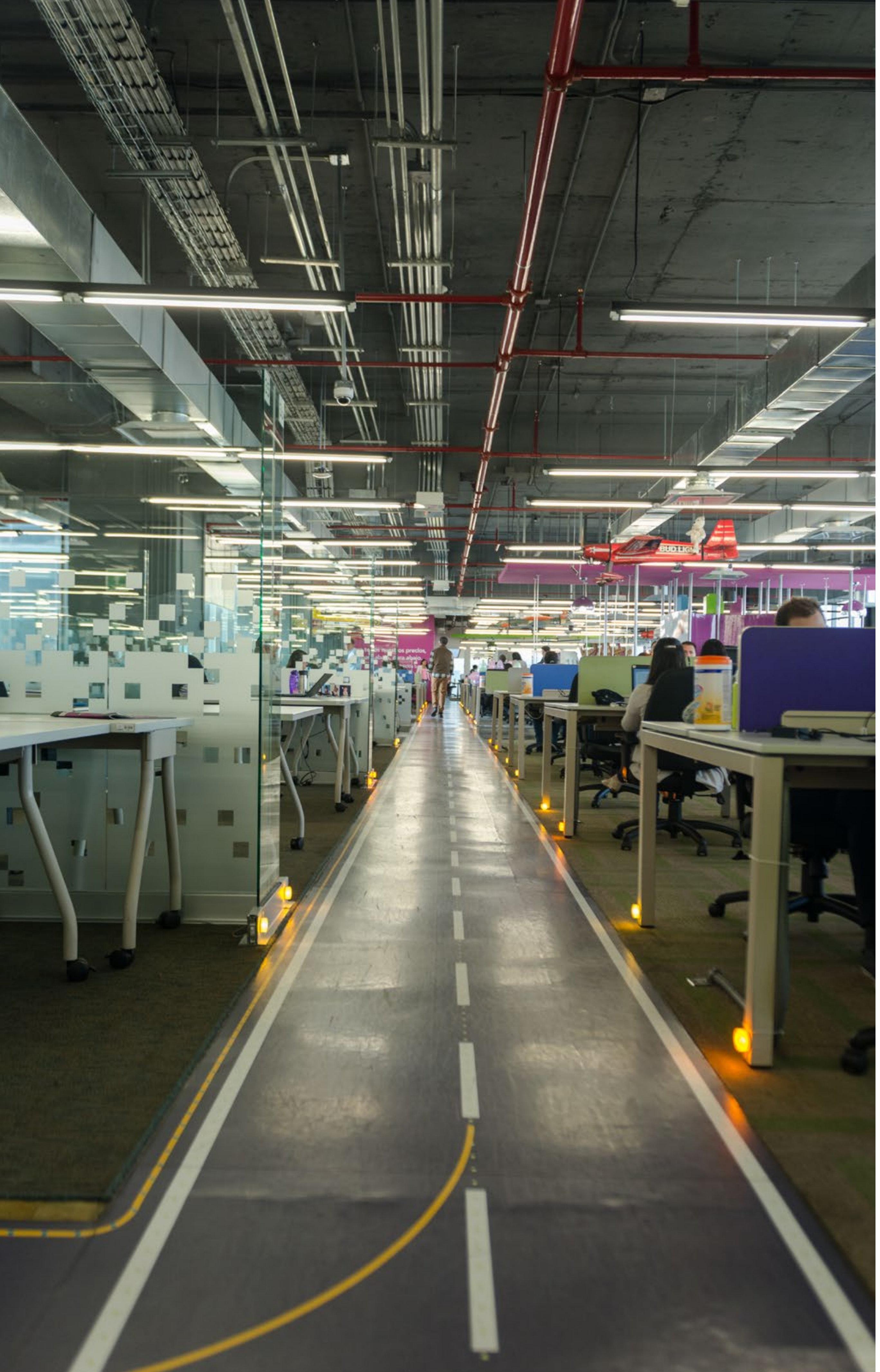
volaris

ANNUAL REPORT 2017

BEYOND *Flying*



Content

Message from our CFO

In **2017 Volaris demonstrated** the **resilience** and solid position of its **ULCC business model and strategy.**

We transported 16.4 million passengers, a 9.5% increase vs 2016

The airline industry faced a challenging year with factors ranging from geopolitical and macro events to an environment with softer demand in the trans-border market; volatility in fuel prices and exchange rates. However, Volaris has a strong ULCC business model to face and overcome these challenges.

Our lowest fares allowed us to stimulate passenger demand; we transported 16.4 million passengers, a 9.5% increase against 2016. Our total operating revenues for the year were Ps. 24,845 million, increasing 5.7% compared to last year. It is important to highlight that 28% of these revenues were derived from ancillaries; non-ticket revenues increased 23.3% against 2016. As one of our greatest competitive advantages, we continued strengthening our Clean Base Fare strategy; we expanded our portfolio of ancillaries' items to offer an extensive variety of additional services for passengers to supplement their flight. We aim to provide our passengers not only a flight, but the best travel experiences they can afford.

We focused on controlling costs and driving unit costs down to continue offering the lowest fares in the market. Our operating cost per available seat mile excluding fuel (CASM ex-fuel) increased only 3.5% against 2016, reaching US$ 4.7 cents. Despite volatility in the Mexican market and in the airline industry, we strengthened our balance sheet; Volaris closed 2017 with a solid balance sheet, a healthy leverage ratio and a solid cash position. Innovation helped us to reduce costs further and drive efficiencies; we continue investing in a fleet with state-of-the-art technology. In 2017, our fleet was comprised of 71 aircraft with an average age of 4.6 years, the youngest fleet in Mexico. During the year, we restructured our current fleet cost and signed an agreement with Airbus for the future procurement of 80 new aircraft to be delivered from 2022 to 2026, locking in extremely competitive prices. Furthermore, we received four new A320 Neo and 10 A321. These aircraft have the most modern technology; eco-efficient engines and sharklets decrease fuel consumption and CO2 emissions, thus minimizing environmental impact and increasing our efficiency so more people can fly at the best fares available.

An important milestone during 2017 was the operational expansion of our affiliate - Volaris Costa Rica - to several Mexican cities. We continue diversifying and growing our network in Mexico, the US and Central America, striving to offer more robust point-to-point options. Currently, Volaris Costa Rica is the first ultra-low-cost carrier in the region, thus enabling us to connect more families and capture an underserved market.

Moreover, our organizational culture and values guide our social responsibility initiatives, and we aim to transcend and improve people's quality of life in the communities where we operate. We are proudly part of the Mexican Stock Exchange Sustainability Index for the third consecutive year, demonstrating our commitment to the community and transparency in all our operations.

Throughout the year we proved that Volaris has the strength to overcome adversities and continue generating value for our shareholders and customers. My most sincere gratitude to our shareholders, customers and Ambassadors for their confidence, loyalty and dedication. In the process of achieving continuous growth and added value, Volaris will - above all - put in endless efforts to deliver the best travel experience with the lowest fares in the market.

Volaris Costa Rica is the **first ultra-low-cost carrier** in the region

Sincerely,
Fernando Suárez Gerard
Chief Financial Officer

volaris Snapshot

We go beyond flying, we aim to provide the best travel experiences. **With Volaris, passengers do not fly, they travel!**

volaris *in Numbers*

1st ULTRA-LOW COST CARRIER IN CENTRAL AMERICA

16.4 MILLON PASSENGERS
9.5% INCREASE VS 2016

$$ PS.7,054 MILLION
23.3% INCREASE VS 2016
NON-TICKET REVENUES

71 AIRCRAFT
4 NEW A320 NEO AIRBUS

4,916 AMBASSADORS
IN MEXICO AND CENTRAL AMERICA

69 DESTINATIONS

$$ PS.24,845 MILLION
5.7% INCREASE VS 2016
TOTAL OPERATING REVENUES

174 ROUTES

28% of our total operating revenues for 2017 came from our **ancillaries line**

Outstanding Ultra-Low-Cost Carrier

Controladora Vuela Compañía de Aviación, S.A.B. de C.V. (NYSE: VLRS and BMV: VOLAR) is an ultra-low cost airline providing point to point services and operating between Mexico, US, and Central America. The ultra-low cost highly efficient business model offered by Volaris provides low base fares to develop its market, coupled with outstanding levels of quality services and a wide array of products. Volaris targets passengers who are visiting friends and relatives, cost-conscious business people and leisure travelers in Mexico and select destinations in the United States and Central America.

Through its strong and diversified network, **Volaris serves 40 cities in Mexico and 29 in the United States and Central America** with the youngest fleet in Mexico.

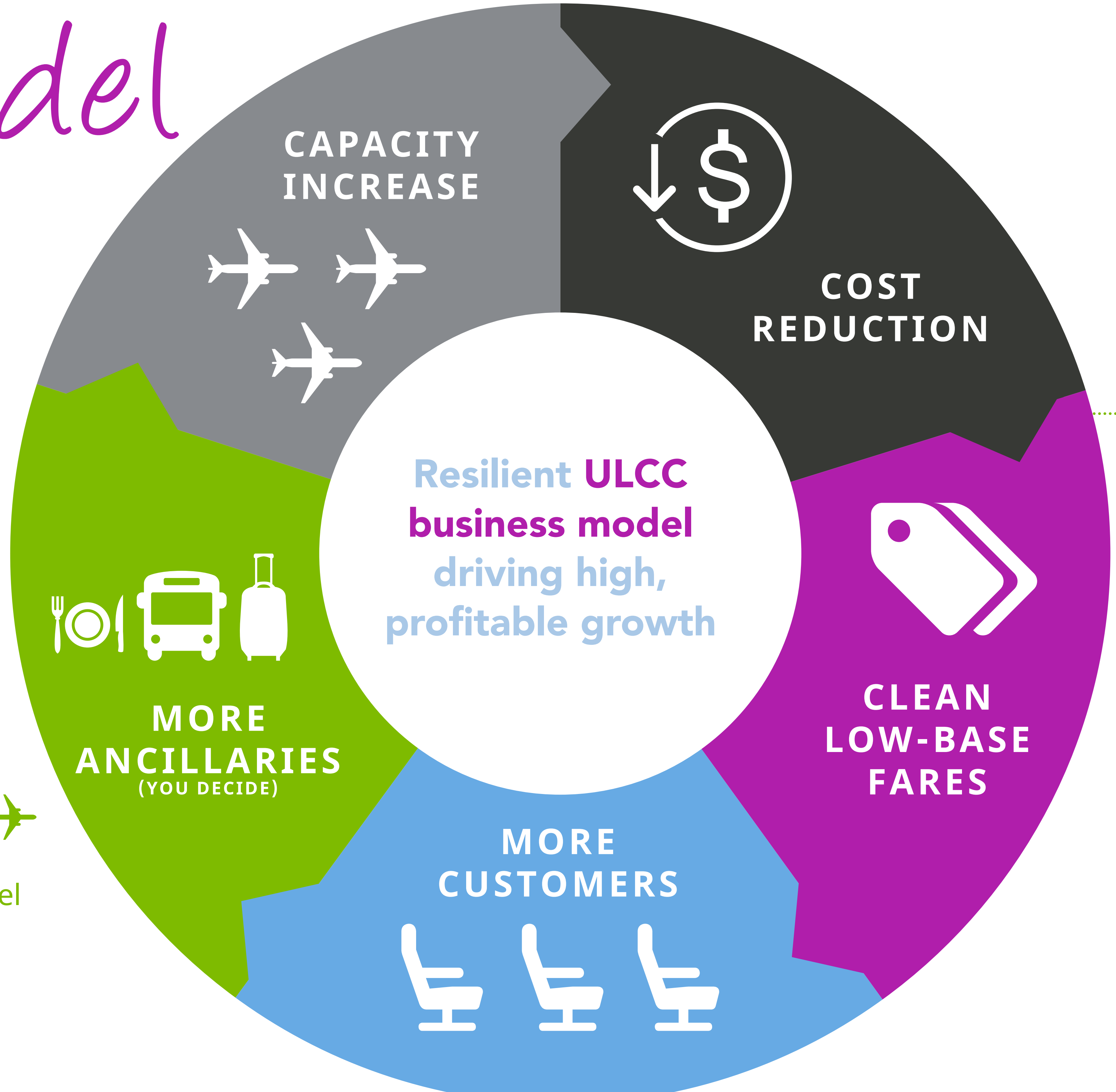
Mission

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

Vision

Transcend by creating and living the best travel experiences.

