prepaid maintenance deposits that is deemed unlikely to be recovered, primarily relating to the rate differential between the maintenance deposits 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.

For the years ended December 31, 2013, 2012 and 2011, the Company expensed as supplemental rent Ps.38,426, Ps.27,216 and Ps.36,750, respectively.

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

For the years ended December 31, 2013, 2012 and 2011, the Company expensed as contingent rent Ps.102,740, Ps.99,390 and Ps.94,645, respectively.

The Company makes certain assumptions at the inception of the lease and at each consolidated statement of financial position date to determine the recoverability of maintenance deposits. These assumptions are based on various factors such as the estimated time between the maintenance events, the date the aircraft is due to be returned to the lessor, and the number of flight hours the aircraft and engine is estimated to be utilized before it is returned to the lessor.

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

During the year ended December 31, 2011, the Company extended the lease terms of six aircraft lease agreements, which made available to the Company maintenance deposits that were recognized in prior periods in the consolidated statements of operations as supplemental rent of Ps.163,024. 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 as they were not substantially and contractually related to maintenance. However when the leases were amended the maintenance deposits amounts became probable of recovery due to the longer lease term and as such they are being recognized as an asset.

Additionally, during the year ended December 31, 2013, the Company extended the lease term of two spare engine agreements, which made available to the Company maintenance deposits that were recognized in prior periods in the consolidated statements of operations as supplemental rent of Ps.22,911. The effect of these lease extensions were recognized as a guarantee deposit and a deferred liability in the consolidated statements of financial position at the time of lease extension.

Because the lease extension benefits are considered lease incentives, the benefits are deferred in the caption other liabilities and are being amortized on a straight–line basis over the remaining revised lease terms. For the years ended December 31, 2013, 2012 and 2011, the Company amortized Ps.25,627, Ps.23,254 and Ps.10,428, respectively, of this amount which was recognized as a reduction of rent expenses in the consolidated statements of operations.

k) Aircraft and engine maintenance

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

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

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

(i) Routine maintenance requirements consists in scheduled maintenance checks on the Company's aircraft, including pre–flight, daily, weekly and overnight checks, any diagnostics and routine repairs and any unscheduled tasks performed as required. This type of maintenance events are currently serviced by the Company mechanics and are primarily completed at the main airports that the Company currently serves. All other maintenance activities are sub–contracted to qualified maintenance business partner, repair and overhaul organizations. Routine maintenance also includes scheduled tasks that can take from seven to 14 days to accomplish and typically are required approximately every 22 months. All routine maintenance costs are expensed as incurred.

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

Major maintenance is accounted for under the deferral method, whereby the cost of major maintenance and major overhaul and repair is capitalized (improvements to leased assets) and amortized over the shorter period of 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") in the United States and the *Mexican Civil Aeronautic Authority (Dirección General de Aeronáutica Civil* or "DGAC") in Mexico 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, 2013 and 2012, the Company capitalized major maintenance events as part of leasehold improvements to flight equipment for an amount of Ps.309,382 and Ps.129,876, respectively.

For the years ended December 31, 2013, 2012 and 2011, the amortization of major maintenance leasehold improvement costs was Ps.210,495, Ps.126,302 and Ps.37,530, respectively. The amortization of deferred maintenance costs is recorded as part of depreciation and amortization in the consolidated statements of operations.

(iii) The Company has an engine flight hour agreement that guarantees a cost per overhaul, provides miscellaneous engine 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 engine coverage is recorded as incurred in the consolidated statements of operations.

The Company has a power-by-hour agreement for component services, which guarantees the availability of aircraft parts for the Company's fleet when they are required. It also provides aircraft parts that are included in the redelivery conditions of the contract (hard time) without constituting an additional cost at the time of redelivery. The monthly maintenance cost associated to this agreement is recognized as incurred in the consolidated statements of operations.

l) Rotable spare parts, furniture and equipment, net

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

Pre–delivery payments refer to prepayments made to aircraft and engine manufacturers during the manufacturing stage of the aircraft.

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

During the years ended December 31, 2013, 2012 and 2011 the Company capitalized borrowing costs which amounted to Ps.25,197, Ps.64,452 and Ps.28,102, respectively. The rate used to determine the amount of borrowing cost was 1%.

Depreciation rates are as follows:

	Annual depreciation rate
	The shorter of: (i) remaining contractual lease term, or (ii) the next major maintenance event
Leasehold improvements to flight equipment	
Computer equipment	25%
Communications equipment	10%
Standardization	10%
Electric power equipment	10%
Workshop machinery and equipment	10%
Office furniture and equipment	10%
Workshop tools	33%
Service carts on board	20%
Aircraft parts and rotable spare parts	8.3–16.7%

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

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

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

For the years ended December 31, 2013, 2012 and 2011, there were no indicators of impairment and therefore no impairment charges were recorded in respect of the Company's rotable spare parts, furniture and equipment.

m) Foreign currency transactions and exchange differences

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

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

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

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

n) Liabilities and provisions

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

For the operating leases, the Company is contractually obligated to return the leased aircraft in a specific return condition. The Company accrues for restitution costs related to aircrafts held under operating leases throughout the term of the lease, based upon the estimated cost of satisfying the return condition criteria for each aircraft.

The Company records aircraft lease return liabilities reserve that is calculated based on the best estimate of the return obligation costs under each aircraft lease agreement. These return obligations are related to the costs to be incurred in the reconfiguration of aircraft (interior and exterior), painting, carpeting and other costs, which are estimated based on current cost adjusted for inflation.

o) Employee benefits

i) Personnel vacations

The Company recognizes a reserve for the costs of paid absences, such as vacation time, based on the accrual method.

ii) Seniority premiums

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, 2013.

Remeasurement gains and losses are recognized in full in the period in which they occur in other comprehensive income. Such remeasurement gains and losses are not reclassified to profit or loss in subsequent periods.

The defined benefit asset or liability comprises the present value of the defined benefit obligation using a discount rate based on government bonds (Certificados de la Tesorería de la Federación "CETES" in Mexico), less the fair value of plan assets out of which the obligations are to be settled.

iii) 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 19R, Employee Benefits. A provision is recognized based on the estimated amount of the incentive payment.

During the years ended December 31, 2013, 2012 and 2011 the Company expensed Ps.29,978 and Ps.34,336 and Ps.30,793, respectively, as quarterly incentive bonuses, recorded in the caption salaries and benefits.

iv) Long–term retention plan

The Company has an employee long–term retention plan, the purpose of which is to retain high performing employees within the organization by paying incentives depending on the Company's performance. Incentives under this plan are payable in three equal annual installments, following the provisions for other long–term benefits under IAS 19R.

During the years ended December 31, 2013, 2012 and 2011 the Company expensed Ps.6,327 and Ps.6,453 and Ps.7,407, respectively, as bonuses as part of the caption salaries and benefits.

v) Management incentive plan

Certain key employees of the Company receive additional benefits through a share purchase agreement, which has been classified as an equity–settled share–based payment. The equity–settled compensation cost is recognized in consolidated statements of operations under the caption of salaries and benefits, over the vesting period (Note 17).

vi) Employee profit sharing

Employee profit sharing is computed at the rate of 10% of the individual company's taxable income, except for depreciation of historical rather than restated values, foreign exchange gains and losses, which are not included until the asset is disposed of or the liability is due, and other effects of inflation are also excluded. The cost of employee profit sharing earned for the current–year is presented as an expense in the consolidated statements of operations (Note 16).

p) Leases

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

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

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

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

Sale and leaseback

The Company enters into sale and leaseback agreements whereby an aircraft or engine is sold to a lessor upon delivery and the lessor agrees to lease such aircraft or engine back to the Company. Leases under sale and leaseback agreements meet the conditions for treatment as operating leases.

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

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

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

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

q) Taxes and fees payable

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

r) Income taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax assets are recognized for all deductible temporary differences, the carry–forward of unused tax credits and any available tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry–forward of unused tax credits and available tax losses can be utilized.

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

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

s) Derivative financial instruments and hedge accounting

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

In accordance with IAS 39, derivative financial instruments are recognized on the consolidated statement of financial position at fair value. The effective portion of a cash flow hedge's gain or loss is recognized in accumulated other comprehensive income (loss) in equity, while the ineffective portion is recognized in current year earnings. During the years ended December 31, 2013 and 2012, there was no ineffectiveness with respect to derivative financial instruments.

The realized gain or loss on valuation of derivative financial instruments that qualify for hedge accounting is recorded in the same consolidated statement of operations caption as the realized gain or loss as on the hedged item.

Derivative financial instruments that are not designated as a hedge or are not effective hedges, are recognized at fair value with changes in fair value recorded in current year earnings.

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

t) Financial instruments – Disclosures

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

u) Treasury shares

The Company's equity instruments that are reacquired (treasury shares), are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation. Any difference between the carrying amount and the consideration received, if reissued, is recognized in additional paid in capital.

Share–based payment options exercised during the reporting period are settled with treasury shares (Note 17).

v) Operating segments

The Company is managed as a single business unit that provides air transportation and related services. The Company has two geographic areas identified as domestic (Mexico) and international (United States of America), and all its assets and liabilities are located in Mexico (Note 24).

w) Reclassifications

Certain captions shown in the 2012 financial statements as originally issued have been reclassified for uniformity of presentation with the 2013 financial statements. The effects of this reclassification were recognized retrospectively in the statement of financial position as of December 31, 2012, in conformity with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

		As reported originally 2012		As reclassified 2012*
Financial position:				
Short–term liabilities				
Accrued liabilities	Ps.	765,792	Ps.	805,791
Other liabilities		48,879		8,880
Long–term liabilities				
Accrued liabilities		–		139,774
Other liabilities		146,929		7,155
Cash flow:				
Accrued liabilities	Ps.	121,487	Ps.	146,375
Other liabilities		38,685		13,797

* The 2012 amounts were reclassified to be comparable with the 2013 presentation.

x) Impact of new International Financial Reporting Standards

New and amended standards and interpretations

In 2013, the Company applied, for the first time, certain standards and amendments, of which only the amendments of IAS 1, *Presentation of Financial Statements* required retrospective application of previous financial statements. The other standards include IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements* and IFRS 13, *Fair Value Measurement* for which, with respect to the Company, no retrospective changes were needed to prior period financial statements. In addition, the application of IFRS 12, *Disclosure of Interests in Other Entities* resulted in additional disclosures in the consolidated financial statements (Note 1).

IFRS 10 *Consolidated Financial Statements*

IFRS 10 replaces the portion of IAS 27, *Consolidated and Separate Financial Statements* and SIC–12, *Consolidation Special Purpose Entities.*

IFRS 10 establishes a single control model that applies to all entities including special purpose entities.

The changes introduced by IFRS 10 requires management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. As a result of IFRS 10, the Company changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees.

In accordance with the transitional provisions of IFRS 10, the Company reassessed the control conclusion for its investees as at January 1, 2012 and concluded that the adoption of the standard had no impact on the Company's financial position or performance.

IFRS 11 *Joint Arrangements*

IFRS 11 classifies joint arrangements as either joint operations (combining the existing concepts of jointly controlled assets and jointly controlled operations) or joint ventures (equivalent to the existing concept of a jointly controlled entity). Joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. IFRS 11 requires the use of the equity method of accounting for interests in joint ventures thereby eliminating the proportionate consolidation method.

As a result of IFRS 11, the Company has changed its accounting policy for determining whether it has joint arrangements and consequently how to account for its interest in the arrangement.

The Company does not have joint arrangements, accordingly it has concluded that the adoption of this standard has no impact on the Company's consolidated financial statements.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights.

The standard requires that for each subsidiary that has non–controlling interests that are material to the Company, disclose summarized financial information about the assets, liabilities, profit or loss and cash flows of the subsidiary. As of December 31, 2013, the Company does not have non–controlling interests, and for 2012 and 2011 the non–controlling interests in the Company's subsidiaries are not material.

The Company does not have any unconsolidated structured entities or joint arrangements. IFRS 12 disclosures of the Company's holdings in other entities are provided in Notes 1c.

IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Company re–assessed its policies for measuring fair values, in particular, its valuation inputs such as non–performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

The adoption of IFRS 13 did not have a material impact on the fair value measurements of the Company. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 4.

Amendments to IFRS 7 Financial Instruments: Disclosures

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The Company evaluated the amendments to IFRS 7 and concluded that they do not represent an impact on disclosures of financial instruments, as no enforceable master netting agreements do exist for its financial instruments.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified ("recycled") to profit or loss at a future point in time (e.g., net loss or gain on cash flow hedges) have to be presented separately from items that will not be reclassified (e.g., remeasurement gain or loss on employee benefits). The amendments affected the presentation of the consolidated statements of comprehensive income with the additional grouping in OCI, and have no impact on the Company's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period.

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

IFRS 9 *Financial Instruments*

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after January 1, 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to January 1, 2015. The Company has yet to complete its evaluation of the impact of this first phase on the Company's financial position or performance.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set–off" and the criteria for non–simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after January 1, 2014.

The Company has yet to complete its evaluation of the impact of this standard on the Company's financial position or performance.

IFRIC Interpretation, 21 Levies *(IFRIC 21)*

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Company has not early adopted this IFRIC. The Company has yet to complete its evaluation of whether this interpretation will have a material impact on its consolidated financial statements.

IAS 39 Amendments of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014.

The Company has yet to complete its evaluation of the impact of this standard on the Company's financial position or performance.

IAS 36 Recoverable Amount Disclosures for Non–Financial Assets – Amendments to IAS 36

These amendments require disclosure of the recoverable amounts of the assets or CGUs for which an impairment loss has been recognized or reversed during the period. The amendments are effective retrospectively for annual periods beginning on or after January 1, 2014. The Company has not recognized or reversed any impairment loss on non–financial assets during the periods presented in these financial statements.

The Company has yet to complete its evaluation of the impact of this standard on the Company's financial position or performance.

y) Convenience translation

U.S. dollar amounts at December 31, 2013 shown in the financial statements have been included solely for the convenience of the reader and are translated from Mexican pesos, using an exchange rate of Ps.13.0765 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, 2013. Such translation should not be construed as a representation that the peso amounts have been or could be converted into U.S. dollars at this or any other rate. The referred information in U.S. dollars is solely for information purposes and does not represent the amounts are in accordance with IFRS or the equivalent in U.S. dollars in which the transactions were conducted or in which the amounts presented in Mexican pesos can be translated or realized.

2. Significant accounting judgments, estimates and assumptions

The preparation of these financial statements requires management to make estimates, assumptions and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of the Company's consolidated financial statements. Note 1 to the Company's consolidated financial statements provides a detailed discussion of the significant accounting policies.

Certain of the Company's accounting policies reflect significant judgments, assumptions or estimates about matters that are both inherently uncertain and material to the Company financial position or results of operations.

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

i) Aircraft maintenance deposits paid to lessors

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

ii) Management incentive plan

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

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

iii) Deferred taxes

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

At December 31, 2013, the Company's tax loss carry-forwards amount to Ps. 2,071,195 (Ps. 2,014,874 at December 31, 2012). These losses relate to operations of the Company and of its subsidiaries on a stand–alone basis, which in conformity with current Mexican Income Tax Law may be carried forward against taxable income generated in the succeeding ten years and may not be used to offset taxable income elsewhere in the Company's consolidated group (Note 19).

During the years ended December 31, 2013, 2012 and 2011, the Company used Ps. 204,403, Ps. 256,589 and Ps. 770, respectively, of the available tax loss carry–forwards (Note 19).

iv) Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated statements of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and expected volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments (Note 3).

v) **Impairment of long–lived assets**

The Company assesses whether there are any indicators of impairment for long–lived assets annually and at other times when such indicators exist. Impairment exists when the carrying amount of a long–lived asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less cost to sell and its value–in–use. The value–in–use calculation is based on a discounted cash flow model, using the Company's projections of operating results for the near future. The recoverable amount of long–lived assets is sensitive to the uncertainties inherent in the preparation of projections and the discount rate used in the calculation.

vi) **Allowance for doubtful accounts**

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

3. Financial instruments

Concentration of risk

The Company's activities are exposed to different financial risks: (i) market risk, (ii) credit risk, and (iii) liquidity risk. The Company's global risk management program is focused on uncertainty in the financial markets and tries to minimize the potential adverse effects on the net earnings. The Company uses derivative financial instruments to hedge part of these risks. The Company does not engage derivatives for speculative purposes.

Market risk

a) Fuel price risk

The Company is exposed to fuel price risk and its fuel price risk management policy aims to provide the Company with protection against sudden and significant increases in fuel prices. Pursuing this objective, the risk management policy allows the use of derivative financial instruments available on the over the counter markets with approved counterparties and within approved limits. Aircraft fuel consumed in the years ended December 31, 2013, 2012 and 2011 represented 40%, 42% and 41%, of the Company's operating expenses, respectively.

During the years ended December 31, 2013, 2012 and 2011, the Company entered into fuel swap contracts that are being accounted for as cash flow hedges that gave rise to a gain of Ps.6,694, Ps.19,984, and Ps.9,260, respectively. These instruments qualify for hedge accounting and accordingly, the effects of the hedges are presented as part of fuel cost in the consolidated statements of operations.

As of December 31, 2013 and 2012, the fair value of these financial instruments was Ps.11,133 and Ps.2,360, respectively and is presented as part of current assets.

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, **2013** Maturities					
		1Q14		2Q14		Total
Fuel risk						
Notional volume in gallons (thousands)*		4,016		1,456		5,472
Future agreed rate per gallon (U.S. dollars)**	US$	2.8803	US$	2.8541	US$	2.8734
Total in thousands of Mexican pesos ***	Ps.	151,260	Ps.	54,340	Ps.	205,605
Approximate percentage of hedge (of expected consumption value)		11.9%		4.0%		7.8%

* US Gulf Coast Jet 54 as underlying asset
** Weighted average
*** Exchange rate at December 31, 2013 was Ps.13.0765

The following table illustrates the sensitivity of financial instruments 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 forward curve of the US Gulf Coast Jet 54 as of December 31, 2013:

	Sensitivity of position as of December 31, **2013** effect on equity (thousands of U.S. dollars)
US Gulf Coast Jet Fuel 54 forward level	
+5%	820
–5%	–820

b) Foreign currency risk

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

Most of the Company's revenue is generated in Mexican pesos, although 26% of its revenues came from operations in the United States of America for the year ended at December 31, 2013 (26% at December 31, 2012) and U.S. dollar denominated collections accounted for 31% and 34% of the Company's total collections in 2013 and 2012, respectively. However, certain of its expenditures, particularly those related to aircraft leasing and acquisition, are U.S. dollar denominated. The Company's foreign exchange exposure at December 31, 2013 and 2012 is as set forth below:

	Thousands of U.S. dollars			
	2013		2012	
Assets:				
Cash and cash equivalents	US$	152,459	US$	46,965
Aircraft maintenance deposits paid to lessors		199,385		158,568
Pre–delivery payments*		67,237		69,940
Deposits for rental of flight equipment		30,902		22,573
Collateral of derivative financial instruments		3,060		6,272
Derivative financial instruments		851		181
Total assets		453,894		304,499
Liabilities:				
Financial debt (Note 5)		43,001		68,667
Foreign suppliers		33,968		27,425
Derivative financial instruments		8,117		11,354
Total liabilities		85,086		107,446
Net foreign currency position	US$	368,808	US$	197,053

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

	Thousands of U.S. dollars			
	2013		2012	
Off–balance sheet transactions exposure:				
Aircraft operating leases (Note 14)	US$	988,408	US$	817,622
Aircraft and engine commitments (Note 23)		473,967		521,959
Total foreign currency	US$	1,462,375	US$	1,339,581

During the year ended on December 31, 2013 and 2012, the Company did not enter into exchange rate derivatives financial instruments, however for the year ended December 31, 2011 the Company entered into exchange rate derivatives that resulted in a loss of Ps.1,069, which matured in January 2011.

c) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long–term debt obligations and flight equipment operating lease agreements with floating interest rates.

The Company's results are affected by fluctuations in market interest rates due to the impact that such changes may have on lease payments indexed to London Inter Bank Offered Rate ("LIBOR"). The Company uses derivative financial instruments to reduce its exposure to fluctuations in market interest rates and accounts for these instruments as an accounting hedge. In general, when a derivative can be defined within the terms and cash flows of a leasing agreement, this may be designed as a "cash flow hedge" and the effective portion of fair value variations are recorded in equity until the date the cash flow of the hedged lease payment becomes due.

At December 31, 2013 and 2012, the Company had outstanding hedging contracts in the form of interest rate swaps whose notional amount was US$70,000 and their fair value was Ps.106,151 and Ps.147,713, respectively, recorded in liabilities. For the years ended December 31, 2013, 2012 and 2011, the reported loss on the instruments was Ps.36,769, Ps.36,574 and Ps.35,908, respectively, which was recognized as part of rental expense in the consolidated statements of operations.