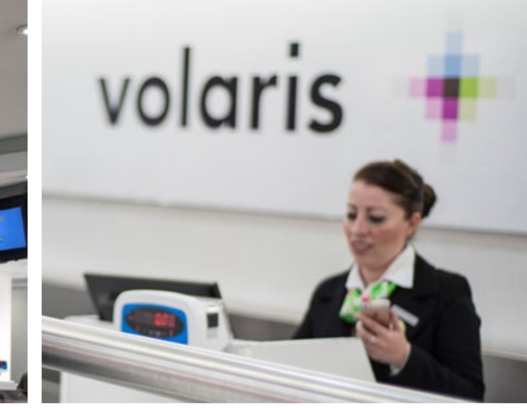
Business Model

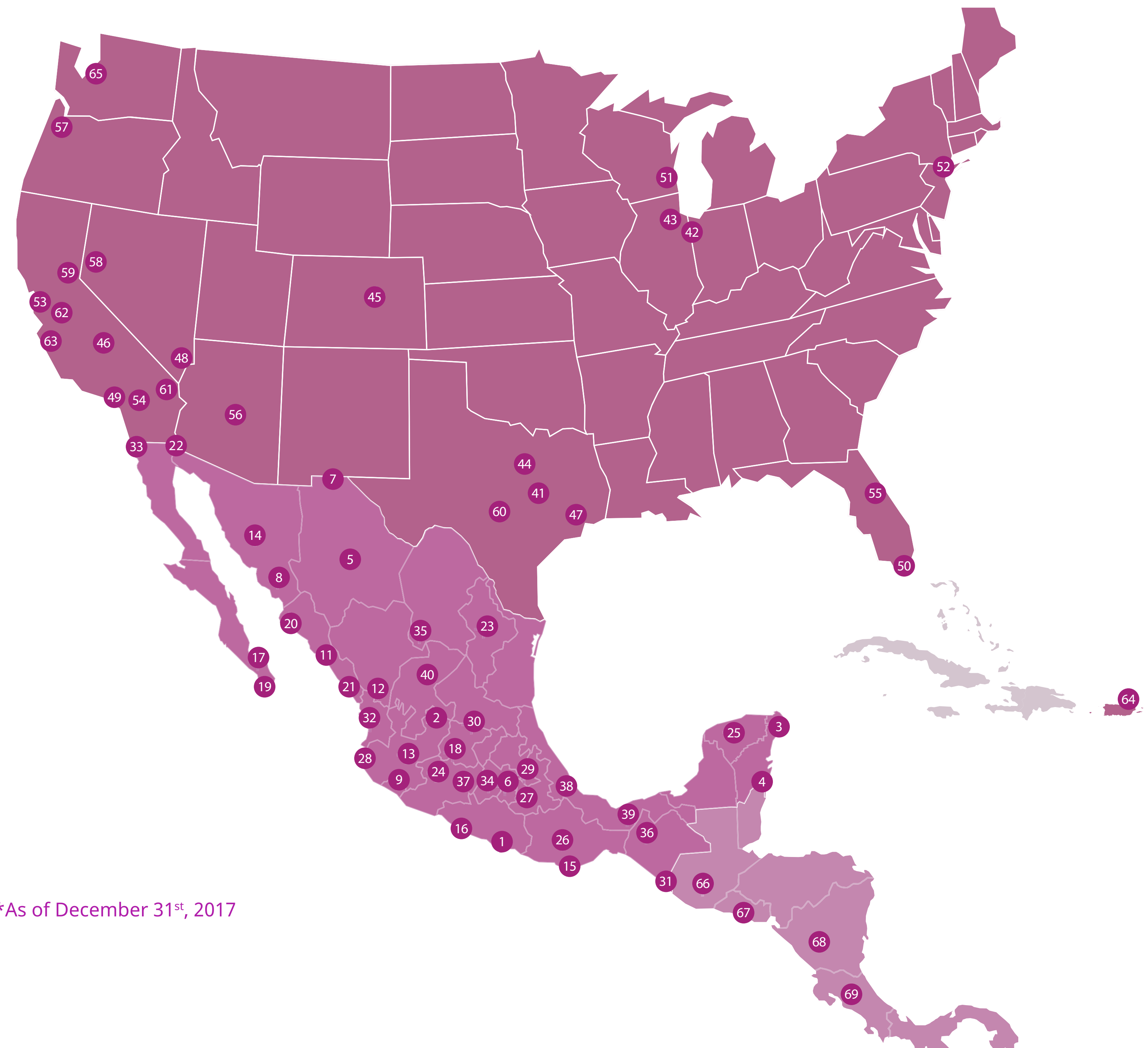


We focus on **improving and diversifying our ancillary** portfolio through our **"You Decide"** strategy. Therefore, we stimulate demand and **further reduce our base fare, increasing non-ticket revenues.**

Strong ultra-low-cost model with **best-in-class cost structure**

Route + Network



*As of December 31st, 2017

MEXICO

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

UNITED STATES

41. AUSTIN
42. CHICAGO (MIDWAY)
43. CHICAGO (O'HARE)
44. DALLAS - FORT WORTH
45. DENVER
46. FRESNO
47. HOUSTON
48. LAS VEGAS
49. LOS ANGELES
50. MIAMI
51. MILWAUKEE
52. NEW YORK (JFK)
53. OAKLAND (SAN FRANCISCO)
54. ONTARIO
55. ORLANDO
56. PHOENIX
57. PORTLAND
58. RENO
59. SACRAMENTO
60. SAN ANTONIO
61. SAN BERNARDINO
62. SAN FRANCISCO
63. SAN JOSE, CALIFORNIA
64. SAN JUAN, PUERTO RICO
65. SEATTLE

CENTRAL AMERICA

66. GUATEMALA CITY, GUATEMALA
67. SAN SALVADOR, EL SALVADOR
68. MANAGUA, NICARAGUA
69. SAN JOSE, COSTA RICA

174 ROUTES

7 NEW DOMESTIC ROUTES

24 NEW INTERNATIONAL ROUTES

69 Destinations

40	Mexico
29	United States & Central America

Recent Developments

Volaris Voices

"It is inspiring to continue being a part of this group of companies dedicated to the community. This is an achievement for all the members of the Volaris family and it drives us to keep working to generate a positive impact in terms of sustainability and social responsibility in the communities where we operate."

Marcela Sánchez
- Corporate Social Responsibility Manager at Volaris

Volaris as Part of the Mexican Stock Exchange's Sustainability Composite Index for the Second Consecutive Year

On February 2017, Volaris was included for a second consecutive year in the Mexican Stock Exchange's (BMV) Sustainability Composite Index (*IPC Sustentable*), which reflects Volaris' commitment to maintain its position as a company dedicated to the sustainability of its operations and the Mexican community. The BMV's Sustainability Composite Index is comprised of only 30 companies committed to social responsibility and sustainability practices.

Volaris Voices

"This new investment in our fleet demonstrates confidence in the ultra-low-cost business model we operate in Mexico, the United States and Central America. This order for the most fuel efficient and environmentally friendly single-aisle aircraft is another part of our strategy of lowering costs to provide all our customers attractive low fares. It is also a vote of confidence for Mexico and its promising future in the airline industry."

Enrique Beltranena
- Volaris' CEO

Volaris commits to 80 A320Neo Family Aircraft

In November 2017, Volaris committed to 80 A320Neo Family aircraft to be delivered from 2022 to 2026, as part of Airbus' largest single announcement ever. These aircraft are in addition to or to replace aircraft currently in Volaris' fleet.

Airbus signed a purchase agreement with Indigo Partners for 430 A320Neo Family aircraft to be purchased by four of its affiliated airlines, including Volaris.

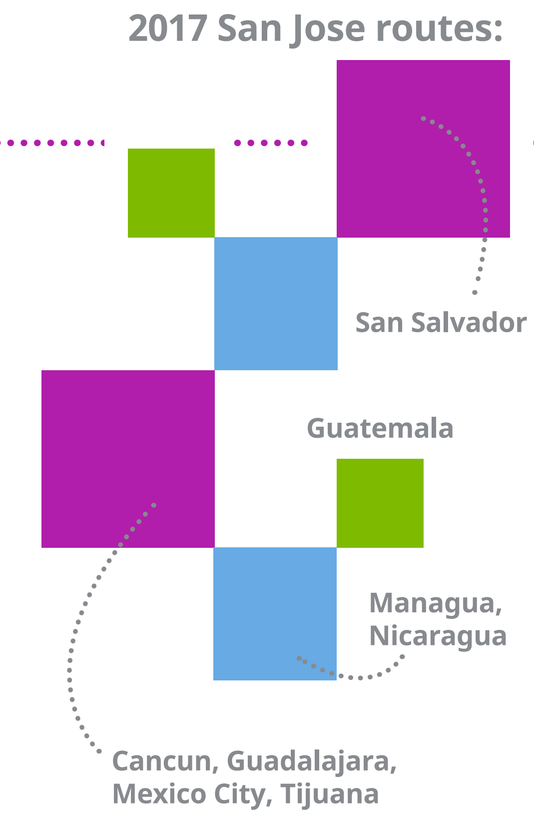
80 A320Neo Family aircraft to be **delivered from 2022** to **2026**

Hello Costa Rica!

Volaris Voices

"Our growing point-to-point network and highly competitive prices position Volaris Costa Rica as the best option to travel within and outside of Central America, supporting our mission to enable more people to travel... and travel well! We strive to provide the best travel experiences and services for our passengers, choosing exactly what they need."

Fernando Naranjo
- Volaris Costa Rica General Manager



Volaris Obtains Foreign Air Carrier Permit in the United States of America for its Costa Rican Operations

In November 2016, Volaris celebrated its inaugural flight from Juan Santamaria International Airport in San Jose, Costa Rica to Guatemala City. During 2017, we diversified our San Jose routes to Mexican cities Cancun, Guadalajara, Mexico City and Tijuana. With this expansion, we seek to connect passengers from these countries with the most competitive rates in the market. Furthermore, in December 2017, the US Department of Transportation granted Volaris Costa Rica a Foreign Air Carrier Permit to provide transportation between these two countries. Volaris seeks to replicate its ultra-low-cost model in Central America by offering low base fares and point-to-point service in the region. Volaris Costa Rica initiated sales of four routes from Central America to the following U.S. destinations: Los Angeles (LAX), New York (JFK), and Washington D.C. and operations will begin in the first quarter 2018.

Volaris Costa Rica became **the first ultra-low-cost operator in Central America.**

2017 Results

Available seat miles
(ASMs, millions)

	ASMs
2017	18,861
2016	16,704
2015	14,052
2014	11,830
2013	10,899

Revenue passenger miles
(RPMs, millions)

	RPMs
2017	15,917
2016	14,326
2015	11,562
2014	9,723
2013	9,003

Passengers
(Thousands)

	Passengers
2017	16,427
2016	15,005
2015	11,983
2014	9,809
2013	8,942

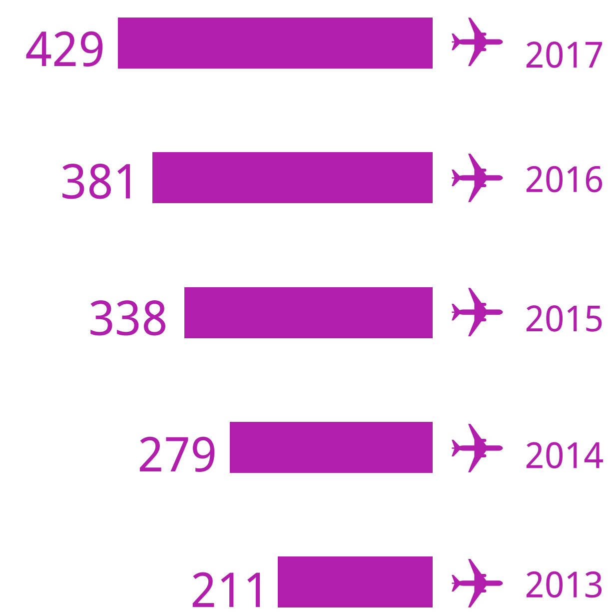
Aircraft

	Aircraft
2017	71
2016	69
2015	56
2014	50
2013	44

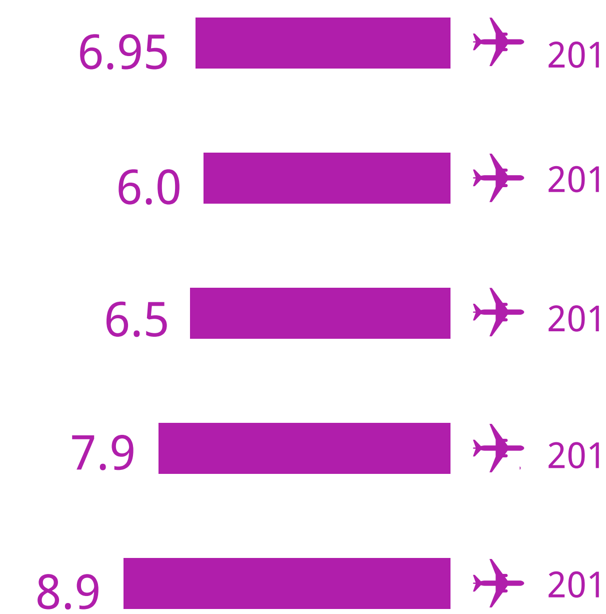
Total operating revenue per available seat mile
(TRASM, MXN cents)

2017	131.7
2016	140.8
2015	129.4
2014	118.7
2013	119.3

Non-ticket revenue per passenger
(MXN)



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



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

Market Outlook

Volaris Voices

"During 2017, Volaris faced a challenging year with factors ranging from the macroeconomic environment to a softer demand environment. We continue prudently managing capacity and executing our ULCC model to stimulate market demand. We are absolutely committed to continue driving unit costs down, which enables us to offer the most competitive fares in the market."

Enrique Beltranena
-CEO

Despite the challenging economic environment, Mexico has experienced significant passenger growth, strong demand and an increasing middle class. Low-cost carriers have the capability of gaining market through low fares.

- Macroeconomic indicators and domestic consumer demand in Mexico during 2017 were stable. The Mexican General Economic Activity Indicator (IGAE) increased 1.84% year over year.
- Mexico's DGAC reported Mexican carriers' saw passenger volumes grow in 2017 by 10.8% overall, 8.1% in the case of domestic flights and 12.4% in international volume.
- The Mexican peso appreciated a nominal 4.5% against the US dollar in 2017.
- Average economic fuel cost per gallon increased 18.15% to Ps. 34.5 in 2017.

Volaris is well positioned to take advantage of this trend. **Low costs allow us to offer the lowest fares** so as **to make flying possible for everyone**. We will be able to drive company growth with our new generation fleet, a productive route network, high utilization and a healthy load factor.

2017 Financial and Operating Metrics Summary

Unaudited (In Mexican pesos, except otherwise indicated)	2017 (US Dollars)*	2017	2016	Variance (%)
Total operating revenues (millions)	1,259	24,845	23,512	5.7%
Total operating expenses (millions)	1,258	24,827	20,773	19.5%
Operating income (millions)	1	19	2,740	(99.3%)
Operating margin	0.1%	0.1%	11.7%	(11.6) pp
Depreciation and amortization	28	549	537	2.3%
Aircraft and engine rent expense	308	6,073	5,590	8.6%
Net (loss) income (millions)	(30)	(595)	3,519	NA
Net (loss) income margin	(2.4%)	(2.4%)	15.0%	(17.4) pp
(Loss) earnings per share:				
Basic (pesos)	(0.03)	(0.59)	3.48	NA
Diluted (pesos)	(0.03)	(0.59)	3.48	NA
(Loss) earnings per ADS:				
Basic (pesos)	(0.30)	(5.88)	34.78	NA
Diluted (pesos)	(0.30)	(5.88)	34.78	NA
Weighted average shares outstanding:				
Basic	-	1,011,876,677	1,011,876,677	0.0%
Diluted	-	1,011,876,677	1,011,876,677	0.0%

Unaudited (In Mexican pesos, except otherwise indicated)	2017 (US Dollars)*	2017	2016	Variance (%)
Available seat miles (ASMs) (millions) [1]	-	18,861	16,704	12.9%
Domestic	-	12,740	11,595	9.9%
International	-	6,121	5,109	19.8%
Revenue passenger miles (RPMs) (millions) [1]	-	15,917	14,326	11.1%
Domestic	-	11,054	10,008	10.5%
International	-	4,863	4,318	12.6%
Load factor [2]	-	84.4%	85.8%	(1.4) pp
Domestic	-	86.8%	86.3%	0.5 pp
International	-	79.4%	84.5%	(5.1) pp
Total operating revenue per ASM (TRASM) (cents) [1]	6.7	131.7	140.8	(6.4%)
Passenger revenue per ASM (RASM) (cents) [1]	4.8	94.3	106.5	(11.4%)
Passenger revenue per RPM (Yield) (cents) [1]	5.7	111.8	124.2	(10.0%)
Average fare [2]	55	1,086	1,189	(8.6%)
Non-ticket revenue per passenger [1]	21.8	429	381	12.6%
Operating expenses per ASM (CASM) (cents) [1]	6.7	131.6	124.4	5.8%
Operating expenses per ASM (CASM) (US cents) [1]	-	6.95	6.0	15.8%
CASM ex fuel (cents) [1]	4.7	93.2	90.0	3.5%
CASM ex fuel (US cents) [1]	-	4.7	4.4	8.4%
Booked passengers (thousands) [1]	-	16,427	15,005	9.5%
Departures [1]	-	108,060	101,811	6.1%
Block hours [1]	-	293,642	271,204	8.3%
Fuel gallons consumed (millions)	-	210.5	196.7	7.0%
Average economic fuel cost per gallon	1.75	34.5	29.2	18.1%
Aircraft at end of period	-	71	69	2.9%
Average aircraft utilization (block hours)	-	12.6	12.8	(1.8%)
Average exchange rate	-	18.93	18.66	1.5%
End of period exchange rate	-	19.74	20.66	(4.5%)

*Peso amounts were converted to U.S. dollars at end of period exchange rate for convenience purposes only.
(1) Includes schedule + charter
(2) Includes schedule

Corporate Governance

Board of Directors

Alfonso González Migoya
Independent Director and Chairman of the Board

Proprietary Members
Brian H. Franke
William A. Franke
Harry F. Krensky
Roberto José Kriete Ávila
Enrique Javier Beltranena Mejicano
William Dean Donovan

Independent Members
Stan L. Pace
José Luis Fernández Fernández
Joaquín Alberto Palomo Déneke
John A. Slowik

*As of December 2017

Our Board of Directors is comprised by **11 directors, five are independent.**

Audit and Corporate Governance Committee

José Luis Fernández Fernández
Chairman

John A. Slowik
Joaquín Alberto Palomo Déneke
Members

Compensation and Nominations Committee

Roberto José Kriete Ávila
Chairman

Brian H. Franke
Harry F. Krensky
Rodolfo Montemayor Garza
Members

Executive Team

Enrique Javier Beltranena Mejicano
Chief Executive Officer

Fernando Suárez Gerard
Chief Financial Officer

Holger Blankenstein
Chief Commercial Officer

José Luis Suárez Durán
Chief Operating Officer

Jaime E. Pous Fernández
Chief Legal Officer

Social Responsibility

29,086
CERTIFIED CARBON CREDITS PROCURED **SINCE 2015**

6,643
VOLUNTEERING HOURS WITH **2,531 VOLUNTEERS** PARTICIPATING IN **110 ACTIVITIES**

TOP MEMBER
IN THE **IMPLEMENTATION** OF THE CODE (**ECPAT**) FOR THE **5TH CONSECUTIVE YEAR**

CERTIFICATION IN **ENVIRONMENTAL AND QUALITY MANAGEMENT SYSTEMS** ISO 14001:2015 AND ISO 9001:2016

MEMBERS OF THE **SUSTAINABILITY INDEX** OF THE MEXICAN STOCK EXCHANGE FOR THE **2ND CONSECUTIVE YEAR**

TRANSPORT OF **213 ORGANS** AND TISSUES WITH **CENATRA** SINCE 2009

OVER 34 TONS OF SUPPLIES SENT WITH OUR CARGO SYSTEM **TO HELP THOSE AFFECTED** BY THE SEPTEMBER **EARTHQUAKES**

SOCIALLY RESPONSIBLE COMPANY (ESR) **DISTINCTION** FOR THE **8TH CONSECUTIVE YEAR**

PS. 5,953,396
INVESTED ON SOCIAL ACTIONS DURING **2017**

COLLECTION OF **PS. 4,541,398** THROUGH OUR #cielito limpio CAMPAIGN SINCE 2011

CONTRIBUTION TO **THE UN'S SUSTAINABLE DEVELOPMENT GOALS** THROUGH OUR SOCIAL AND ENVIRONMENTAL ACTIONS

PS. 1 MILLION
COLLECTED WITHIN **VOLARIS** TO SUPPORT **AMBASSADORS DAMAGED BY THE EARTHQUAKES**

Through **sustainable and responsible practices**, we strive to **positively impact the communities' wellbeing** and the **environment**.

Operating and Financial Review and Prospects

Operating Results

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

Description of Our Principal Line Items

Operating Revenues

Passenger Revenue. We derive our operating revenues primarily from transporting passengers on our aircraft. Approximately 72% of our total operating revenues were derived from passenger fares in 2017. Passenger revenues are based upon our capacity, load factor and the average ticket revenue per booked passenger. Our capacity is measured in terms of ASMs, which represents the number of seats we make available on our aircraft multiplied by the number of miles the seats are flown. Load factor, or the percentage of our capacity that is actually used by paying customers, is calculated by dividing RPMs by ASMs. The average ticket revenue per booked passenger represents the total passenger revenue divided by booked passengers.

Non-ticket Revenue. We derived approximately 28% of our total operating revenues in 2017 from non-ticket revenue. The most significant non-ticket revenues include revenues generated from (i) air travel-related services (ii) revenues from non-air-travel related services and (iii) cargo services.

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

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

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

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

	2015	2016	2017
Operating Revenues			
Passenger	78%	76%	72%
Non-Ticket	22%	24%	28%
Total Operating Revenues	100%	100%	100%
Other operating income	(1%)	(2%)	0%
Fuel	26%	24%	29%
Aircraft and engine rent expense	19%	24%	24%
Landing, take-off and navigation expenses	14%	14%	16%
Salaries and benefits	10%	10%	11%
Sales, marketing and distribution expenses	6%	6%	7%
Maintenance expenses	5%	6%	6%
Other operating expenses	4%	4%	4%
Depreciation and amortization	3%	2%	2%
Total operating expenses, net	86%	88%	100%
Operating income	14%	12%	0%
Finance income	0%	0%	0%
Finance cost	0%	0%	0%
Exchange gain (loss), net	5%	9%	(3%)
Income (loss) before income tax	19%	21%	(3%)
Income tax (expense) benefit	(6%)	(6%)	1%
Net income (loss)	14%	15%	(2%)

Revenues from our international operations represented 30.8%, 33.1% and 30.3% of our total revenues in 2015, 2016 and 2017, respectively, and revenues from our domestic operations represented 69.2%, 66.9% and 69.7% of our total revenues in 2015, 2016 and 2017, respectively.

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

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

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

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

Operating Expenses, net

Our operating expenses consist of the following line items.

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

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

Aircraft and Engine Rent Expense. Aircraft rent expense consists of monthly lease rents for our 71 aircraft and eight spare engines, as of December 31, 2017, under the terms of the related operating leases and is recognized on a straight line basis. Aircraft rent expense also includes gains and losses related to our interest rate swap contracts and foreign currency forward contracts that qualify for hedge accounting.

Additionally, if we determine that we will probably not recover partially or completely the maintenance deposits we pay to the lessor as maintenance deposits, we record these amounts in the results of operations as additional aircraft rent (supplemental and contingent rent) from the time we make the determination over the remaining term of the lease. Aircraft and engine rent expense also includes the estimated return costs of our fleet, which in no case are related to scheduled major maintenance. The return costs are recognized on a straight-line basis as a component of supplemental rent.

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

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

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

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

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

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

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

	For the years ended December 31,			
	2015	2016	2017	2017
	(In Ps. cents)			(In U.S.$ cents)[1]
Other operating income	(1.4)	(3.0)	(0.5)	0.0
Fuel	33.6	34.4	38.5	1.9
Aircraft and engine rent expense	25.1	33.5	32.2	1.6
Landing, take-off and navigation expenses	18.5	19.6	21.2	1.1
Salaries and benefits	13.5	14.5	15.0	0.8
Sales, marketing and distribution expenses	7.7	8.5	9.0	0.5
Maintenance expenses	6.2	8.0	7.6	0.4
Other operating expenses	5.0	5.7	5.7	0.3
Depreciation and amortization	3.3	3.2	2.9	0.1
Total operating expenses, net	**111.5**	**124.4**	**131.6**	**6.7**

[1] Peso amounts were converted to U.S. dollars solely for the convenience of the reader at the rate of Ps.19.7354 per U.S. $1.00 as the rate for the payment of obligations denominated in foreign currency payable in Mexico in effect on December 31, 2017. Such conversions should not be construed as a representation that the peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated, or at all.

Trends and Uncertainties Affecting Our Business

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

Economic Conditions in Mexico. Mexico's GDP is expected to grow by 2% to 3% per year for the next ten years according to the Mexican Central Bank, which is 0% to 1% above the expected annual growth for the United States during the same period as reported by the U.S. Federal Reserve. Mexico's projected GDP growth is expected to result in the number of middle-income homes continuing their growth trend, having already grown from 5.1 million in 1992 to 15.8 million in 2008. Regarding population dynamics as of 2015, according to the INEGI intercensal survey, around 36% of the Mexican population was under 20 years of age, which benefits us by providing a strong base of potential customer growth. Inflation in Mexico during 2017 was 6.77% according to the INEGI. As of December 31, 2017, international reserves were at U.S. $172.8 billion.

Competition. The airline industry is highly competitive. The principal competitive factors in the airline industry are fare pricing, total price, flight schedules, aircraft type, passenger amenities and related services, number of routes served from a city, customer service, safety record and reputation, code-sharing relationships and frequent flier programs and redemption opportunities. Our current and potential competitors include traditional network airlines, low-cost carriers, regional airlines and new entrant airlines. We typically compete in markets served by legacy carriers and other low-cost carriers, and, to a lesser extent, regional airlines. Some of our current or future competitors may have greater liquidity and access to capital and may serve more routes than we do.