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

	Position at December, 31, 2013 effect on equity (millions of U.S. dollars)
Increase (decrease) in curve	
+100 basis points	2.10
–100 basis points	–2.24

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 payment obligations.

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

The Company has future obligations related to maturities of bank borrowings and derivative contracts. The Company's off–balance sheet exposure represents the future obligations related to operating lease contracts and aircraft purchase contracts.

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

	December 31, 2013					
	Within one year		One to five years		Total	
Interest–bearing borrowings:						
Pre–delivery payments facilities	Ps.	266,121	Ps.	293,824	Ps.	559,945
Derivative financial instruments:						
Fuel swaps contracts		(11,133)		–		(11,133)
Interest rate swaps contracts		31,845		74,306		106,151
Total	Ps.	286,833	Ps.	368,130	Ps.	654,963

		December 31, 2012				
		Within one year		One to five years		Total
Interest–bearing borrowings:						
Pre–delivery payments facilities	Ps.	517,320	Ps.	242,053	Ps.	759,373
Working capital				390,487		390,487
Derivative financial instruments:						
Fuel swaps contracts		(2,360)		–		(2,360)
Interest rate swaps contracts		37,011		110,702		147,713
Total	Ps.	551,971	Ps.	743,242	Ps.	1,295,213

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.

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.

Capital management

Management believes that the resources available to the Company are sufficient for its present requirements and will be sufficient to meet its anticipated requirements for capital expenditures and other cash requirements for the 2014 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, 2013 and 2012.

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 by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

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

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

	Carrying amount				Fair value			
		2013		2012		**2013**		2012
Assets								
Derivative financial instruments	Ps.	11,133	Ps.	2,360	Ps.	11,133	Ps.	2,360
Liabilities								
Financial debt*		(559,945)		(1,149,860)		(562,739)		(1,220,559)
Derivative financial instruments		(106,151)		(147,713)		(106,151)		(147,713)
Total	Ps.	(654,963)	Ps.	(1,295,213)	Ps.	(657,757)	Ps.	(1,365,912)

* Floating rate borrowing

The following table summarizes the fair value measurements at December 31, 2013:

	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								
Fuel swap contracts*	Ps.	–	Ps.	11,133	Ps.	–	Ps.	11,133
Liabilities								
Derivatives financial instruments								
Interest rate swap contracts**		–		(106,151)		–		(106,151)
Liabilities for which fair values are disclosed								
Interest–bearing loans and borrowings**		–		(562,739)		–		(562,739)
Net	Ps.	–	Ps.	(657,757)	Ps.	–	Ps.	(657,757)

* Jet fuel forwards levels and LIBOR curve.
** LIBOR curve.

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

The following table summarizes the fair value measurements at December 31, 2012:

	Fair value measurement							
		Quoted prices in active markets Level 1		Significant observable inputs Level 2		Significant unobservable inputs Level 3		Total
Assets								
Derivative financial instruments								
Fuel swap contracts *	Ps.	–	Ps.	2,360	Ps.	–	Ps.	2,360
Liabilities								
Derivatives financial instruments								
Interest rate swap **		–		147,713		–		147,713
Liabilities for which fair values are disclosed								
Interest–bearing loans and borrowings **		–		1,220,559		–		1,220,559
Net	Ps.	–	Ps.	(1,365,912)	Ps.	–	Ps.	(1,365,912)

* Jet fuel forwards levels and LIBOR curve.
** LIBOR curve.

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

5. Financial assets and liabilities

At December 31, 2013 and 2012, 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.

Financial assets

		2013		2012
Derivative financial instruments at fair value through OCI				
Fuel swap contracts	Ps.	11,133	Ps.	2,360
Total derivative financial instruments at fair value	Ps.	11,133	Ps.	2,360
Total financial assets	Ps.	11,133	Ps.	2,360
Total current	Ps.	11,133	Ps.	2,360

Financial assets at fair value through OCI reflect the change in fair value of fuel swap contracts, designated as cash flow hedges.

Financial debt

At December 31, 2013 and 2012, the Company's short–term and long–term debt consists of the following:

		2013		2012
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 November 1, 2016, bearing annual interest rate at the three–month LIBOR rate plus 2.65 percentage points.	Ps.	559,945	Ps.	759,373
II. Loan agreement with Banco Inbursa, S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa ("Inbursa"), in Mexican pesos, for working capital. Such loan matures on May 12, 2015 and 2016 (50% of the outstanding balance at each date, respectively) and bears interest at the Mexican interbank rate of equilibrium ("TIIE"), plus 10.0 percentage points, which increased by 2.5 percentage points from May 14, 2012.		–		257,081
III. Loan agreement with International Finance Corporation ("IFC"), tranche C, in U.S. dollars, for working capital, maturing on June 15, 2014, bearing annual interests at the six–month LIBOR plus 6 percentage points.		–		130,101
IV. Loan agreement with related party Pasprot, S.A. de C.V. ("Pasprot"), in Mexican pesos, for working capital. Such loan matures on May 12, 2015 and 2016 (50% of the outstanding balance at each date, respectively) and bears interest at TIIE, plus 10.0 percentage points, which increased by 2.5 percentage points from May 14, 2012.		–		3,305
V. Accrued interest		2,347		10,063
		562,292		1,159,923
Less: Short–term maturities		268,468		527,383
Long–term total	Ps.	293,824	Ps.	632,540

In September 2013, the Inbursa and Pasprot loans were prepaid in a total amount of Ps.260,386. The Company paid a 25% debt prepayment premium of Ps.65,156 according to the prepayment conditions established in the respective loan agreements. The debt prepayment premium was recorded as finance cost in the consolidated statement of operations.

In September 2013, the IFC loan agreement, tranche C was prepaid in a total amount of US$10,000 (Ps.130,119) with an unwinding cost premium of Ps.50 due to the fact that the payment was not made on an interest payment date. The total amount of the unwinding cost premium was recorded as finance cost in the consolidated statement of operations.

The following table provides a summary of the Company's principal payments of short and long–term debt obligations and accrued interest at December 31, 2013:

		2014		2015		2016		Total
Finance debt denominated in foreign currency:								
Santander/Bancomext	Ps.	268,468	Ps.	142,641	Ps.	151,183	Ps.	562,292
Total	Ps.	268,468	Ps.	142,641	Ps.	151,183	Ps.	562,292

During 2011, the Company entered into 100% pre–delivery payments financings with JSA, Santander and Bancomext for ten A320 aircrafts type to be delivered in 2012, 2013 and 2014, respectively. On the same date, the Company entered into a 67% pre–delivery payments financing with GECAS for four A320 aircraft type, which were delivered in 2012. A Mexican trust structure was created whereby (i) the Company assigned its rights and obligations, including its obligation to make pre–delivery payments, under its purchase agreement with Airbus to the Mexican trusts, (ii) the Company guaranteed the obligations of the Mexican trusts under the financing agreements, (iii) the Company transferred its purchase rights to JSA, and GECAS prior to the delivery date of the aircraft pursuant to the terms of the purchase agreement with Airbus, and (iv) the Company entered into lease agreements with JSA and GECAS for these seven aircraft out of the fourteen previously mentioned (sale and leaseback transaction).

The pre–delivery payments financing with JSA and GECAS were paid by the Company during the year ended December 31, 2012. Therefore, the Company did not have any financial debt with JSA and GECAS as of December 31, 2013 and 2012.

As of December 2012, the Company had a 100% pre–delivery payments financing with Santander and Bancomext for seven A320 aircraft to be delivered in 2013 and 2014. On August 1, 2013, the Company signed an amendment to the loan agreement to finance the pre–delivery payments of 8 additional A320 aircraft to be delivered in 2015 and 2016. This loan agreement provides for certain covenants, including limits to the ability to, among others:

i) Incur debt above a specified debt basket unless certain financial ratios are met.
ii) Create liens.
iii) Merge 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, 2013 and 2012, the Company was in compliance with the covenants under the above–mentioned loan agreements.

At December 31, 2013, the Company had available credit lines totaling Ps.1,159,103, of which Ps.934,956 were related to financial debt and Ps.224,147 were related to letters of credit (Ps.402,016 were undisbursed).

Other financial liabilities

		2013		2012
Derivative financial instruments at fair value through OCI:				
Interest rate swaps contracts	Ps.	106,151	Ps.	147,713
Total financial liabilities	Ps.	106,151	Ps.	147,713
Total current	Ps.	31,845	Ps.	37,011
Total no current	Ps.	74,306	Ps.	110,702

Financial liabilities at fair value through OCI reflect the change in fair value of interest rate swap contracts, designated as cash flow hedges.

6. Cash and cash equivalents

An analysis of this caption is as follows:

		2013		2012
Cash on hand	Ps.	3,840	Ps.	3,101
Cash in banks		2,007,566		42,559
Short–term investments		439,367		776,416
Total cash and cash equivalents	Ps.	2,450,773	Ps.	822,076

7. Related parties

a) An analysis of balances due from/to related parties at December 31, 2013 and 2012 is provided below. All companies are considered affiliates, since the Company's primary shareholders are also direct or indirect shareholders of the related parties:

	Type of transactions	Country of origin		2013		2012	Terms
Due from:							
ARSA Asesoría Integral Profesional, S.A. de C.V.	Insurance passenger commissions	Mexico	Ps.	885	Ps.	2,169	30 days
Marketing Modelo, S.A. de C.V.	Advertising	Mexico		–		1,450	30 days
			Ps.	885	Ps.	3,619	
Due to:							
Aeromantenimiento, S.A.	Aircraft and engine maintenance	El Salvador	Ps.	2,796	Ps.	3,389	30 days
TACA International Airlines, S.A.	Maintenance/pilot training	El Salvador		–		3	30 days
Human Capital International HCI, S.A. de C.V.	Professional fees	Mexico		240		7	30 days
			Ps.	3,036	Ps.	3,399	

For the years ended December 31, 2013, 2012 and 2011, the Company did not recognize any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

b) During the years ended December 31, 2013, 2012 and 2011, the Company had the following transactions with related parties:

Related party transactions	Country of origin		2013		2012		2011
Revenues:							
Other commissions	Mexico	Ps.	42,206	Ps.	44,205	Ps.	23,486
Advertising	Mexico		–		2,500		2,500
Other	Mexico		5		–		1,866
Transporting services commissions	Mexico		–		–		354
Expenses:							
Maintenance	El Salvador	Ps.	124,281	Ps.	135,640	Ps.	72,983
Fees	Mexico/El Salvador/USA		–		–		–
Pilot training	El Salvador		–		–		979
Other	Mexico/El Salvador		1,845		857		1,628

c) Servprot

Servprot S.A. de C.V. ("Servprot") is a related party because Enrique Beltranena Mejicano, the Company´s Chief Executive Officer, and Rodolfo Montemayor Garza, a member of the board of directors, are shareholders of such company. Servprot provides security services for Mr. Beltranena and his family, as well as for Mr. Montemayor. At December 31, 2013 the Company accrued an expense of Ps.87.

d) During the years ended December 31, 2013, 2012 and 2011, all of the Company's senior managers received an aggregate compensation of short and long–term benefits of Ps.65,452, Ps.63,003 and Ps.61,735, respectively. Additionally, the cost of the Management Incentive Plan for the year ended December 31, 2013 was Ps.2,068 (Note 17).