Our principal competitive advantages are our low base fares and our focus on VFR travelers, leisure travelers and cost- conscious business people. These low base fares are facilitated by our low CASM, which at Ps.131.6 cents (U.S. $6.7 cents) we believe was the lowest CASM in Latin America in 2017, compared to Avianca at U.S. $13.8 cents, Copa at U.S. $8.7 cents, Gol at U.S. $10.3 cents, Grupo Aeroméxico at U.S. $10.1 cents and LATAM at U.S. $11.1 cents. We also have lower costs than our publicly traded target market competitors in the United States, including Alaska Air at U.S. $10.8 cents, American at U.S. $13.8 cents, Delta at U.S. $13.8 cents, JetBlue at U.S. $10.7 cents, Southwest Airlines at U.S. $11.5 cents and United at U.S. $13 cents.

Our principal competitors for the domestic market are Grupo Aeroméxico, Interjet and VivaAerobus, Interjet and VivaAerobus are low-cost carriers in Mexico. In 2017, the Mexican low-cost carriers (including us) combined had 65.7% of the domestic market based on passenger flight segments. We had 27.49% of the domestic market which placed us second, according to the DGAC.

We also face domestic competition from ground transportation alternatives, primarily long-distance bus companies. There are limited passenger rail services in Mexico. There is a large bus industry in Mexico, with total passenger segments of approximately billion in 2017, of which approximately 82 million were executive and luxury passenger segments, according to the Mexican Authority of Ground Transportation (*Dirección General de Autotransporte Federal*) and which could include both long- and short- distance travel. We set certain of our promotional fares at prices lower than bus fares for similar routes in order to stimulate demand for air travel among passengers who in the past have traveled long distances primarily by bus. We believe a small shift of bus passengers to air travel would dramatically increase the number of airline passengers and bring the air trips per capita figures in Mexico closer to those of other countries in the Americas.

Our principal competitors for the international routes between Mexico and the United States are Grupo Aeroméxico, Alaska Air, Delta and United. We have grown rapidly in the international market since we started international operations in 2009, reaching 29% market share on the routes that we operate and 10% market share considering all routes between Mexico and the United States in 2017, according to the DGAC.

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

In addition, on January 20, 2017, Donald Trump became president of the United States. President Trump has already implemented immigration policies that have adversely affected the United States—Mexico travel behavior, especially in the VFR and leisure markets, and there is a possibility that further immigration policy changes are to come. President Trump's immigration policies had a negative impact on our results of operations during 2017 and this negative impact can be expected to continue if the Trump administration continues to carry out such immigration policies.

Fuel. Fuel costs represent the single largest operating expense for most airlines, including ours, accounting for 30%, 28% and 29% of our total operating expenses for 2015, 2016 and 2017. Fuel availability and pricing are also subject to refining capacity, periods of market surplus and shortage, and demand for heating oil, gasoline and other petroleum products, as well as economic, social and political factors and other events occurring throughout the world, which we can neither control nor accurately predict. We source a significant portion of our fuel from refining sources located in Mexico.

During the years ended December 31, 2017 and 2016, we did not enter into US Gulf Coast Jet Fuel 54 swap contracts. During the year ended December 31, 2015, we entered into US Gulf Coast Jet Fuel 54 swap contracts to hedge approximately 5% of our fuel consumption. These instruments were formally designated and qualified for hedge accounting and accordingly, the effective portion is allocated within other comprehensive income, while the effects of transforming into a fixed jet fuel prices by these hedges are presented as part of jet fuel costs when recognized in the consolidated statements of operations. Our fuel hedging practices are dependent upon many factors, including our assessment of market conditions for fuel, our access to the capital necessary to support margin requirements under swap agreements and the pricing of hedges and other derivative products in the market.

Additionally, during the year ended December 31, 2017, we also entered into US Gulf Coast Jet Fuel 54 Asian call options designated to hedge approximately 55% of our 2018 projected fuel consumption. During the year ended December 31, 2016, we entered into US Gulf Coast fuel 54 Asian call options designated to hedge approximately 52% and 24% of our 2017 and 2018 projected fuel consumption, respectively.

As of December 31, 2017, we purchased our domestic fuel under the ASA fuel service contract, and the international fuel under the WFS, BP Products North America, Chevron and Associated Energy Group fuel service contracts. The cost and future availability of fuel cannot be predicted with any degree of certainty.

Foreign Exchange Gains and Losses. While most of our revenue is generated in Mexican pesos, 30% of our revenues came from our operations in the United States and Central America during the year ended December 31, 2017 (compared to 33% during the year ended December 31, 2016) and U.S. dollar denominated collections accounted for 38% and 40% of our total collections in 2016 and 2017, respectively. In addition, the majority of our operating costs are denominated in or indexed to U.S. dollars, constituting 69% and 71% of our total operating costs in 2016 and 2017. Our key U.S. dollar-denominated operating costs include fuel, aircraft rentals and maintenance costs.

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

As of December 31, 2016, and 2017, our net asset position denominated in U.S. dollars was U.S. $584.5 million and U.S. $567.5, respectively. As a result of the significant depreciation of the peso against the U.S. dollar in 2015 and 2016 and our net U.S. dollar asset position, we recorded a foreign exchange gain, net of Ps.966.6 million in 2015 and Ps.2.2 billion in 2016. Whereas, as a result of the appreciation of the Peso against the U.S. dollar and our net U.S. dollar asset position, we recorded a foreign exchange loss, net of Ps.793.9 million in 2017.

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

i Routine maintenance requirements consist of daily and weekly scheduled maintenance checks on our aircraft, including pre-flight, daily, weekly and overnight checks, diagnostic and routine repairs and any necessary unscheduled tasks performed. These types of line maintenance are currently serviced by our mechanics and are primarily completed at the main airports that we currently serve. All other maintenance activities are sub-contracted to qualified maintenance, repair and overhaul organizations. Routine maintenance also includes scheduled tasks that can take from seven to 14 days to accomplish and are required approximately every 22 months. All routine maintenance costs are expensed as incurred.

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

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

Due to the young age of our fleet (approximately 4.6 years on average as of December 31, 2017), maintenance expense in 2016 and 2017 remained relatively low. For the years ended December 31, 2016 and 2017 we capitalized major maintenance events as part of leasehold improvements to the flight equipment in the amount of Ps.226.5 million and Ps.529.3, respectively. For the years ended December 31, 2015, 2016 and 2017 the amortization of these deferred major maintenance expenses was Ps.352.9 million, Ps.404.7 million and Ps.382.7, respectively. The amortization of deferred maintenance expenses is included in depreciation and amortization rather than total maintenance costs as described in "—Critical Accounting Polices and Estimates." In 2015, 2016 and 2017, total maintenance costs amounted to Ps.874.6 million, Ps.1.3 billion and Ps.1.4 billion, respectively. As the fleet ages, we expect that maintenance costs will increase in absolute terms. The amount of total maintenance costs and related amortization of heavy maintenance expense is subject to many variables such as future utilization rates, average stage length, the size and makeup of the fleet in future periods and the level of unscheduled maintenance events and their actual costs. Accordingly, we cannot reliably quantify future maintenance expenses for any significant period of time. However, we estimate that based on our scheduled maintenance events, current maintenance expense and maintenance-related amortization expense will be approximately Ps.2.1 billion (U.S. $109.7 million) in 2018.

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

Ramp-up Period for New Routes. During 2015 we opened 22 new routes, added 20 more in 2016 and 31 more in 2017. As we continue to grow, we would expect to continue to experience a lag between when new routes are put into service and when they reach their full profit potential. See Item 3: "Key Information—Risk Factors—Airline consolidations and reorganizations could adversely affect the industry."

Critical Accounting Policies and Estimates

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

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

Aircraft Maintenance Deposits Paid to Lessors. Our lease agreements provide that we pay maintenance deposits or supplement rent to aircraft lessors to be held as collateral in advance of our performance of major maintenance activities. Maintenance deposits are held as collateral in cash. These lease agreements provide that maintenance deposits are reimbursable to us upon completion of the maintenance event in an amount equal to the lesser of (i) the amount of the maintenance deposits held by the lessor associated with the specific maintenance event or (ii) the qualifying costs related to the specific maintenance event. Substantially all of these maintenance deposits are calculated based on a utilization measure, such as flight hours or cycles, and are used solely to collateralize the lessor for maintenance time run off the aircraft until the completion of the maintenance of the aircraft and engines. We paid Ps.1.4 billion and Ps.2.2 billion in maintenance deposits, net of reimbursements, to our lessors for the years ended December 31, 2015 and 2016, respectively. During 2017, we recovered maintenance deposits, net of payments, in an amount of Ps.148.8 million.

At lease inception and at each consolidated statement of financial position date, we assess whether the maintenance deposit payments required by the lease agreements are substantively and contractually related to the maintenance of the leased asset. Maintenance deposit payments that are substantively and contractually related to the maintenance of the leased asset are accounted for as maintenance deposits. Maintenance deposits expected to be recovered from lessors are reflected as guarantee deposits in the accompanying consolidated statement of financial position.

The portion of prepaid maintenance deposits that are deemed unlikely to be recovered, primarily relate to the rate differential between the maintenance deposits payments and the expected cost for the next related maintenance event that the deposits serve to collateralize is recognized as supplemental rent.

Thus, any excess of the required deposit over the expected cost of the major maintenance event is recognized as supplemental rent starting from the period the determination is made. When it is not probable that we will recover amounts currently on deposit with a lessor, such amounts are expensed as supplemental rent. We expensed Ps.73.3 million in 2015, Ps.143.9 million in 2016 and Ps.103.6 in 2017 of maintenance deposits as supplemental rent.

As of December 31, 2015, 2016 and 2017 we had prepaid maintenance deposits of Ps.4.9 billion, Ps.7.1 billion and Ps.6.9 billion, respectively, recorded in our consolidated statement of financial position. We currently expect that these prepaid maintenance deposits are likely to be recovered primarily because there is no rate differential between the maintenance deposit payments and the expected cost for the related next maintenance event that the deposits serve to collateralize.

During the years ended December 31, 2015, 2016 and 2017 we extended the lease term of three aircraft agreements, two agreements and three aircraft agreements, respectively. These extensions made available maintenance deposits that were recognized in prior periods in the consolidated statements of operations as contingent rent of Ps.92.6 million, Ps.92.5 million and Ps.65.7 million during 2015, 2016 and 2017, respectively.

Because the lease extension benefits are considered lease incentives, the benefits are deferred in the caption other liabilities and are being amortized on a straight-line basis over the remaining revised lease terms. For the years ended December 31, 2015, 2016 and 2017, we amortized Ps.45.3 million, Ps.74.7 million and Ps.88.2 million respectively, of this amount which was recognized as a reduction of rent expenses in the consolidated statements of operations.

During the year ended December 31, 2017, we added two new net aircraft to our fleet. The lease agreements of some of these aircraft do not require the obligation to pay maintenance deposits to lessors in advance in order to ensure major maintenance activities, so we do not record guarantee deposits regarding these aircraft. However, some of these agreements provide the obligation to make a maintenance adjustment payment to the lessors at the end of the contract period. This adjustment covers maintenance events that are not expected to be made before the termination of the contract. We recognize this cost as a contingent rent during the lease term of the related aircraft, in the consolidated statement of operations.

For the years ended December 31, 2015, 2016 and 2017, we expensed as contingent rent Ps.290,857, Ps.201,434 and Ps.162,108, respectively.

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

In 2015, 2016 and 2017, we capitalized costs of major maintenance events of Ps.295.8 million, Ps.226.5 million and Ps.529.3 million, respectively and we recognized amortization expenses of Ps.352.9 million, Ps.404.7 million and Ps.382.7 million, respectively. The amortization of deferred maintenance expenses is included under the caption depreciation and amortization expense in our consolidated statement of operations. If the amortization of major maintenance expenditures were classified as maintenance expense, they would amount to Ps.1,227.5 million, Ps.1,748.8 million and Ps.1,815.9 million for the years ended December 31, 2015, 2016 and 2017, respectively.

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

Gains and Losses on Sale and Leaseback. For aircraft acquired through a sale and leaseback transaction, any profit or loss is accounted for as follows: (i) profit or loss is recognized immediately when it is clear that the transaction is established at fair value; if the sale price is below fair value, any profit or loss is recognized immediately; however, if the loss is compensated for by future lease payments at below market price, such loss is recognized as an asset on the consolidated statements of financial position and loss recognition is deferred and amortized to the consolidated statements of operations in proportion to the lease payments over the contractual lease term; and (iii) if the sale price is above fair value, the excess is deferred and amortized to the consolidated statements of operations over the asset's expected lease term, including probable renewals, with the amortization recorded as a reduction of rent expense.

During the year ended December 31, 2015, 2016 and 2017 we sold and transferred aircraft and engines to third parties, giving rise to a gain of approximately Ps.181.7 million, Ps.484.8 million and Ps.65.9 million respectively, that was recorded as other operating income in the consolidated statement of operations.

During the year ended December 31, 2011, we entered into aircraft and spare engine sale and leaseback transactions, which resulted in a loss of Ps.30.7 million. This loss was deferred on the consolidated statements of financial position and is being amortized over the contractual lease term. For the years ended December 31, 2015, 2016 and 2017, we amortized a loss of Ps.3.0 million, Ps.3.0 million and Ps.3.0 million, respectively, as additional aircraft rental expense.