During the year ended December 31, 2013, the chairman and the independent members of the Company's board of directors received an aggregate compensation of approximately Ps.4,996, and the rest of the directors received a compensation of Ps.775.

During the year ended December 31, 2012, the chairman and the independent members of the Company's board of directors received an aggregate compensation of approximately Ps.5,775, and the rest of the directors received no compensation.

During years ended December 31, 2011 and 2010, the Company did not have an independent chairman or independent members as part of its Board of Directors.

8. Other accounts receivable, net

An analysis of other accounts receivable at December 31, 2013 and 2012, is detailed below:

		2013		2012
Short–term:				
Credit cards	Ps.	126,307	Ps.	91,411
Cargo clients		57,938		66,863
Travel agencies		45,683		35,331
Credit notes from suppliers (Note 12)		9,956		21,151
Other points of sales		22,077		19,057
Depositary services benefit		7,323		–
Employees		5,663		4,211
Other accounts receivable		24,623		21,029
Provision for doubtful accounts		(29,775)		(21,722)
	Ps.	269,795	Ps.	237,331

Accounts receivable have the following maturity:

		2013 Impaired		2013 Not impaired		2013 Total		2012 Impaired		2012 Not impaired		2012 Total
Days												
00–30	Ps.	12,497	Ps.	233,807	Ps.	246,304	Ps.	12,203	Ps.	211,716	Ps.	223,919
31–60		–		25,316		25,316				17,791		17,791
61–90		–		10,672		10,672				5,022		5,022
91–120		17,278		–		17,278		9,519		2,802		12,321
	Ps.	29,775	Ps.	269,795	Ps.	299,570	Ps.	21,722	Ps.	237,331	Ps.	259,053

The movement in the allowance for doubtful accounts from January 1, 2012 to December 31, 2013 is as follows:

Balance as of January 1, 2011	Ps.	(16,012)
Write–offs		5,616
Increase in allowance		(10,901)
Balance as of December 31, 2011		(21,297)
Write–offs		3,017
Increase in allowance		(3,442)
Balance as of December 31, 2012		(21,722)
Write–offs		462
Increase in allowance		(8,515)
Balance as of December 31, 2013	Ps.	(29,775)

9. Inventories

An analysis of inventories at December 31, 2013 and 2012 is as follows:

		2013		2012
Spare parts and accessories of flight equipment	Ps.	105,642	Ps.	91,403
Meals, beverages and utensils		8,193		5,747
	Ps.	113,835	Ps.	97,150

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, 2013, 2012 and 2011, the amount of consumption of inventories, recorded as an operating expense was Ps.139,519, Ps.114,521 and Ps.116,657, respectively.

10. Prepaid expenses and other current assets

An analysis of prepaid expenses and other current assets at December 31, 2013 and 2012 is as follows:

		2013		2012
Short–term:				
Prepaid major maintenance	Ps.	165,581	Ps.	128,201
Prepaid aircraft rent		67,884		64,733
Sales commission to travel agencies for unused tickets		43,589		25,006
Prepaid insurance		24,878		26,615
Advances to suppliers		10,985		6,086
Prepaid expenses for constructions of aircraft and engine		7,007		7,747
Loss on sale and leaseback transactions to be amortized (Note 14)		3,047		3,047
Transaction costs on the issuance of equity		–		6,398
Others		–		41
	Ps.	322,971	Ps.	267,874

11. Guarantee deposits

An analysis of this caption at December 31, 2013 and 2012 is as follows:

		2013		2012
Current asset:				
Aircraft maintenance deposits paid to lessors (Note 1j)	Ps.	459,531	Ps.	202,478
Other guarantee deposits		39,558		35,764
	Ps.	499,089	Ps.	238,242
Non–current asset:				
Aircraft maintenance deposits paid to lessors (Note 1j)	Ps.	2,147,720	Ps.	1,860,507
Deposits for rental of flight equipment		404,096		293,660
Collateral of derivative financial instruments (Note 1s)		40,017		81,597
Other guarantee deposits		11,648		8,901
		2,603,481		2,244,665
	Ps.	3,102,570	Ps.	2,482,907

12. Rotable spare parts, furniture and equipment, net

a) The detail and movement of the different categories of rotable spare parts, furniture and equipment are shown below:

	Gross value		Accumulated depreciation		Net carrying value	
	At December 31,		At December 31,		At December 31,	
	2013	2012	**2013**	2012	**2013**	2012
Aircraft parts and rotable spare parts	Ps. 181,676	Ps. 161,630	Ps. (69,436)	Ps. (53,069)	Ps. 112,240	Ps. 108,561
Constructions and improvements	69,056	47,973	(40,810)	(27,616)	28,246	20,357
Standardization	71,371	33,682	(31,259)	(23,370)	40,112	10,312
Computer equipment	22,323	20,794	(17,439)	(14,710)	4,884	6,084
Office furniture and equipment	27,014	24,372	(8,398)	(4,883)	18,616	19,489
Electric power equipment	15,491	12,789	(6,281)	(4,448)	9,210	8,341
Motorized transport equipment platform	4,597	4,969	(4,267)	(4,429)	330	540
Communications equipment	7,545	6,621	(3,200)	(2,473)	4,345	4,148
Workshop machinery and equipment	6,776	3,302	(1,526)	(991)	5,250	2,311
Service carts on board	4,505	3,629	(1,810)	–	2,695	3,629
Reserve for obsolescence	–	(619)	–	–	–	(619)
Pre–delivery payments	879,001	861,052	–	–	879,001	861,052
Workshop tools	10,395	10,395	(8,796)	–	1,599	10,395
Construction and improvements in process	8,828	13,639	–	–	8,828	13,639
Leasehold improvements to flight equipment	601,845	292,463	(375,878)	(165,383)	225,967	127,080
Total	Ps. 1,910,423	Ps. 1,496,691	Ps. (569,100)	Ps. (301,372)	Ps. 1,341,323	Ps. 1,195,319

	Aircraft parts and rotable spare parts	Constructions and improvements	Standardization	Computer equipment	Office furniture and equipment	Electric power equipment	Workshop tools	Construction and improvements in process	Motorized transport equipment platform	Communications equipment	Workshop machinery and equipment	Service carts on board	Reserve for obsolescence	Pre–delivery payments	Improvements to leased assets	Total
Net book amount as of December 31, 2011	Ps. 200,164	Ps. 37,721	Ps. 2,764	Ps. 3,532	Ps. 11,517	Ps. 7,012	Ps. 10,395	Ps. 11,492	Ps. 601	Ps. 3,643	Ps. 1,107	Ps. 1,783	Ps. (294)	Ps. 1,102,355	Ps. 123,506	Ps. 1,517,298
Additions	45,578	4,834	10,660	5,192	10,641	7,117		13,607	363	1,078	1,454	1,846	(325)	633,226 *	129,876	865,147
Disposals	(106,535)	(10,041)	–	(10)	(3,864)	(4,727)	–	(214)	(73)	–	–	–	–	(874,529)	–	(999,993)
Other movements	–	7,045	–	–	4,177	–	–	(11,246)	–	24	–	–	–	–	–	–
Depreciation	(30,646)	(19,202)	(3,112)	(2,630)	(2,982)	(1,061)	–	–	(351)	(597)	(250)	–	–	–	(126,302)	(187,133)
As of December 31,2012	108,561	20,357	10,312	6,084	19,489	8,341	10,395	13,639	540	4,148	2,311	3,629	(619)	861,052	127,080	1,195,319
Cost	161,630	47,973	33,682	20,794	24,372	12,789	10,395	13,639	4,969	6,621	3,302	3,629	(619)	861,052	292,463	1,496,691
Accumulated depreciation	(53,069)	(27,616)	(23,370)	(14,710)	(4,883)	(4,448)	–	–	(4,429)	(2,473)	(991)	–	–	–	(165,383)	(301,372)
Net book amount as of December 31, 2012	108,561	20,357	10,312	6,084	19,489	8,341	10,395	13,639	540	4,148	2,311	3,629	(619)	861,052	127,080	1,195,319
Additions	25,267	7,425	37,688	176	982	2,703	–	18,575	–	169	2,651	876	–	735,036 *	309,382	1,140,930
Disposals and transfers	(3,344)	–	–	–	(44)	–	–	(5,086)	(13)	–	–	–	–	(717,087)	–	(725,574)
Other movements	–	13,657	–	1,353	1,711	–	(419)	(18,300)	–	755	824	(200)	619	–	–	–
Depreciation	(18,244)	(13,193)	(7,888)	(2,729)	(3,522)	(1,834)	(8,377)	–	(197)	(727)	(536)	(1,610)	–	–	(210,495)	(269,352)
As of December 31,2013	112,240	28,246	40,112	4,884	18,616	9,210	1,599	8,828	330	4,345	5,250	2,695	–	879,001	225,967	1,341,323
Cost	181,676	69,056	71,371	22,323	27,014	15,491	10,395	8,828	4,597	7,545	6,776	4,505	–	879,001	601,845	1,910,423
Accumulated depreciation	(69,436)	(40,810)	(31,259)	(17,439)	(8,398)	(6,281)	(8,796)	–	(4,267)	(3,200)	(1,526)	(1,810)	–	–	(375,878)	(569,100)
Net book amount as of December 31, 2013	Ps. 112,240	Ps. 28,246	Ps. 40,112	Ps. 4,884	Ps. 18,616	Ps. 9,210	Ps. 1,599	Ps. 8,828	Ps. 330	Ps. 4,345	Ps. 5,250	Ps. 2,695	–	Ps. 879,001	Ps. 225,967	Ps. 1,341,323

* During the years ended December 31, 2013 and 2012, the Company capitalized borrowing cost of Ps.25,197 and Ps.64,452, respectively.

b) Depreciation expense for the years ended December 31, 2013, 2012 and 2011, was Ps.269,352, Ps.187,133 and Ps.82,919, respectively. Depreciation charges for the year are recognized as a component of operating expenses in the consolidated statements of operations.

c) On October 2005 and December 2006, the Company entered into purchase agreements with Airbus and International Aero Engines ("IAE") for the purchase of aircraft and engine, respectively. Under such agreements and prior to the delivery of each aircraft and engine, the Company agreed to make pre–delivery payments, which were calculated based on the reference price of each aircraft and engine, and following a formula established for such purpose in the agreements. The Company took the delivery of the aircraft in accordance with a schedule, based on which at December 31, 2011 a total of 16 aircraft and five engines were delivered.