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

During 2015, 2016 and 2017, we amortized a corresponding benefit from these credit notes of, Ps.9.3 million, Ps.9.3 million and Ps.6.6 million, respectively, which is recognized in the consolidated statements of operations as a reduction of maintenance expenses.

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

Long-term Incentive Plans

Share Purchase Plan

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

i Servicios Corporativos granted a bonus to each key executive.

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

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

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

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

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

In November 2017, April 2016 and October 2016, extensions to this share purchase plan were approved by our board of directors. The total cost of the extensions approved was Ps.15.8 million (or Ps.10.1 million, net of withheld taxes), Ps.14.5 million (or Ps.9.5 million, net of withheld taxes) and Ps.11.6 million (or Ps.7.6 million, net of withheld taxes), respectively. Under these extensions, certain of our key employees were granted a special bonus that was transferred to the administrative trust for the acquisition of our Series A shares.

During 2015, 2016 and 2017, we recognized Ps.6.0 million, Ps.7.8 million and Ps.13.5 million, respectively, as compensation expense associated with the complete share purchase plan in our consolidated statement of operations. The following table illustrates the number of shares associated with our share purchase plan during the year:

Movements during the year	Number of Series A shares
Outstanding as of December 31, 2016	618,048*
Purchased during the year	547,310
Granted during the year	-
Exercised during the year	(345,270)
Forfeited during the year	-
Outstanding as of December 31, 2017	820,088*

These shares were presented as treasury shares in the consolidated statement of financial position as of December 31, 2016 and 2017 and all are considered outstanding for basic and diluted earnings per share purposes because the holders are entitled to dividends if and when distributed.

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

Number of Series A shares	Vesting period
353,457	November 2017-2018
284,200	November 2018-2019
182,431	November 2019-2020
820,088	

During the year ended December 31, 2016, some key employees left the Company; therefore, these employees did not fulfill the vesting conditions. In accordance with the plan, Servicios Corporativos is entitled to receive the proceeds of the sale of such shares. During the year ended December 31, 2016, 86,419 shares were forfeited.

Management Incentive Plan

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

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

The factors considered in the valuation model for the management incentive plan included a volatility assumption estimated from historical returns on common stock of comparable companies and other inputs obtained from independent and observable sources, such as Bloomberg. The share spot price fair value was determined using the market approach valuation methodology, with the following assumptions:

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

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

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

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

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

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

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

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

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

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

As of December 31, 2017 and 2016, the 12,437,857 and 12,557,857 share options pending to be exercised were considered as treasury shares, respectively.

Movements during the year

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

	Number	Exercise price in Mexican pesos	Total in thousands of Mexican pesos
Exercised during the year	--	--	--
Outstanding as of December 31, 2012	25,164,126	Ps.5.31	Ps.133,723
Granted during the year	--	--	--
Forfeited during the year	--	--	--
Exercised during the year	(4,891,410)	5.31	(25,993)
Outstanding as of December 31, 2013	20,272,716	Ps.5.31	Ps.107,730
Granted during the year	--	--	--
Forfeited during the year	--	--	--
Exercised during the year	--	--	--
Outstanding as of December 31, 2014	20,272,716	Ps.5.31	Ps.107,730
Granted during the year	--	--	--
Forfeited during the year	--	--	--
Exercised during the year	(4,414,860)	5.31	(23,461)
Outstanding as of December 31, 2015	15,857,856	Ps.5.31	Ps.84,269
Granted during the year	--	--	--
Forfeited during the year	--	--	--
Exercised during the year	(3,299,999)	5.31	(17,536)
Outstanding as of December 31, 2016	12,557,857	Ps.5.31	Ps.66,733
Granted during the year	--	--	--
Forfeited during the year	--	--	--
Exercised during the year	(120,000)	5.31	(638)
Outstanding as of December 31, 2017	12,437,857	Ps.5.31	Ps.66,095

At December 31, 2012, 2013, 2014, 2015, 2016 and 2017, the shares held in trust to satisfy the management options were considered as treasury shares. As of December 31, 2017, all share options were vested in full.

As of December 31, 2017 and 2016, the 12,437,857 and 12,557,857 share options pending to be exercised were considered as treasury shares, respectively.

Management Incentive Plan II

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

The fair value of these SARs is estimated at the grant date and at each reporting date using the Black-Scholes option pricing model, which takes into account the terms and conditions on which the SARs were granted (vesting schedule included in the table below). The amount of the cash payment is determined based on the increase in our share price between the grant date and the settlement date.

The carrying amount of the liability relating to these SARs as of December 31, 2017 was Ps.37.9 million. The compensation cost is recognized in our consolidated statement of operations under the caption salaries and benefits over the service period. During the year ended December 31, 2017, we recorded a benefit of Ps.16.5 million associated with these SARs in our consolidated statement of operations. No SARs were exercised during 2017.

Number of SARs (Grant date: November 6, 2016)	Exercisable date
2,030,540	February 2017
2,030,540	February 2018
2,030,540	February 2019
3,384,240	February 2020
4,061,100	February 2021
13,536,960	

Cash-settled Transactions. Cash-settled transactions include a share appreciation rights (“SARs”) plan.

Long-term Retention Plan

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

Long-term Incentive Plan

Share Appreciation Rights

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

Under the share purchase program extensions described above, the number of SARs granted to certain of our key executives totaled 1,793,459, 2,044,604 and 3,965,351, respectively, which amounts to a cost of Ps.11.6 million (or Ps.7.6 million, net of withheld taxes), Ps.14.5 million (or Ps.9.5 million, net of withheld taxes) and Ps.15.8 million (or Ps.10.1 million, net of withheld taxes), for the years ended December 31, 2015, 2016 and 2017, respectively. The SARs vest during a three-year period as long as the employee completes the required service period.

The fair value of these SARs is estimated at the grant date and at each reporting date using the Black-Scholes option pricing model, which takes into account the terms and conditions on which the SARs were granted (vesting schedule included in the table below). The amount of the cash payment is determined based on the increase in our share price between the grant date and the settlement date.

The carrying amount of the liability relating to the SARs as of December 31, 2015, 2016 and 2017 was Ps.14.5 million, Ps.15.7 million and Ps.723, respectively. The compensation cost is recognized in our consolidated statement of operations under the caption of salaries and benefits over the service period. During the years ended December 31, 2015, 2016 and 2017, we recorded an expense (benefit) of Ps.44.7 million, Ps.31.7 million and Ps.(9.9) million, respectively, in respect of these SARs in our consolidated statement of operations.

Number of SARs	Exercisable date
2,766,811	November 2018
1,649,493	November 2019
941,749	November 2020
5,358,053	

Derivative Financial Instruments and Hedge Accounting. We mitigate certain financial risks, such as volatility in the price of aircraft fuel, adverse changes in interest rates and exchange rate fluctuations, through a controlled risk management policy that includes the use of derivative financial instruments. The derivative financial instruments are recognized in the consolidated statement of financial position at fair value. The effective portion of a cash flow hedge's unrecognized gain or loss is recognized in "Accumulated other comprehensive income (loss) items," while the ineffective portion is recognized in current year earnings. The realized gain or loss of derivative financial instruments that qualify as hedging is recorded in the same statements of operations as the realized gain or loss of the hedged item. Derivative financial instruments that are not designated as or not effective as a hedge are recognized at fair value with changes in fair value recorded in current year earnings. During 2017, all derivative financial instruments held qualified for hedge accounting. Outstanding derivative financial instruments may require collateral to guarantee a portion of the unsettled loss prior to maturity. The amount of collateral delivered in guarantee, which is presented as part of "Guarantee deposits," is reviewed and adjusted on a daily basis, based on the fair value of the derivative position. As of December 31, 2017 we did not have any collateral recorded as a guarantee deposits.

i *Aircraft Fuel Price Risk.* We account for derivative financial instruments at fair value and recognize them in the consolidated statement of financial position as an asset or liability. The cost of aircraft fuel consumed in 2015, 2016 and 2017 represented 30%, 28% and 29% of our operating expenses, respectively. To manage aircraft fuel price risk, we periodically enter into derivatives financial instruments. During 2014 and 2015, we entered into aircraft fuel swap hedges (further described in the paragraph immediately below) that gave rise to a loss of Ps.85.7 million and Ps.128.3 million, respectively. Since these instruments qualify as accounting hedges, the cost and related gains or losses are considered a portion of the fuel cost in the consolidated statement of operations. As of December 31, 2014, the fair value of these fuel swap instruments was a net asset position of Ps.169.6 million. All of the Company's US Gulf Coast Jet Fuel 54 swaps positions matured on June 30, 2015, and therefore there is no balance outstanding as of December 31, 2015.

During the years ended December 31, 2017 and 2016, we did not enter into US Gulf Coast Jet Fuel 54 swap contracts. During the year ended December 31, 2015, we entered into US Gulf Coast Jet Fuel 54 swap contracts to hedge approximately 5% of our fuel consumption. These instruments were formally designated and qualified for hedge accounting and accordingly, the effective portion is allocated within other comprehensive income, while the effects of transforming into a fixed jet fuel prices by these hedges are presented as part of jet fuel costs when recognized in the consolidated statements of operations. Our fuel hedging practices are dependent upon many factors, including our assessment of market conditions for fuel, our access to the capital necessary to support margin requirements under swap agreements and the pricing of hedges and other derivative products in the market.

Additionally, during the year ended December 31, 2017, we entered into US Gulf Coast Jet Fuel 54 Asian call options designated to hedge approximately 55% of our 2018 fuel consumption. During the year ended December 31, 2016, we entered into US Gulf Coast fuel 54 Asian call options designated to hedge approximately 52% and 24% of our 2017 and 2018 projected fuel consumption, respectively.

During the year ended December 31, 2014, we elected to adopt IFRS 9 (2013), which comprises aspects related to classifications and measurement of financial assets and financial liabilities, as well as hedge accounting treatment. Paragraph 6.2.4 (a) of IFRS 9 (2013) allows us to separate the intrinsic value and time value of an option contract and to designate as the hedging instrument only the change in the intrinsic value of the option. As further required in paragraph 6.5.15 therein, because the external value (time value) of the Jet fuel 54 Asian call options are related to a "transaction related hedged item," it is required to be segregated and accounted for as a "cost of hedging" in other comprehensive income ("OCI") and accrued as a separate component of stockholders' equity until the related hedged item affects profit and loss. Since monthly forecasted jet fuel consumption is considered the hedged item of the "related to a transaction" type, then the time value included as accrued changes on external value in capital is considered as a "cost of hedging" under IFRS 9 (2013). The hedged item (jet fuel consumption) of the Jet fuel 54 Asian call options contracted by us represent a non-financial asset (energy commodity), which is not in our inventory. Instead, it is directly consumed by our aircraft at different airport terminals. Therefore, although a non-financial asset is involved, its initial recognition does not generate a book adjustment in our inventories. Rather, it is initially accounted for in our other comprehensive income (OCI) and a reclassification adjustment is made from OCI toward the profit and loss and recognized in the same period or periods during which the hedged item is expected to be allocated to profit and loss (in accordance with IFRS 9.6.5.15, B6.5.29 (a), B6.5.34 (a) and B6.5.39). As of January 2015, we began to reclassify these amounts (previously recognized as a component of equity) to our statement of operations in the same period in which our expected jet fuel volume consumed affects our jet fuel purchase line item therein.

As of December 31, 2016 and 2017, the fair value of our outstanding US Gulf Coast Jet Fuel 54 Asian call options totaled Ps.867.8 million and Ps.497.4 million, respectively, and was presented as part of the financial assets line item in our consolidated statement of financial position. The amount of positive cost of hedging derived from the extrinsic value changes of these options as of December 31, 2017 recognized in other comprehensive income totaled Ps.163.8 million (as compared to the positive cost of hedging in 2016 which totaled Ps. 218.0 million), and will be recycled to our fuel cost during 2018, as these options expire on a monthly basis and as jet fuel is consumed. During the years ended December 31, 2015, 2016 and 2017, the net cost of these options recycled to our fuel cost totaled Ps.112.7 million, Ps.305.2 million and Ps.27.0 million, respectively.

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

During the year ended December 31, 2017, the Company entered into foreign currency forward contracts in U.S. dollars to hedge approximately 9% of the aircraft rental expense for the second half of 2017. During the years ended on December 31, 2015 and 2016 the Company did not enter into exchange rate derivatives financial instruments.

All of the Company's positions in foreign currency forward contracts matured throughout the second half of 2017 (August, September, November and December), therefore there is no outstanding balance as of December 31, 2017. For the year ended December 31, 2017, the net loss on the foreign currency forward contracts was Ps.11,290, which was recognized as part of rental expense in the consolidated statements of operations.