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

In 2011, the Company amended the agreement with Airbus for the purchase of 44 A320 family aircraft to be delivered from 2015 to 2020. The new order includes 14 Classic Engine Option ("CEO") aircraft and 30 New Engine Option ("NEO") aircraft. During the years ended December 31, 2013 and 2012, the amounts paid for aircraft pre–delivery payments were of Ps.735,036 (US$56.88 million) and Ps.633,226 (US$44.25 million), respectively.

On August 16 2013, the Company entered into certain agreements, which included the purchase of the engine for 14 A320 CEO and 30 A320 NEO respectively, to be delivered between 2014 and 2020. The Company also entered into agreements that provide major maintenance services related to these engines, and the purchase of seven spare engines, one of them for the A320 CEO fleet, and the remaining six, for the A320 NEO fleet.

In November 2013, the Company amended the agreement with Airbus to advance one of the 14 CEO aircraft due for delivery in 2016, to November 2014.

d) On August 27, 2012, the Company entered into a total support agreement with Lufthansa Technik AG ("LHT") for a six year term, which includes:

(i) Total component support agreement (power–by–hour) which replaces the services performed by Aveos Fleet Performance, Inc. under the component services and pooling agreement. The agreement guarantees the availability of aircraft components for the Company's fleet when they are required. The cost of the total component support agreement is recognized in the consolidated statements of operations.

(ii) Sale and leaseback agreement of certain components. As of December 31, 2012, some of these components totaling Ps.12,307 were still held by the Company and were classified as held for sale. During 2013, the Company sold components in an amount of Ps.6,697.

As of June 30, 2013, the Company decided not to sell the remaining components that had not been delivered at such date. LHT agreed with the decision; therefore, the amount of Ps.5,601 was reclassified as part of rotable spare parts, furniture and equipment, after adjustment for depreciation.

As part of the total support agreement, the Company received credit notes of Ps.46,461 (US$3.5 million), which are being amortized on a straight line basis, prospectively during the term of the agreement. As of December 31, 2013 and 2012, the Company amortized a corresponding benefit from these credit notes of Ps.9,292 and Ps.3,485, respectively, which is recognized in the consolidated statements of operations.

As of December 31, 2013 and 2012 the Company applied Ps.11,195 and Ps.25,310 to outstanding LHT invoices and also recorded an account receivable of Ps.9,956 and Ps.21,151 for the unused portion of the credit notes. This account receivable will be applied against future invoices payable to LHT under the total support agreement (Note 8).

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

13. Intangible assets, net

The composition and movement of intangible assets is as follows:

	Amortization rate	Gross value		Accumulated depreciation		Net carrying value	
		At December 31,		At December 31,		At December 31,	
		2013	2012	**2013**	2012	**2013**	2012
Software	20%	Ps. 182,268	Ps. 121,594	Ps. (102,986)	Ps. (61,359)	Ps. 79,282	Ps. 60,235

Balance as of January 1, 2011	Ps.	57,207
Additions		21,055
Amortization		(20,058)
Balance as of December 31, 2011		58,204
Additions		25,900
Amortization		(23,869)
Balance as of December 31, 2012		60,235
Additions		60,676
Disposals		(9,450)
Amortization		(32,179)
Balance as of December 31, 2013	Ps.	79,282

Software amortization expense for the years ended December 31, 2013, 2012 and 2011 was Ps.32,179, Ps.23,869 and Ps.20,058, respectively. These amounts were recognized in other operating expenses in the consolidated statements of operations.

14. Operating leases

The most significant operating leases are as follows:

a) Aircraft and engine rent. The Company leases 44 aircrafts and six spare engines under operating leases that have maximum terms through 2025. Rents are guaranteed by deposits in cash or letters of credit. The agreements contain certain covenants to which the Company is bound. The most significant covenants include the following:

(i) Maintain the records, licenses and authorizations required by the competent aviation authorities and make the corresponding payments.

(ii) Provide maintenance services to the equipment based on the approved maintenance program.

(iii) Maintain insurance policies on the equipment for the amounts and risks stipulated in each agreement.

(iv) Periodic submission of financial and operating information to the Lessors.

(v) Comply with the technical conditions relative to the return of aircraft.

As of December 31, 2013 and 2012, the Company was in compliance with the covenants under the above mentioned aircraft lease agreements.

Composition of the fleet, operating leases:

		At December 31,		
Aircraft Type	Model	**2013**	2012	2011
A319	132	7	11	11
A319	133	13	13	13
A320	233	20	13	6
A320	232	4	4	4
		44	41	34

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

On June 5, 2013, the Company entered into four new aircraft lease agreements (A320 aircraft), which are accounted as operating leases; two of them were incorporated into the Company's fleet during the fourth quarter of 2013, and the two remaining aircraft will be incorporated during the first half of 2014.

On August 12, 2013, the Company entered into two new aircraft lease agreements (A320 aircraft), which are accounted as operating leases; these two aircraft will be incorporated into the Company's fleet during 2014.

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

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

	Operating leases in U.S. dollars		Operating leases of Mexican pesos	
2014	US$	155,521	Ps.	2,033,678
2015		143,884		1,881,496
2016		131,406		1,718,330
2017		105,095		1,374,276
2018		87,813		1,148,282
2019 and thereafter		364,689		4,768,856
Total	US$	988,408	Ps.	12,924,918

Such amounts are determined based on the stipulated rent contained within the agreements without considering renewals and on the prevailing exchange rate and interest rates at December 31, 2013.

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

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

	Operating leases in U.S. dollars		Operating leases of Mexican pesos	
2014	US$	3,699	Ps.	48,374
2015		1,420		18,568
2016		866		11,325
2017		790		10,334
2018		816		10,668
2019 and thereafter		6,828		89,280
Total	US$	14,419	Ps.	188,549

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

		2013		2012		2011
Aircraft and engine (Note 1p)	Ps.	2,187,339	Ps.	1,885,696	Ps.	1,508,135
Real estate:						
Airports facilities		41,643		49,277		38,161
Offices, maintenance warehouse and hangar (Note 20)		22,431		20,227		14,346
Total rental expenses on real estate		64,074		69,504		52,507
Total cost of operating leases	Ps.	2,251,413	Ps.	1,955,200	Ps.	1,560,642

During the years ended December 31, 2013, 2012 and 2011, the Company sold aircraft and engine to third parties, giving rise to a gain of Ps.106,607, Ps.61,269 and Ps.72,820, respectively, that was recorded under the caption other income in the consolidated statement of operations (Notes 12 and 20).

During the year ended December 31, 2011, the Company entered into sale and leaseback transactions, which resulted in a loss of Ps.30,706. This loss was deferred on the consolidated statements of financial position and is being amortized over the contractual lease term. As of December 31, 2013 and 2012, the current portion of the loss on sale amounts to Ps.3,047 and Ps.3,047, respectively, which are recorded in the caption of prepaid expenses and other current assets (Note 10), and the non–current portion amounts to Ps.23,601 and Ps.26,648, respectively, which are recorded in the caption of other assets.

For the years ended December 31, 2013, 2012 and 2011, the Company amortized a loss of Ps.3,047, Ps.3,047 and Ps.1,011, respectively, as additional aircraft rental expense.

15. Accrued liabilities

a) An analysis of accrued liabilities at December 31, 2013 and 2012 is as follows:

		2013		2012
Fuel and traffic expenses	Ps.	563,156	Ps.	488,829
Information and communication expenses		93,080		39,578
Maintenance reserves		85,535		73,856
Salaries and benefits		74,518		64,197
Sale, marketing and distribution expenses		66,247		41,711
Maintenance and aircraft parts expenses		38,693		18,718
Administrative expenses		30,992		18,988
Membership services		28,567		14,684
Aircraft and engine lease extension benefit (Note 1j)		27,095		23,253
Supplier services agreement		9,292		9,292
Depositary services benefit		2,068		–
Others		13,439		12,685
	Ps.	1,032,682	Ps.	805,791

b) Accrued liabilities long–term:

		2013		2012
Aircraft and engine lease extension benefit (Note 1j)	Ps.	99,531	Ps.	106,089
Supplier services agreement		24,394		33,685
Depositary services benefit		7,682		–
Others		5,977		–
	Ps.	137,584	Ps.	139,774

c) An analysis of other liabilities is as follows:

		Balance as of January 1, 2013		Increase for the year		Payments		Balance as of December 31, 2013
Employee profit sharing	Ps.	7,230	Ps.	79,182	Ps.	78,478	Ps.	7,934
Aircraft lease return liabilities		8,805		8,058		3,918		12,945
	Ps.	16,035	Ps.	87,240	Ps.	82,396	Ps.	20,879
Short– term maturities							Ps.	9,498
Long–term							Ps.	11,381

		Balance as of January 1, 2012		Increase for the year		Payments		Balance as of December 31, 2012
Employee profit sharing	Ps.	8,143	Ps.	6,770	Ps.	7,683	Ps.	7,230
Aircraft lease return liabilities		6,337		2,468		–		8,805
	Ps.	14,480	Ps.	9,238	Ps.	7,683	Ps.	16,035
Short– term maturities							Ps.	8,880
Long–term							Ps.	7,155

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, 2013, 2012 and 2011, are as follows:

		2013		2012		2011
Analysis of net period cost:						
Current service cost	Ps.	1,251	Ps.	1,006	Ps.	960
Interest cost on benefit obligation		276		202		149
Net period cost	Ps.	1,527	Ps.	1,208	Ps.	1,109
Net defined benefit obligation	Ps.	5,260	Ps.	4,111	Ps.	2,813

Changes in the defined benefit obligation are as follows:

		2013		2012		2011
Defined benefit obligation at January 1,	Ps.	4,111	Ps.	2,813	Ps.	2,087
Net period cost charged to profit or loss:						
Current service cost		1,251		1,006		960
Interest cost on benefit obligation		276		202		149
Remeasurement gains (losses) in other comprehensive income:						
Actuarial changes arising from changes in financial assumptions		332		436		(139)
Payments made		(710)		(346)		(244)
Defined benefit obligation at December 31,	Ps.	5,260	Ps.	4,111	Ps.	2,813

The significant assumptions used in the computation of the actuarial present value of the current defined benefit obligation, the accumulated current benefit obligation, the projected benefit obligation and the net cost of the plan are as follows:

	2013	2012	2011
Financial:			
Annual discount rate	7.50%	7.00%	7.50%
Expected rate of salary increases	5.50%	5.50%	5.50%
Annual increase in minimum salary	4.00%	4.00%	4.00%
Biometric:			
Mortality [1]	EMSA 97	EMSA 82–89	EMSA 82–89
Disability [2]	IMSS–97	IMSS–97	IMSS–97

(1) EMSSA. Mexican Experience of social security.
(2) IMSS. Mexican Experience of Instituto Mexicano de la Seguridad Social.

Accruals for short–term employee benefits at December 31, 2013 and 2012, respectively, are as follows:

		2013		2012
Employee profit–sharing	Ps.	7,934	Ps.	7,230

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

17. Management incentive plan

In April 2012, the Board of Directors authorized a management incentive plan for the benefit of certain key employees, subject to shareholders' approval. On December 21, 2012, the shareholders approved the management incentive plan 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 Ordinary Participation Certificates ("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 a trust ("Management 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 Management Trust was created and the share sale agreements were executed. On December 27, 2012, the trust borrowed Ps.133,723 from the Company and immediately after; the trust paid the Company the same amount borrowed as purchase price for the shares. The share sale agreements provide that the officers may pay for the shares at the same price upon the occurrence of either an initial public offering of the Company's capital stock or a change of control and as long as they remain employees until the options are exercised, with a maximum term of ten years. Upon payment of the shares by the officers to the Management Trust, it has to pay such amount back to the Company as repayment of the loan, for which the Company charges no interest.

The management incentive plan 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 management incentive plan determined by the Company was Ps.2,722 to be recognized from the time it becomes probable the performance condition will be met over the vesting period.

During the year ended December 31, 2013, the Company recorded Ps.2,068 as cost of the management incentive plan related to the vested shares, in the consolidated statements of operations. This cost was determined by using the improved Binomial valuation model from Hull and White, on the date in which the plan had already been approved by the shareholders and a shared understanding of the terms and conditions of the plan was reached with the employees (December 24, 2012, defined as the grant date), with the following assumptions:

	2012
Dividend yield (%)	0.00%
Volatility (%)	37.00%
Risk–free interest rate (%)	5.96%
Expected life of share options (years)	8.8
Exercise share price (in Mexican pesos Ps.)	5.31
Exercise multiple	1.1
Fair value of the stock at grant date	1.73

The expected volatility reflects the assumption that the historical volatility of comparable companies is indicative of future trends, which may not necessarily be the actual outcome.

Under the methodology followed by the Company, at the grant date and December 31, 2012 the granted shares had no positive intrinsic value.

On September 18, 2013 (IPO date), the key employees participating in the management incentive plan exercised 4,891,410 shares. As a result, the key employees paid Ps.25,993 to the Management Trust corresponding to the exercised shares. Thereafter, the Company received from the Management Trust the payment related to the exercised shares by the key employees as a repayment of the loan between the Company and the Management Trust.

Movements in shares options

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

	Number of shares options	Exercise price in Mexican pesos	Total in thousands of Mexican pesos
Outstanding as of December 31, 2012	25,164,126*	Ps. 5.31	Ps. 133,723
Granted during the year	–	–	–
Forfeited during the year	–	–	–
Exercised during the year	(4,891,410)	5.31	(25,993)
Outstanding as of December 31, 2013	20,272,716	Ps. 5.31	Ps. 107,730

* Unvested shares as of December 31, 2012.

At December 31, 2013 and December 31, 2012, the share options were considered as treasury shares. As of December 31, 2013, the total number of vested and unvested shares amounted to 14,228,364 and 6,044,352, respectively.

18. Equity

a) Stock split and share conversion

On June 5, 2013 the Company's shareholders adopted certain unanimous resolutions (the "June 5 Resolutions"), pursuant to which they approved, among others: (i) a stock split of 1 to 403 and share conversion to Series A and B shares, (ii) a capital increase which is conditioned to an effective IPO, (iii) the change of the Company's bylaws, including the name of the Company and (iv) the 2012 and 2011 consolidated financial statements.

On June 11, 2013 the Company's shareholders adopted new unanimous resolutions. In the new resolutions the Company's shareholders revoked the June 5, 2013 Resolutions and approved, among others: (i) a stock split of 1 to 403 and share conversion to Series A and B shares, (ii) a capital increase which is conditioned to an effective IPO, (iii) the change of the Company's bylaws, including the name of the Company and (iv) the 2012 and 2011 consolidated financial statements.

Considering the stock split (which consisted of a 1 to 403 split of the Company's total number of shares), the total number of authorized shares as of December 31, 2012, was 838,799,767 (727,595,544 in 2011), represented by common registered shares, issued and with no par value, fully subscribed.

As a result of the share conversion, as of December 31, 2013, the Company now has only two classes of outstanding shares, Series A shares reserved for Mexican holders and Series B shares for non–Mexican holders.

b) IPO

On September 23, 2013, the Company completed its dual listing IPO on the New York Stock Exchange (NYSE) and on the Bolsa Mexicana de Valores (BMV) or Mexican Stock Exchange. The Company raised Ps.2,684,280 (approximately US$207.7 million) of gross proceeds from the global offering of 173,076,910 Series A shares, consisting of (i) an offering of Series A Shares in Mexico and (ii) concurrent international offering of Ordinary Participation Certificates or "CPOs", in the form of American Depositary Shares "ADS" in the United States at a public offering price of Ps.15.51 per share (US$1.20 dollars) or US$12.00 per ADS. The Series A shares were listed on the BMV, under the trading symbol "VOLAR.", and the ADSs, were listed on the NYSE under the trading symbol "VLRS." The Series A shares and ADSs began trading on September 18, 2013.

In connection with the IPO, the Company incurred in equity transaction costs in the amount of Ps.140,920. In accordance with IAS 32, the transaction costs of the equity transaction of Ps.131,496 were accounted for as a deduction of equity, since they were considered as incremental costs directly attributable to the equity transaction that would otherwise have been avoided. The Company recorded the transaction costs in connection with the existing shares in the consolidated statement of operations in the amount of Ps.9,424.

The number of newly issued shares and gross proceeds obtained from the global offering is detailed as follows:

	Global Offering (Shares)			
	Mexico	International	Total newly–issued shares	Total proceeds obtained
Primary tranche–Series A Shares	40,884,960	132,191,950	173,076,910	Ps. 2,684,280

The Company retained Ps.2,087,649 of the proceeds, after using Ps.390,505 to amortize the financial debt with Inbursa, Pasprot and IFC, Ps.65,206 for the debt prepayment premium, and unwinding cost premium related to debt prepayment, as well as Ps.140,920 for equity transaction costs.

Upon completion of the IPO, the total number of authorized shares as of December 31, 2013, was 1,011,876,677; represented by common registered shares, issued and with no par value, fully subscribed and paid, comprised as follows:

	Shares Fixed Class I	Variable Class II	Total shares
Series A Shares	3,224	877,852,982	877,856,206
Series B Shares	20,956	133,999,515	134,020,471
	24,180	1,011,852,497	1,011,876,677
Treasury shares (Note 17)		(20,272,716)	(20,272,716)
	24,180	991,579,781	991,603,961

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 shareholder resolution, subject to the rights of the holders of all series of stock outstanding having priority rights to dividends. The Company's revolving line of credit with Banco Santander México and Bancomext limit the Company´s ability to declare and pay dividends in the event that the Company fails to comply with the payment terms thereunder.

During the year ended December 31, 2013 and 2012 the Company did not declare any dividends.

c) Corporate restructuring in 2012

Through unanimous resolutions dated November 27, 2012, December 21, 2012 and December 26, 2012, the Company's shareholders approved a corporate restructuring with the sole purpose of acquiring the shares held by other shareholders of Concesionaria in exchange for the capital stock of the Company. As a consequence, the Company increased its direct and indirect holding of the outstanding shares of Concesionaria by acquiring on November 27, 2012, an additional 5.28% interest in the voting shares of Concesionaria and on December 21, 2012, an additional 3.24% interest in the voting shares of Concesionaria, increasing its ownership interest after both acquisitions to 97.95% as of December 31, 2012.

In December 2012, the Company recognized the difference between the consideration paid and the carrying value of the non–controlling interest acquired, as additional paid–in capital for an amount of Ps.190,850.

Through unanimous resolutions dated November 27, 2012 and December 21, 2012, the Company´s shareholders approved a corporate restructuring with the sole purpose of acquiring the shares held by other shareholders of Concesionaria in exchange for the capital stock of the Company, through the capitalization of promissory notes by Ps.136,298 and Ps.139,764, respectively.

Additionally, on December 21, 2012 the shareholders of Company through unanimous resolution, approved:

(a) The creation of certain unpaid Stock Swap Option (the "Swap") regarding 16,173,599 shares representing 2.05% of the common equity of Concesionaria ("Concesionaria Swap Shares") owned by HSBC México, S.A., FICAP, granting FICAP the option to sell to Controladora any or all of Concesionaria Swap Shares in consideration for either

(i) a payment in kind with shares from Company's capital stock, taking into account 1.03374 shares of Company per each share of Concesionaria, or (ii) a cash settlement amount, at a total price of Ps.88,847; and

(b) The issuance of an aggregate of 16,719,261 Series A shares (the "Company Swap Shares") to be held in the treasury until the Swap is exercised at a total price of Ps.88,847.

Although the creation of the Swap and the issuance of the Company Swap Shares were approved on December 21, 2012, the trust implementing the transaction was not created until February 22, 2013 and the Company did not become a party to such trust until April 10, 2013. Therefore, no obligation of the Company existed until April 10, 2013. The option of FICAP to receive payment in kind was subsequently exercised on April 19, 2013 and equity–settled on April 22, 2013.

d) Acquisition of non–controlling interest in 2012

On November 27, 2012 and December 21, 2012, some of the non–controlling interest of Concesionaria reimbursed their shares with the corresponding capital reduction in Concesionaria and some of the non–controlling interest sold their shares to Controladora, for the sole purpose of participating in Controladora's capital stock and in exchange they received a promissory note for an amount of Ps.276,062. These promissory notes were recognized as capital contributions upon the issuance of new shares of Controladora for the same value.