Our foreign exchange exposure as of December 31, 2015, 2016 and 2017 was a net asset position of U.S. $390.1 million, U.S. $584.5 million and U.S. $567.5 million, respectively.

iii *Interest Rate Risk*. Interest rate risk is the risk that the fair value of future cash flows will fluctuate because of changes in market interest rates. Our exposure to the risk of changes in market interest rates relates primarily to our long-term debt and lease obligations with floating interest rates. As of December 31, 2015, 2016 and 2017, we had outstanding hedging contracts in the form of interest rate swaps with fair value of Ps.55.8 million, Ps.14.1 million and Ps.0, respectively. These instruments are included as liabilities in our consolidated statement of financial position. In 2015, 2016 and 2017, the reported loss on the instruments was Ps.46.5 million, Ps.48.8 million and Ps.13.8 million, respectively, which was recognized as a portion of the rental expense in the consolidated statements of operations.

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

	Year ended December 31, 2017			
	within 1 year	1 to 5 years	5 years +	Total
	(In thousands of pesos)			
Interest-bearing borrowings				
Pre-delivery payment facilities	Ps.1,449,236	Ps.1,079,152	Ps. —	Ps.2,528,388
Short-term working capital facilities	948,354	—	—	948,354
Total	Ps.2,397,590	Ps.1,079,152	Ps. —	Ps.3,476,742

Deferred Taxes. We account for income taxes using the liability method. Deferred taxes are recorded based on differences between the financial statement basis and tax basis of assets and liabilities and available tax loss and credit carry-forwards. In assessing our ability to realize deferred tax assets, our management considers whether it is more likely than not that some or all of the deferred tax assets will be realized. In evaluating our ability to utilize our deferred tax assets, we consider all available evidence, both positive and negative, in determining future taxable income on a jurisdiction by jurisdiction basis. At December 31, 2015, 2016 and 2017 we had tax loss carry-forwards amounting to Ps.194.5 million, Ps.111.1 million and Ps.1.5 billion, respectively. These losses relate to our and our subsidiaries' operations on a stand-alone basis, which in conformity with current Mexican Income Tax Law may be carried forward against taxable income generated in the succeeding ten years and may not be used to offset taxable income elsewhere in our consolidated group. During the years ended December 31, 2015, 2016 and 2017 we used tax-loss carry-forwards of Ps.1.6 billion, Ps.195.1 million and Ps.16.4 million, respectively.

Central America (Guatemala and Costa Rica)

According to Guatemala corporate income tax law, under the regime on profits from business activities net operating losses cannot offset taxable income in prior or future years. For the year ended December 31, 2017, we generated a net operating loss, the benefit of which has not been recognized as a deferred tax asset.

According to Costa Rica corporate income tax law, under the regime on profits from business activities, net operating losses can offset taxable income in a term of three years. For the years ended December 31, 2017 and 2016, we obtained net operating losses which have not been recognized as deferred tax assets.

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

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

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

For the years ended December 31, 2015, 2016 and 2017, no impairment charges were recorded in respect of our long-lived assets.

Allowance for Credit Losses. An allowance for credit losses is established using the life-time expected credit loss approach, based on objective evidance that we will not be able to collect all amounts due according to the original terms of the receivables. At December 31, 2015, 2016 and 2017, the allowance for credit losses was Ps.24.6 million, Ps.19.3 million and Ps.17.8 million, respectively.

Operating Results

Operating Revenues
2016 compared to 2017

	For the years ended December 31,			
	2016	2017	Variation	
Operating Revenues	(In thousands of pesos, except for % and operating data)			
Passenger	17,790,130	17,791,317	1,187	0.0%
Non-ticket	5,722,321	7,054,058	1,331,737	23.3%
Total operating revenues	23,512,451	24,845,375	1,332,924	5.7%
Operating Data				
Capacity (in ASMs in thousands)	16,703,949	18,860,950	2,157,001	12.9%
% Load factor booked	86%	84%		2.0pp
Booked passengers (in thousands)	15,005	16,427	1,422	9.5%
Average ticket revenue per booked passenger	1,189	1,086	(103)	(8.6%)
Average non-ticket revenue per booked passenger	381	429	48	12.6%
Revenue passenger miles (RPMs in thousands)	14,325,898	15,917,246	1,591,348	11.1%

Passenger Revenue. The slight increase in passenger revenue in 2017 was primarily due to growth in our ASM capacity by 12.9% resulting from the incorporation of two new net aircraft, which was partially offset by a lower average ticket revenue per booked passenger of 8.6% year over year. Our traffic as measured in terms of RPMs increased by 11.1% in 2017, also resulting from the increase in our fleet size.

Non-ticket Revenue. The 23.3% increase in non-ticket revenue in 2017 was primarily due to higher volume of passengers electing to purchase additional services. We continue executing our fare unbundling and demand stimulation strategy. In particular, during 2017, our non-ticket revenues increased due to improved revenues from first checked bag fees and an increase in uptakes of ancillary combos.

2015 compared to 2016

	For the years ended December 31,			
	2015	2016	Variation	
Operating Revenues	(In thousands of pesos, except for % and operating data)			
Passenger	14,130,365	17,790,130	3,659,765	25.9%
Non-ticket	4,049,339	5,722,321	1,672,982	41.3%
Total operating revenues	18,179,704	23,512,451	5,332,747	29.3%
Operating Data				
Capacity (in ASMs in thousands)	14,052,298	16,703,949	2,651,651	18.9%
% Load factor booked	82%	86%		4.0pp
Booked passengers (in thousands)	11,983	15,005	3,022	25.2%
Average ticket revenue per booked passenger	1,181	1,189	8	0.7%
Average non-ticket revenue per booked passenger	338	381	43	12.9%
Revenue passenger miles (RPMs in thousands)	11,561,859	14,325,898	2,764,039	23.9%

Passenger Revenue. The 25.9% increase in passenger revenue in 2016 was primarily due to growth in ASM capacity resulting from the incorporation of 13 new net aircraft and our demand stimulation strategies. Our traffic as measured in terms of RPMs increased by 23.9% in 2016, also resulted from the increase in our fleet size. Additionally, our average ticket revenue per booked passenger increased 0.7% year over year.

Non-ticket Revenue. The 41.3% increase in non-ticket revenue in 2016 was primarily due to higher volume of passengers electing to purchase non-ticket items. Additionally, we continued executing our fare unbundling and demand stimulation strategies.

Operating Expenses, net
2016 compared to 2017

	For the years ended December 31,			
	2016	2017	Variation	
	(In thousands of pesos, except for %)			
Other operating income	(496,742)	(96,765)	399,977	(80.5)%
Fuel	5,741,403	7,255,636	1,514,233	26.4%

	For the years ended December 31,			
	2016	**2017**	**Variation**	
	(In thousands of pesos, except for %)			
Aircraft and engine rent expense	5,590,058	6,072,502	482,444	8.6%
Landing, take-off and navigation expenses	3,272,051	4,009,915	737,864	22.6%
Salaries and benefits	2,419,537	2,823,647	404,110	16.7%
Sales, marketing and distribution expenses	1,413,348	1,691,524	278,176	19.7%
Maintenance expenses	1,344,110	1,433,147	89,037	6.6%
Other operating expenses	952,452	1,088,440	135,988	14.3%
Depreciation and amortization	536,543	548,687	12,144	2.3%
Total operating expenses, net	**20,772,760**	**24,826,733**	**4,053,973**	**19.5%**

Total operating expenses, net increased 19.5% in 2017 primarily as a result of growth of operations and other factors described below.

Other Operating Income. Other operating income decreased Ps.400.0 million or 80.5% in 2017, primarily because of a lower number of sale and leaseback transactions, which resulted in lower profit realized during 2017.

Fuel. Fuel expense increased 26.4% in 2017 as a result of an increase in the average fuel cost per gallon of 18.1% and an increase in fuel gallons consumed of 7.0% which, in turn, was primarily due to more aircraft in operation and a 6.1% increase in our departures.

During the years ended December 31, 2017 and 2016, we entered into Asian call options contracts. These instruments also qualify for hedge accounting. As a result, during 2017, their extrinsic value of Ps.26.9 million was recycled to the cost of fuel.

Aircraft and Engine Rent Expense. Aircraft and engine rent expense increased 8.6%. This increase was primarily driven by: An increase of Ps.821.4 million related to the full year operation of the nine and eight A320 and A321 aircraft, respectively, (ii) higher aircraft and engine rent expense related to two new net aircraft of Ps.9.5 million, and (iii) the depreciation of approximately 1.5% of the average exchange rate of the peso against the U.S. Dollar, which negatively affected our aircraft rent in peso terms in an amount of Ps.57.8 million. These increases where partially offset by (i) Ps.237.2 million related to four aircraft which where disincorporated from our fleet during 2016, (ii) a decrease in our supplemental and contingent rent of Ps.142.7 million, and (iii) other rent expenses by Ps.26.3 million.

Landing, Take-off and Navigation Expenses. The 22.6% increase in landing, take-off and navigation expenses in 2017 was primarily due to a 6.2% increase in the number of airports served. In addition, our operations as measured by number of departures increased by 6.1%. These increases were partially offset by incentives received from certain airport groups as a result of the growth of our operations.

Salaries and Benefits. The 16.7% increase in salaries and benefits in 2017 was primarily the result of a 4.4% increase in our total number of employees, which were required for our increased operations and fleet size. Additionally, the variable compensation of our workforce increased also due to the increased operations recorded during 2017. See Item 6: “Directors, Senior Management and Employees—Employees.”

Sales, Marketing and Distribution Expenses. The 19.7% increase in sales, marketing and distribution expenses was mainly due to additional marketing and distribution expenses related to our efforts to promote the new routes and destinations.

Maintenance Expenses. The 6.6% increase in maintenance expenses in 2017 was mainly due to our maintenance expenses on a dollar basis, which increased due to the depreciation of approximately 1.5% in the average exchange rate of the peso against the U.S. dollar during 2017. Additionally, during 2017 our fleet size increased 2.9% as a result of the addition of two new net aircraft.

Other Operating Expenses. Other operating expenses increased 14.3%. This increase was primarily the result of additional administrative support expenses and technical and communication support required for the growth of our operations. Additionally, during 2017 other operating expenses on a dollar basis increased due to the depreciation of approximately 1.5% in the average exchange rate of the peso against the U.S. dollar during 2017.

Depreciation and Amortization. Depreciation and amortization increased 2.3% in 2017 primarily due to the amortization of major maintenance events associated with the aging of our fleet. The cost of the major maintenance events is accounted for under the deferral method. During 2016 and 2017, we recorded amortization of major maintenance leasehold improvements of Ps.404.7 million and Ps.382.7 million, respectively.

2015 compared to 2016

	For the years ended December 31,			
	2015	2016	Variation	
	(In thousands of pesos, except for %)			
Other operating income	(193,155)	(496,742)	(303,587)	>100%
Fuel	4,721,108	5,741,403	1,020,295	21.6%
Aircraft and engine rent expense	3,525,336	5,590,058	2,064,722	58.6%
Landing, take-off and navigation expenses	2,595,413	3,272,051	676,638	26.1%
Salaries and benefits	1,902,748	2,419,537	516,789	27.2%
Sales, marketing and distribution expenses	1,088,805	1,413,348	324,543	29.8%
Maintenance expenses	874,613	1,344,110	469,497	53.7%
Other operating expenses	697,786	952,452	254,666	36.5%
Depreciation and amortization	456,717	536,543	79,826	17.5%
Total operating expenses, net	**15,669,371**	**20,772,760**	**5,103,389**	**32.6%**

Total operating expenses, net increased 32.6% in 2016 primarily as a result of growth of operations and other factors described below.

Other Operating Income. Other operating income increased Ps.303.6 million or >100% in 2016, primarily because of a higher number of sale and leaseback transactions, which resulted in higher profit realized during 2016.

Fuel. Fuel expense increased 21.6% in 2016 as a result of an increase in the average fuel cost per gallon of 1.4% and an increase in fuel gallons consumed of 19.9% which, in turn, was primarily due to more aircraft in operation and a 15.8% increase in our departures.

During the years ended December 31, 2016 and 2015, we entered into Asian call options contracts. These instruments also qualify for hedge accounting. As a result, during 2016, their extrinsic value of Ps.305.2 million was recycled to the cost of fuel.

Additionally, during the year ended December 31, 2015, we entered into US Gulf Coast Jet Fuel 54 swaps positions, which were accounted for as cash flow hedges that gave rise to a loss of Ps.128.3 million. All of the US Gulf Coast Jet Fuel 54 swaps positions matured on June 30, 2015, and therefore there was no balance outstanding as of December 31, 2015.

Aircraft and Engine Rent Expense. Aircraft and engine rent expense increased 58.6%. This increase was primarily driven by: (i) an increase in our supplemental and contingent rent of Ps.853.7 million, (ii) the depreciation of approximately 17.7% of the average exchange rate of the peso against the U.S. dollar, which negatively affected our aircraft rent in peso terms in an amount of Ps.508.8 million, (iii) higher aircraft and engine rent expenses related to 13 new net aircraft and three new engines of Ps.475.1 million, and (iv) an increase of Ps.263.6 million relating to the full year operation of the seven new A320 aircraft received during the year ended December 31, 2015. These increases were partially offset by a decrease in other rent expenses of Ps.36.2 million.

Landing, Take-off and Navigation Expenses. The 26.1% increase in landing, take-off and navigation expenses in 2016 was primarily due to a 6.6% increase in the number of airports served. In addition, our operations as measured by number of departures increased by 15.8%. These increases were partially offset by incentives received from certain airport groups as a result of the growth of our operations.