At December 31, 2012 and 2011, Controladora's capital stock, which is represented by common registered shares, issued and with no par value, fully subscribed and paid, was comprised as follows:

	Shares Fixed Class I	Variable Class II	At December 31, 2012
Fixed capital:			Ps. 65
Series A	3,224	181,973,441	
Series B1	7,254		45,961,344
Series B2	6,851		44,850,273
Series B3	6,851		43,187,898
Series B4	–		4,194,021
Series N	–		518,608,610
Variable capital			2,464,880
	24,180	838,775,587	Ps. 2,464,945
Treasury shares:			
Stock swap option unpaid (Series A) (Note 18 c)	–	(16,719,261)	(88,847)
	24,180	822,056,326	2,376,098
Management incentive plan (Series A and B) (Note 17)	–	(25,164,126)	(133,723)

	Shares		
	Fixed Class I	Variable Class II	At December 31, 2011
Fixed capital:			Ps. 65
Series A	7,254	216,465,405	
Series B	6,851	211,230,435	
Series C	6,851	203,402,160	
Series D	3,224	96,473,364	
Variable capital			1,966,248
Total	24,180	727,571,364	Ps. 1,966,313

(i) The Company's fixed portion of capital stock is represented by common registered shares with no par value. Fixed minimum capital is Ps.65,346 (sixty–five thousand three hundred and forty–six Mexican pesos 00/100) and are represented by Class I shares.

(ii) There is no limit on the number of shares that represent the variable portion of capital, and variable portion of capital is represented by Class II shares.

(iii) Series A, B1, B2, B3 and B4 shares common registered shares with no par value, grant full voting rights. Series N shares common registered shares with no par value grant no voting rights. Additionally, in order for a general extraordinary shareholders meeting resolve and approve Important Matters, as defined in the Company's bylaws, the affirmative vote of (a) at least 62% of the Series A shares, plus (b) the majority of either the Series B1, B2 or B3, as applicable, as long as each such series of shares maintain a participation of 12.50% in the Company's capital stock, is needed. Series A may be subscribed and paid solely by Mexican investors, Series B1, B2, B3, B4 and N may be subscribed and paid foreign investors under the terms of the legislation applicable to foreign investment in Mexico. The board of directors shall be composed of a minimum of 9 and a maximum of 13 members, which will be appointed by the shareholders. Holders of Series A shares shall have the right to appoint the majority of its members and Series B1, B2, and B3 shall have the right to select a maximum of two board members. All shares representing the Company's capital stock grants the holders the same economic rights and there are no preferences and/or restrictions attaching to that any class or series of shares on the distribution of dividends and the repayment of capital.

e) Earnings per share

The following table shows the calculations of the basic and diluted earnings per share for the years ended December 31, 2013, 2012 and 2011.

	At December 31,		
	2013	2012	2011
Net profit (loss) for the period attributable to equity holders of the parent	Ps. 268,678	Ps. 215,239	Ps. (293,540)
Weighted average number of shares outstanding (in thousands):			
Basic	865,579	732,441	727,596
Diluted	865,579**	732,441*	727,596*
Earnings (loss) per share:			
Basic	Ps. 0.310	Ps. 0.294	Ps. (0.403)
Diluted	Ps. 0.310	Ps. 0.294	Ps. (0.403)

* Until December 31, 2012, unissued shares awarded under the management incentive plan and the Company's swap shares are deemed treasury shares and anti–dilutive; accordingly, they have been excluded in the determination of weighted average diluted shares outstanding and disregarded in the calculation of diluted earnings per share at such date.

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

In conformity with the Mexican Corporations Act, the Company is required to allocate at least 5% of the net income of each year to increase the legal reserve. This practice must be continued until the legal reserve reaches 20% of capital stock.

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

As of December 31, 2013, the Company's legal reserve has not reached the 20% of its capital stock.

Any distribution of earnings in excess of the net tax profit account ("CUFIN") balance will be subject to corporate income tax, payable by the Company, at the enacted income tax rate at that time.

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. As of December 31, 2013 and 2012, there are not contributions for future increases in capital stock.

19. Income tax and flat rate business tax ("FRBT")

a) In accordance with Mexican tax law, the Company is subject to income tax and Flat Rate Business Tax ("FRBT") and files its tax returns on an individual entity basis and the related tax results are combined in the accompanying consolidated financial statements. The income tax is computed taking into consideration the taxable and deductible effects of inflation, such as depreciation calculated on restated assets values. Taxable income is increased or reduced by the effects of inflation on certain monetary assets and liabilities through the annual inflation adjustment.

Current–year FRBT is computed by applying the 17.5% in 2013, 2012 and 2011. Taxable income is determined on a cash flow basis net of authorized credits.

For the year ended December 31, 2013 and 2012, FRBT shall be payable only to the extent it exceeds income tax for the same period. In other words, to determine FRBT payable, income tax paid in a given period shall first be subtracted from the FRBT of the same period and the difference shall be the FRBT payable.

Should a negative FRBT base be determined because deductions exceed taxable income, there will be no payable FRBT. Deductions exceeding taxable income are multiplied by the FRBT rate resulting in a FRBT credit, which may be applied against income tax for the same year or, if applicable, against FRBT payable in the next ten years.

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

(i) Based on the approved law corporate income tax rate for 2014 and thereafter is 30%.

(ii) In addition to the above, as of 2014, the new tax rules include limits in the deductions of the exempt compensation amount certain items, as follows: Wages and benefits paid to workers 47% of income paid to workers and in certain cases up to 53% (Christmas bonus, savings fund, employee profit sharing, seniority premiums) will be deductible for employers. As a result, certain wage and salary provisions will have difference between tax and book values at year–end.

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

(iv) Based on the approved law, starting in 2014 taxable income for purposes of the employee profit sharing will be the same used for the Corporate Income Tax except for certain items.

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

The definition of dividend for this purpose would include the following in addition to declared dividends:

- Interest paid on preferred shares
- Loans to shareholders and partners unless the loan is established for less than one year, incurred in the operations of the business and meets certain requirements
- Payments that are considered non–deductible and benefit the shareholders
- Omissions of income or unrealized purchases
- Transfer pricing adjustments to income or expenses as a result of assessments by the tax authorities for related party transactions.
- Distributions from a branch to the home office.

c) For the years ended December 31, 2013 and 2012, the Company reported on a combined basis a tax profit of Ps.51,665 and Ps.308,633, respectively, which was offset by tax losses from prior years. For the year ended December 31, 2011, the Company reported a tax loss on combined a basis of Ps.532,414.

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

d) An analysis of combined tax on profits charged to results of operations for the years ended December 31, 2013, 2012 and 2011 is as follows:

		2013		2012		2011
Current year income tax (expense)	Ps.	(8,710)	Ps.	(15,614)	Ps.	(7,498)
Deferred income tax (expense) benefit		(8,840)		12,133		7,022
Total tax (expense) on profits	Ps.	(17,550)	Ps.	(3,481)	Ps.	(476)

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

	2013	2012	2011
Statutory income tax rate	30.00%	30.00%	30.00%
Annual inflation adjustment	0.45%	7.04%	(4.33%)
Nondeductible expenses	3.85%	2.03%	(3.42%)
Inflation of furniture and equipment	(0.37%)	(0.64%)	1.40%
Unrecorded deferred taxes on available tax losses carryforward	14.00%	–	(66.38%)
Benefits recognized for tax losses	(39.21%)	(33.01%)	0.00%
Inflation of tax losses	(6.34%)	(10.36%)	7.82%
Adjustment to beginning balance	3.56%	10.29%	25.32%
Other tax adjustments	0.21%	(6.17%)	9.28%
Tax rate change	0.05%	2.50%	0.16%
	6.20%	1.68%	(0.15%)

For Mexican purposes, corporate income tax is computed on accrued basis. Corporate Income Tax Law 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 by the revenue is collected, (ii) the service is provided or (iii) the time of the issuance of the invoice. Expenses are deductible for tax purposes generally on accrual basis, with some exceptions, once the requirements established in the tax law are fulfilled.

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

	2013		2012	
	Consolidated statement of financial position	Consolidated statement of operations	Consolidated statement of financial position	Consolidated statement of operations
Deferred income tax assets:				
Unearned transportation revenue	Ps. 41,572	Ps. 3,812	Ps. 37,760	Ps. 12,998
Allowance for doubtful accont	8,965	2,326	6,639	(1,073)
Provisions	139,787	38,273	101,514	(222)
Employee benefits	1,578	3,503	1,151	(8,111)
Employee profit sharing	1,748	(421)	2,169	1,832
Financial instruments	32,349	453	44,363	(91)
Extension lease agreement	48,093	(3,603)	51,696	51,696
Tax losses available for offsetting against future taxable income	470,789	43,460	427,329	(35,238)
Other accruals	14,066	10,323	3,743	(3,752)
	758,947	98,126	676,364	18,039
Deferred income tax liabilities:				
Inventories	34,151	5,006	29,145	5,142
Financial instruments	2,618	(18)	757	18
Rotable spare parts, furniture and equipment, net	109,056	43,199	65,857	7,671
Intangible	11,917	(3,329)	15,246	11,345
Prepaid expenses and other assets	94,890	21,224	73,666	4,956
Supplemental rent	209,850	42,386	167,464	(24,529)
Other prepayment	13,470	(1,502)	14,972	1,303
	475,952	106,966	367,107	5,906
	Ps. 282,995	Ps. (8,840)	Ps. 309,257	Ps. 12,133

	2013	2012
Reflected in the consolidated statement of financial position as follows:		
Deferred tax assets	Ps. 304,525	Ps. 319,969
Deferred tax liabilities	(21,530)	(10,712)
Deferred tax asset, net	Ps. 282,995	Ps. 309,257

A reconciliation of deferred tax asset is as follows:

	2013	2012	2011
Opening balance as of January 1,	Ps. 309,257	Ps. 302,125	Ps. 273,338
Tax income (expense) during the current year recorded in profit	(8,840)	12,133	7,022
Tax income (expense) during the current year recorded in accumulated other comprehensive income	(17,422)	(5,001)	21,765
Closing balance as of December 31,	Ps. 282,995	Ps. 309,257	Ps. 302,125

At December 31, 2013 and 2012 the table shown above includes deferred income tax asset recognized by Concesionaria 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.

g) According to IAS 12, Income Taxes a deferred tax asset should be recognized for the carryforward of available tax losses to the extent that it is probable that future taxable income will be available against which the available tax losses can be utilized. In this regards the Company has recognized at December 31, 2013 and 2012 a deferred tax asset for tax losses of Ps.470,789 and Ps.427,567, respectively.