Salaries and Benefits. The 27.2% increase in salaries and benefits in 2016 was primarily the result of a 37.7% increase in our total number of employees, which were required for our increased operations and fleet size. Additionally, the variable compensation of our workforce increased also due to the increased operations recorded during 2016. See Item 6: "Directors, Senior Management and Employees—Employees."

Sales, Marketing and Distribution Expenses. The 29.8% increase in sales, marketing and distribution expenses was primarily due to the increase of 29.3% in operating revenues and additional marketing expenses related to our efforts to promote the new routes.

Maintenance Expenses. The 53.7% increase in maintenance expenses in 2016 was the result of a 23.2% increase in the size of our fleet due to the addition of 13 new net aircraft in 2016. Additionally, during 2016, our maintenance expenses on a peso basis increased due to the depreciation of approximately 17.7% in the average exchange rate of the peso against the U.S. dollar during 2016.

Other Operating Expenses. Other operating expenses increased 36.5%. This increase was primarily the result of additional administrative support expenses and technical and communication support required for the growth of our operations.

Depreciation and Amortization. Depreciation and amortization increased 17.5% in 2016 primarily due to the amortization of major maintenance events associated with the aging of our fleet. The cost of the major maintenance events is accounted for under the deferral method. During 2015 and 2016, we recorded amortization of major maintenance leasehold improvements of Ps.352.9 million and Ps.404.7 million, respectively.

Operating Results

2016 compared to 2017

	For the years ended December 31,			
	2016	2017	Variation	
Operating Results	**(In thousands of pesos, except for %)**			
Total operating revenues	23,512,451	24,845,375	1,332,924	5.7%
Total operating expenses, net	20,772,760	24,826,733	4,053,973	19.5%
Operating income	2,739,691	18,642	(2,721,049)	(99.3%)

Operating Income. As a result of the factors outlined above, our operating income was Ps.18.6 million in 2017, a 99.3% decrease compared to our operating income of Ps.2.7 billion in 2016.

2015 compared to 2016

	For the years ended December 31,			
	2015	2016	Variation	
Operating Results	**(In thousands of pesos, except for %)**			
Total operating revenues	18,179,704	23,512,451	5,332,747	29.3%
Total operating expenses, net	15,669,371	20,772,760	5,103,389	32.6%
Operating income	2,510,333	2,739,691	229,358	9.1%

Operating Income. As a result of the factors outlined above, our operating income was Ps.2.7 billion in 2016, a 9.1% increase compared to our operating income of Ps.2.5 billion in 2015.

Financial Results

2016 compared to 2017

	For the years ended December 31,			
	2016	2017	Variation	
Financing Results	**(In thousands of pesos, except for %)**			
Finance income	102,591	105,795	3,204	3.1%
Finance cost	(35,116)	(86,357)	(51,241)	>100.0%
Exchange gain (loss), net	2,169,505	(793,854)	(2,963,359)	n.a.
Total financing results	2,236,980	(774,416)	(3,011,396)	n.a.

Total Financing Results. The variation in financing results was primarily due to the foreign exchange loss recorded during 2017 as opposed to a gain in 2016.

During 2017, we recorded an exchange loss of Ps.793.9 million, which resulted from the 4.5% appreciation of the peso against the U.S. dollar at year-end, since we maintained a net asset position of U.S. $567.5 million in 2017. Our U.S. dollar net asset position mainly resulted from the value of our cash and cash equivalents, security deposits and aircraft maintenance deposits. Additionally, our finance income increased Ps.3.2 million, mainly due to an increase in short-term investments and our finance cost increased by Ps.51.2 million, mainly due to higher comissions resulting from our credit letters and higher interest paid related to additional financial debt.

2015 compared to 2016

	For the years ended December 31,			
	2015	2016	Variation	
Financing Results	**(In thousands of pesos, except for %)**			
Finance income	47,034	102,591	55,557	>100%
Finance cost	(21,703)	(35,116)	(13,413)	61.8%
Exchange gain (loss), net	966,554	2,169,505	1,202,951	>100%
Total financing results	991,885	2,236,980	1,245,095	>100%

Total Financing Results. The variation in financing results was primarily due to the increase in our exchange gain. This exchange gain resulted from the significant 20.1% depreciation of the peso against the U.S. dollar, since we maintained a net asset position of U.S. $584.5 million in 2016. Our U.S. dollar net asset position mainly resulted from the value of our cash and cash equivalents, security deposits and aircraft maintenance deposits. Additionally, our finance income increased Ps.55.6

million, mainly due to an increase in our cash and equivalents during the year ended December 31, 2016, and consequently, an increase in short-term investments.

Income Tax Expense and Net Income

2016 compared to 2017

	For the years ended December 31,			
	2016	**2017**	**Variation**	
Net income (loss)	**(In thousands of pesos, except for %)**			
Income (loss) before income tax	4,976,671	(755,774)	(5,732,445)	n.a.
Income tax (expense) benefit	(1,457,182)	161,175	1,618,357	n.a.
Net income (loss)	3,519,489	(594,599)	(4,114,088)	n.a.

We recorded net loss of Ps.594.6 million in 2017 compared to a net income of Ps.3.5 billion in 2016. During the years ended December 31, 2017 and 2016, we recorded a tax expense and a tax benefit of Ps.161.2 million and Ps.1,457.2 million, respectively. At December 31, 2017, our tax loss carry-forwards amounted to Ps.1,501.6 million (Ps.111.1 million of December 31, 2016).

During the years ended December 31, 2017 and 2016, we used Ps.16.4 million and Ps.195.1 million, in available tax loss carry-forwards, respectively. The effective tax rate during 2017 and 2016 was of 21.3% and 29.3% respectively.

2015 compared to 2016

	For the years ended December 31,			
	2015	**2016**	**Variation**	
Net income	**(In thousands of pesos, except for %)**			
Income before income tax	3,502,218	4,976,671	1,474,453	42.1%
Income tax expense	(1,038,348)	(1,457,182)	(418,834)	40.3%
Net income	2,463,870	3,519,489	1,055,619	42.8%

We recorded net income of Ps.3.5 billion in 2016 compared to a net income of Ps.2.5 billion in 2015. At December 31, 2016 and 2015, we had tax loss carry-forwards amounting to Ps.111.1 million and Ps.194.5 million, respectively. These losses relate to our operations, which in conformity with current Mexican Income Tax Law may be carried forward and used to offset taxable income generated in the succeeding ten years. The effective tax rate during 2015 and 2016 was of 29.7% and 29.3%, respectively.

During the years ended December 31, 2016 and 2015 we used Ps.195.1 million and Ps.1.6 billion, respectively, in available tax loss carry-forwards.

Liquidity and Capital Resources

Liquidity

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

	For the years ended December 31,		
	2015	**2016**	**2017**
	(In thousands of pesos)		
Net cash flows provided by operating activities	3,069,613	978,732	985,869
Net cash flows used in investing activities	(601,277)	(27,958)	(2,260,440)
Net cash flows provided by financing activities	65,086	10,765	1,398,300

In recent years, we have been able to meet our working capital requirements through cash from our operations. Our capital expenditures consist primarily of the acquisition of rotable spare parts, furniture and equipment, including pre-delivery payments for aircraft acquisitions. From time to time, we finance pre-delivery payments related to our aircraft with revolving lines of credit with the commercial banks. We have obtained committed financing for pre-delivery payments in respect of all the aircraft to be delivered through 2020.

Our cash and cash equivalents decreased by Ps.120.4 million, from Ps.7.1 billion at December 31, 2016 to Ps.6.9 billion at December 31, 2017. At December 31, 2017, we had available credit lines totaling Ps.7.4 billion, of which Ps.4.6 billion were related to financial debt and Ps.2.8 billion were related to letters of credit (Ps.1.7 billion were undisbursed). At December 31, 2016, we had available credit lines totaling Ps.6.9 billion, of which Ps.5.0 billion were related to financial debt and Ps.1.9 billion were related to letters of credit (Ps.3.7 billion were undisbursed).

We have an investment policy to optimize the performance and ensure availability of, and minimize the risk associated with, the investment of cash, cash equivalents and short-term investments. Such policy provides for guidelines regarding minimum balance, currency mix, instruments, deadlines, counterparties and credit risk. At December 31, 2017, 94.8% of our cash, cash equivalents and short-term investments were denominated in U.S. dollars and 5.2% were denominated in pesos. See note 3 to our audited consolidated financial statements included elsewhere in this annual report.

Net cash flows provided by operating activities. We rely primarily on cash flows from operating activities to provide working capital for current and future operations. Net cash flows provided by operating activities totaled Ps.985.9 million and Ps.978.7 million in 2017 and 2016, respectively. Despite reporting a loss in 2017, our net cash flows increased primarily due to a decrease in prepaid expenses and an increase in accrued liabilities and suppliers in 2017 as compared to 2016.

Net cash flows provided by operating activities totaled Ps.978.7 million and Ps.3.1 billion in 2016 and 2015, respectively. The decrease was primarily due to an increase in payments of guarantee deposits and prepaid expenses in 2016 as compared to 2015.

Net cash flows provided by operating activities totaled Ps.3.1 billion and Ps.333.8 million in 2015 and 2014, respectively. The increase was primarily due to an increase in our operating profits in 2015 as compared to 2014.

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

During 2016, net cash flow used in investing activities totaled Ps.28.0 million, which consisted primarily of pre-delivery payments for aircraft and engine acquisitions totaling Ps.1.3 billion, partially offset by pre-delivery payments reimbursements totaling Ps.1.7 billion. Additionally, we recorded other capital expenditures relating to aircraft parts and rotable spare parts acquisitions, intangible assets and major maintenance costs, net of disposals of Ps.416.0 million.

During 2015, net cash flow used in investing activities totaled Ps.601.3 million, which consisted primarily of pre-delivery payments for aircraft acquisitions totaling Ps.835.5 million, partially offset by pre-delivery payments reimbursements totaling Ps.669.7 million. Additionally, we recorded other capital expenditures relating to aircraft parts and rotable spare parts acquisitions, intangible assets and major maintenance costs, net of disposals of Ps.435.5 million.

Net cash flows provided by financing activities. During 2017, net cash flows provided by financing activities totaled Ps.1.4 billion, which consisted primarily of proceeds from disbursements under our revolving credit facility with Banco Santander and Bancomext of Ps.1.5 billion, and additional short-term working capital facilities with Banco Nacional de México, S.A. and Bank of America México, S.A. of Ps.0.9 billion, which were partially offset by payments of aircraft financing pre-delivery payments for a net amount of Ps.0.2 billion, payments of working capital of Ps. 0.7 billion and interest paid of Ps.0.1 billion.

During 2016, net cash flows provided by financing activities totaled Ps.10.8 million, which consisted primarily of proceeds from disbursements under our revolving credit facility with Banco Santander and Bancomext of Ps.1.0 billion, and additional short- term working capital facilities with Banco Nacional de México, S.A. and Bank of America México, S.A. of Ps.716.0 million; which were partially offset by payments of aircraft financing pre-delivery payments for a net amount of Ps.1.5 billion, other financing payments of Ps.134.7 million and interest paid of Ps.39.4 million.

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

Loan Agreements

The revolving credit facility with Banco Santander México and Bancomext, dated July 27, 2011 as amended and restated on August 1, 2013 and as further amended on February 28, 2014 and November 27, 2014, under which we are a guarantor, provides financing for pre-delivery payments in connection with our purchase of nineteen A320 aircraft. On August 25, 2015, we entered into an additional amendment to such loan agreement to finance pre-delivery payments of eight additional A320 aircraft. Finally, we entered into one further amendment to this loan agreement on November 30, 2016, to finance the pre-delivery payments for the twenty-two remaining A320 aircraft under the Airbus purchase agreement.

The aggregate principal amount of this revolving line is for up to U.S. $199.6 million, of which U.S. $113.1 million is provided by Banco Santander México and U.S. $86.5 million by Bancomext. This revolving credit facility bears annual interest at three-month LIBOR plus a spread according to the contractual conditions of each disbursement in a range of 1.99 to 2.25 percentage points. The final maturity is on May 31, 2021. Any principal repaid may be re-borrowed until October 31, 2020. This revolving line of credit may limit our ability to, among others, declare and pay dividends in the event that we fail to comply with the payment terms thereunder, dispose of certain assets, incur indebtedness and create certain liens.

In December 2017, we entered into a short-term working capital facility with Banco Nacional de México S.A. in the amount of Ps.948.4 million, bearing annual interest at TIIE 28 days plus a spread in the range of 20 to 80 basis points according to the contractual conditions of each disbursement, (the Interbank Equilibrium Interest Rate (*tasa de interés interbancaria de equilibrio*) or the TIIE).

As of December 31, 2017, we were current with principal and interest payments as well as in compliance with the covenants under our revolving credit facility and short-term working capital facilities.