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

An analysis of the available tax losses carry–forward of the Company at December 31, 2013 is as follows:

Year of loss	Historical Loss	Restated tax loss	Utilized	Total remaining amount	Year of expiration
2005	Ps. 115,170	Ps. 142,044	Ps. 142,044	Ps. –	2015
2006	297,422	387,156	384,573	2,583	2016
2007	333,206	437,874	82,881	354,993	2017
2008	317,209	397,968	245	397,723	2018
2009	344,154	409,222	5,622	403,600	2019
2010	95,334	109,268	2,464	106,804	2020
2011	559,623	620,559	1,656	618,903	2021
2013	181,756	186,589	–	186,589	2023
	Ps. 2,243,874	Ps. 2,690,680	Ps. 619,485	Ps. 2,071,195	

A breakdown of available tax loss carry–forward of Controladora and its subsidiaries at December 31, 2013 is as follows:

		Historical loss		Restated tax loss		Utilized		Total remaining amount
Concesionaria	Ps.	1,687,494	Ps.	2,076,169	Ps.	578,869	Ps.	1,497,300
Controladora		535,251		591,753		29,486		562,267
Comercializadora		20,149		21,743		10,115		11,628
Servicios Administrativos		980		1,015		1,015		–
	Ps.	2,243,874	Ps.	2,690,680	Ps.	619,485	Ps.	2,071,195

h) At December 31, 2013, the Company had the following tax balances:

Restated contributed capital account ("CUCA") Ps.3,185,711
Combined Net tax profit account ("CUFIN") Ps.35,010

20. Other operating income and expenses

An analysis of other operating income is as follows:

		2013		2012		2011
Gain on sale and leaseback (Note 14)	Ps.	106,607	Ps.	61,269	Ps.	72,820
Others		4,670		7,531		1,011
	Ps.	111,277	Ps.	68,800	Ps.	73,831

An analysis of other operating expenses is as follows:

		2013		2012		2011
Administrative and operational support expenses	Ps.	147,746	Ps.	116,257	Ps.	144,035
Technology and communications		96,924		72,962		56,493
Insurance		59,313		66,903		50,861
Passenger services		57,956		53,395		46,393
Rents of offices, maintenance warehouse and hangar (Note 14 c)		22,431		20,227		14,346
Penalty of anticipated IT contract cancellation		21,821		–		34,245
Disposal of intangible, rotable spare parts, furniture and equipment		11,805		14,586		1,066
Equity transaction costs (Note 18)		9,424		–		–
Penalty of anticipated lease contract cancellation		7,601		–		–
Other IT expenses		7,443		–		–
Others		16,036		12,187		11,607
	Ps.	458,500	Ps.	356,517	Ps.	359,046

21. Finance income and cost

An analysis of finance income is as follows:

		2013		2012		2011
Interest on cash and equivalents	Ps.	23,044	Ps.	8,084	Ps.	5,539
Others		1,730		5,527		–
	Ps.	24,774	Ps.	13,611	Ps.	5,539

An analysis of finance cost is as follows:

		2013		2012		2011
Interest on debts and borrowings	Ps.	38,796	Ps.	53,999	Ps.	48,162
Debt prepayment premium (Note 5)		65,206		–		–
Other finance interest		–		8,262		–
Cost of letter credit notes		17,164		13,868		7,720
Debt financial costs		–		10,059		–
Others		4,571		3,543		1,836
	Ps.	125,737	Ps.	89,731	Ps.	57,718

22. Components of other comprehensive income

		2013		2012		2011
Derivative financial instruments:						
Gain of the not–yet matured interest rate swap contracts	Ps.	41,561	Ps.	15,037	Ps.	(3,438)
Gain of the not–yet matured fuel swap contracts		6,258		1,288		(63,282)
	Ps.	47,819	Ps.	16,325	Ps.	(66,720)

23. Commitments

Aircraft related commitments and financing arrangements

Committed expenditures for aircraft purchase and related flight equipment, 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
2014	US$	59,480	Ps.	777,787
2015		53,535		700,046
2016		41,547		543,293
2017		82,275		1,075,868
2018		119,883		1,567,654
2019 and thereafter		117,247		1,533,183
	US$	473,967	Ps.	6,197,831

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:

		2013		2012		2011
Revenues:						
Domestic (Mexico)	Ps.	9,619,983	Ps.	8,834,864	Ps.	6,781,571
United States of America		3,382,488		2,851,551		2,097,045
Total revenues	Ps.	13,002,471	Ps.	11,686,415	Ps.	8,878,616

25. Subsequent events

Subsequent to December 31, 2013 and through April 24, 2014:

(i) The Company entered into a 16 new A320neo family aircraft lease agreement with a leading aircraft lessor (10 A320neo and six A321neo); these aircraft will enable Volaris to continue with its growth strategy with a young, efficient and uniform fleet, as well as secure early delivery slots of the next generation and fuel efficient Airbus A320 family new engine option. Volaris' decision to add the A321neo into its fleet, is in line with its strategy of further reducing its operating costs and to maximize the use of airport slots in key markets. These 16 aircraft will be incorporated into the Company's fleet between 2016 and 2018 and will be powered by Pratt & Whitney´s PW1100G engine.

(ii) The Company incorporated three new A320 aircraft to its fleet and returned one A320 aircraft to the lessor. The Company's fleet reached 46 aircraft as of April 24, 2014.

(ii) On April 8, 2014 Concesionaria entered into a new A–320 aircraft lease agreement with Awas Aviation Trading Limited. This new aircraft will be incorporated into the Company's fleet during 2014.

Glossary

Ancillary revenue – Non-ticket revenue excluding cargo.

ASM – Available Seat Miles. The number of seats available for passengers multiplied by the number of miles the seats are flown.

Average daily aircraft utilization - Flight hours or block hours, as applicable, divided by number of days in the period divided by average aircraft in the period.

Average ticket revenue per booked passenger - Total passenger revenue divided by booked passengers.

Block hours - The number of hours during which the aircraft is in revenue service, measured from the time it leaves the gate until the time it arrives to the gate at destination.

CASM or unit costs - Total operating expenses, net divided by ASMs.

EBITDAR - Earnings Before Interest, Taxes, Depreciation, Amortization, and Restructuring or Rent Cost

Load factor - RPMs divided by ASMs and expressed as a percentage.

Low-cost carrier - An airline that typically flies direct, point-to-point flights, often serves major markets through secondary, lower cost airports in the same regions as major population centers, provides a single class of service, thereby increasing the number of seats on each flight and avoiding the significant and incremental cost of offering premium-class services, and tends to operate fleets with only one or two aircraft families, in order to maximize the utilization of flight crews across the fleet, improve aircraft scheduling efficiency and flexibility and minimize inventory and aircraft maintenance costs.

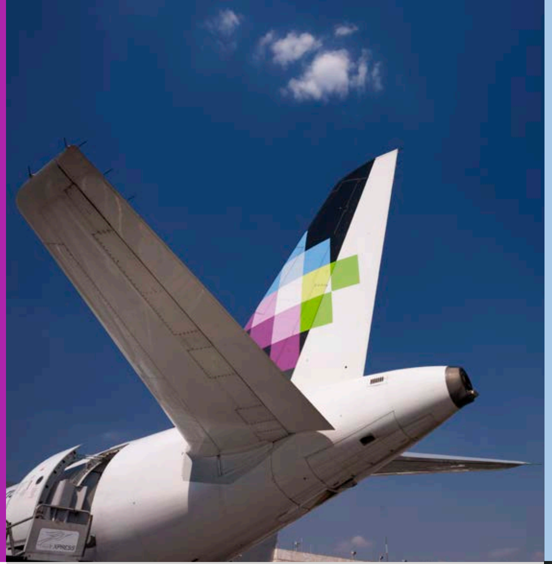
Non-ticket revenue - All revenue generated other than fare such as excess baggage, cargo, channel fees and others.

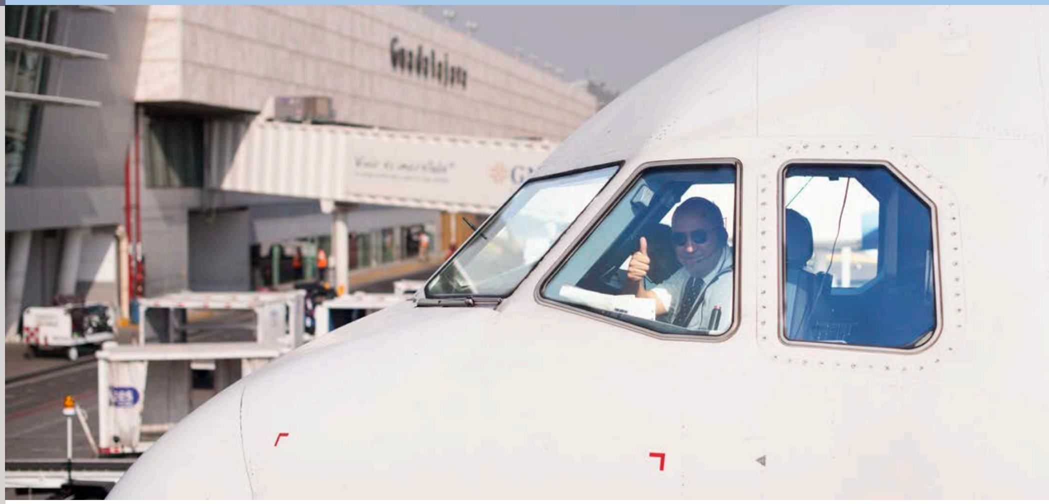
Passenger flight segments - Total number of passengers flown on all flight segments.

RPM - Revenue passenger miles. Number of miles flown by passengers.

ULCC - Ultra-Low-Cost Carrier. An airline that belongs to a subset of low-cost carriers, which distinguishes itself by using a business model with an intense focus on low-cost, efficient asset utilization, unbundled revenue sources aside from the base fares with multiple products and services offered for additional fees. In the United States, Spirit and Allegiant define themselves as ULCCs and Volaris and VivaAerobus follow the ULCC model in Mexico.

VFR - Passengers who are visiting friends and relatives.





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