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Content

CONSOLIDATED FINANCIAL Statements

Years Ended December 31, 2017, 2016 and 2015 with Independent Auditor's Report

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control over Financial Reporting

We have audited Controladora Vuela Compañía de Aviación, S.A.B. de C.V. and subsidiaries' internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Controladora Vuela Compañía de Aviación, S.A.B. de C.V. and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial position of the Company as of December 31, 2017 and 2016, 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, 2017, and the related notes, and our report dated April 25, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico according to the "Codigo de Etica Profesional del Instituto Mexicano de Contadores Publicos" ("IMCP Code"), and the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards, as issued by the International Accounting Standard Board (IFRS). A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

C.P.C. Luis Francisco Ortega Sinencio

Mexico City, Mexico
April 25, 2018

Consolidated Statements of Financial Position

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

(In thousands of Mexican pesos)

	2017 (Thousands of U.S. dollars*)		At December 31,			
			2017		2016	
Assets						
Current assets:						
Cash and cash equivalents (Note 6)	US$	352,204	Ps.	6,950,879	Ps.	7,071,251
Accounts receivable:						
Other accounts receivable, net (Note 8)		24,244		478,467		427,403
Recoverable value added tax and others		20,292		400,464		342,348
Recoverable income tax		28,900		570,361		192,967
Inventories (Note 9)		14,940		294,850		243,884
Prepaid expenses and other current assets (Note 10)		38,900		767,713		1,562,526
Financial instruments (Notes 3 and 5)		25,204		497,403		543,528
Guarantee deposits (Note 11)		68,552		1,352,893		1,167,209
Total current assets		573,236		11,313,030		11,551,116
Non–current assets:						
Rotable spare parts, furniture and equipment, net (Note 12)		221,718		4,375,697		2,525,008
Intangible assets, net (Note 13)		9,649		190,420		114,041
Financial instruments (Notes 3 and 5)		–		–		324,281
Deferred income taxes (Note 19)		28,499		562,445		559,083
Guarantee deposits (Note 11)		309,001		6,098,252		6,559,878
Other assets		6,406		126,423		148,364
Total non–current assets		575,273		11,353,237		10,230,655
Total assets	US$	1,148,509	Ps.	22,666,267	Ps.	21,781,771

	2017 (Thousands of U.S. dollars*)		At December 31,			
			2017		2016	
Liabilities and equity						
Short–term liabilities:						
Unearned transportation revenue	US$	109,531	Ps.	2,161,636	Ps.	2,153,567
Suppliers		54,594		1,077,438		861,805
Related parties (Note 7)		2,074		40,931		65,022
Accrued liabilities (Note 15a)		103,924		2,050,973		1,785,439
Other taxes and fees payable (Note 1q)		63,097		1,245,247		1,476,242
Income taxes payable		5,639		111,292		196,242
Financial instruments (Notes 3 and 5)		–		–		14,144
Financial debt (Note 5)		121,789		2,403,562		1,051,237
Other liabilities (Note 15c)		14,225		280,744		284,200
Total short–term liabilities		474,873		9,371,823		7,887,898
Long–term liabilities:						
Financial debt (Note 5)		54,681		1,079,152		943,046
Accrued liabilities (Note 15b)		10,126		199,848		169,808
Other liabilities (Note 15c)		10,980		216,702		136,555
Employee benefits (Note 16)		977		19,289		13,438
Deferred income taxes (Note 19)		81,901		1,616,282		1,836,950
Total long–term liabilities		158,665		3,131,273		3,099,797
Total liabilities		633,538		12,503,096		10,987,695
Equity (Note 18):						
Capital stock		150,671		2,973,559		2,973,559
Treasury shares		(4,309)		(85,034)		(83,365)
Contributions for future capital increases		–		1		1
Legal reserve		14,754		291,178		38,250
Additional paid–in capital		91,436		1,804,528		1,800,613
Retained earnings		257,408		5,080,049		5,927,576
Accumulated other comprehensive income		5,011		98,890		137,442
Total equity		514,971		10,163,171		10,794,076
Total liabilities and equity	US$	1,148,509	Ps.	22,666,267	Ps.	21,781,771

* Convenience translation to U.S. dollars (Ps. 19.7354) – Note 1y.

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

Consolidated Statements of Operation

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

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

		2017 (Thousands of U.S. dollars*, except for earnings per share)		For the years ended December 31, 2017		2016		2015
Operating revenues (Notes 1d and 24):								
Passenger	US$	901,493	Ps.	17,791,317	Ps.	17,790,130	Ps.	14,130,365
Non-ticket (Note 1d)		357,431		7,054,058		5,722,321		4,049,339
		1,258,924		24,845,375		23,512,451		18,179,704
Other operating income (Note 20)		(4,903)		(96,765)		(496,742)		(193,155)
Fuel		367,646		7,255,636		5,741,403		4,721,108
Aircraft and engine rent expenses (Note 14c)		307,696		6,072,502		5,590,058		3,525,336
Landing, take-off and navigation expenses		203,184		4,009,915		3,272,051		2,595,413
Salaries and benefits		143,075		2,823,647		2,419,537		1,902,748
Sales, marketing and distribution expenses		85,710		1,691,524		1,413,348		1,088,805
Maintenance expenses		72,618		1,433,147		1,344,110		874,613
Other operating expenses (Note 20)		55,152		1,088,440		952,452		697,786
Depreciation and amortization (Notes 12 and 13)		27,802		548,687		536,543		456,717
Operating income		944		18,642		2,739,691		2,510,333
Finance income (Note 21)		5,361		105,795		102,591		47,034
Finance cost (Note 21)		(4,376)		(86,357)		(35,116)		(21,703)
Foreign exchange (loss) gain, net		(40,225)		(793,854)		2,169,505		966,554
(Loss) income before income tax		(38,296)		(755,774)		4,976,671		3,502,218
Income tax benefit (expense) (Note 19)		8,167		161,175		(1,457,182)		(1,038,348)
Net (loss) income	US$	(30,129)	Ps.	(594,599)	Ps.	3,519,489	Ps.	2,463,870
(Loss) Earnings per share basic:	US$	(0.030)	Ps.	(0.588)	Ps.	3.478	Ps.	2.435
(Loss) Earnings per share diluted:	US$	(0.030)	Ps.	(0.588)	Ps.	3.478	Ps.	2.435

*Convenience translation to U.S. dollars (Ps. 19.7354) – Note 1y.

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

Consolidated Statements of Comprehensive Income

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

(In thousands of Mexican pesos)

		2017 (Thousands of U.S. dollars*)		Por los años terminados el 31 de diciembre de 2017		2016		2015
Net (loss) income for the year	US$	(30,129)	Ps.	(594,599)	Ps.	3,519,489	Ps.	2,463,870
Other comprehensive (loss) income:								
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods:								
Net (loss) gain on cash flow hedges (Note 22)		(2,136)		(42,148)		624,694		(193,869)
Income tax effect (Note 19)		609		12,017		(187,408)		58,161
Exchange differences on translation of foreign operations		(364)		(7,178)		(4,756)		–
Other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods:								
Remeasurement loss of employee benefits (Note 16)		(90)		(1,776)		(442)		(1,174)
Income tax effect (Note 19)		27		533		132		352
Other comprehensive (loss) income for the year, net of tax	US$	(1,954)	Ps.	(38,552)	Ps.	432,220	Ps.	(136,530)
Total comprehensive (loss) income for the year, net of tax	US$	(32,083)	Ps.	(633,151)	Ps.	3,951,709	Ps.	2,327,340

*Convenience translation to U.S. dollars (Ps. 19.7354) – Note 1y.

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

Consolidated Statements of Changes in Equity

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

For the years ended December 31, 2017, 2016 and 2015

(In thousands of Mexican pesos)

	Capital stock	Treasury shares	Contributions for future capital increases	Legal reserve	Additional paid–in capital	Retained earnings (Accumulated losses)	Remeasurement of employee benefits	Cash flow hedges	Exchange differences on translation of foreign operations	Total equity
Balance as of December 31, 2014	Ps. 2,973,559	Ps. (114,789)	Ps. 1	Ps. 38,250	Ps. 1,786,790	Ps. (55,783)	Ps. (1,482)	Ps. (156,766)	Ps. –	Ps. 4,469,780
Exercise of stock options (Note 17)	–	23,461	–	–	–	–	–	–	–	23,461
Long–term incentive plan cost (Note 17)	–	–	–	–	4,250	–	–	–	–	4,250
Net income for the period	–	–	–	–	–	2,463,870	–	–	–	2,463,870
Other comprehensive loss items	–	–	–	–	–	–	(822)	(135,708)	–	(136,530)
Total comprehensive income (loss)	–	–	–	–	–	2,463,870	(822)	(135,708)	–	2,327,340
Balance as of December 31, 2015	2,973,559	(91,328)	1	38,250	1,791,040	2,408,087	(2,304)	(292,474)	–	6,824,831
Treasury shares	–	(17,025)	–	–	17,025	–	–	–	–	–
Exercise of stock options (Note 17)	–	17,536	–	–	–	–	–	–	–	17,536
Forfeited shares from incentive plan	–	963	–	–	(963)	–	–	–	–	–
Long–term incentive plan cost (Note 17)	–	6,489	–	–	(6,489)	–	–	–	–	–
Net income for the period	–	–	–	–	–	3,519,489	–	–	–	3,519,489
Other comprehensive (loss) income items	–	–	–	–	–	–	(310)	437,286	(4,756)	432,220
Total comprehensive income (loss)	–	–	–	–	–	3,519,489	(310)	437,286	(4,756)	3,951,709
Balance as of December 31, 2016	2,973,559	(83,365)	1	38,250	1,800,613	5,927,576	(2,614)	144,812	(4,756)	10,794,076
Legal reserve increase (Note 18)	–	–	–	252,928	–	(252,928)	–	–	–	–
Treasury shares	–	(10,108)	–	–	10,108	–	–	–	–	–
Exercise of stock options (Note 17)	–	638	–	–	–	–	–	–	–	638
Long–term incentive plan cost (Note 17)	–	7,801	–	–	(6,193)	–	–	–	–	1,608
Net loss for the period	–	–	–	–	–	(594,599)	–	–	–	(594,599)
Other comprehensive (loss)items	–	–	–	–	–	–	(1,243)	(30,131)	(7,178)	(38,552)
Total comprehensive (loss)	–	–	–	–	–	(594,599)	(1,243)	(30,131)	(7,178)	(633,151)
Balance as of December 31, 2017	Ps. 2,973,559	Ps. (85,034)	Ps. 1	Ps. 291,178	Ps. 1,804,528	Ps. 5,080,049	Ps. (3,857)	Ps. 114,681	Ps. (11,934)	Ps. 10,163,171
	US$ 150,671	US$ (4,309)	US$ –	US$ 14,754	US$ 91,436	US$ 257,408	US$ (195)	US$ 5,811	US$ (605)	US$ 514,971

*Convenience translation to U.S. dollars (Ps. 19.7354) – Note 1y.

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

Consolidated Statements of Cash Flows

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

(In thousands of Mexican pesos)

	Thousands of U.S. dollars* 2017	For the years ended December 31, 2017	2016	2015
Operating activities				
(Loss) income before income tax	US$ (38,296)	Ps. (755,774)	Ps. 4,976,671	Ps. 3,502,218
Non–cash adjustment to reconcile income before tax to net cash flows from operating activities:				
Depreciation and amortization (Notes 12 and 13)	27,802	548,687	536,543	456,717
Provision for doubtful accounts (Note 8)	239	4,720	9,164	8,825
Finance income (Note 21)	(5,361)	(105,795)	(102,591)	(47,034)
Finance cost (Note 21)	4,376	86,357	35,116	21,703
Net foreign exchange differences	25,556	504,366	(1,054,333)	(483,329)
Financial instruments (Notes 4 and 22)	2,534	50,007	353,943	287,550
Net gain on disposal of rotable spare parts, furniture and equipment and gain on sale of aircraft (Note 20)	(3,292)	(64,978)	(483,565)	(180,433)
Employee benefits (Note 16)	236	4,657	3,122	2,549
Aircraft and engine lease extension benefit and other benefits from service agreements	(5,096)	(100,580)	(82,178)	(62,122)
Management incentive and long–term incentive plans (Note 17)	445	8,783	4,826	4,250
Cash flows from operating activities before changes in working capital	9,143	180,450	4,196,718	3,510,894
Changes in operating assets and liabilities:				
Related parties	(1,221)	(24,091)	50,706	13,749
Other accounts receivable	7,082	139,774	(157,370)	(52,157)
Recoverable and prepaid taxes	(22,243)	(438,966)	(361,377)	63,499
Inventories	(2,582)	(50,966)	(80,811)	(23,400)
Prepaid expenses	36,790	726,020	(1,027,040)	(353,451)
Other assets	1,112	21,941	19,540	28,758
Guarantee deposits	2,910	57,425	(1,957,350)	(1,164,911)
Suppliers	9,936	196,082	136,178	300,447
Accrued liabilities	14,690	289,920	499,584	272,555
Other taxes and fees payable	17,887	353,014	523,524	433,863
Unearned transportation revenue	409	8,069	196,313	536,319
Financial instruments	6,387	126,053	(450,902)	(637,879)
Other liabilities	567	11,198	260,437	127,170
	80,867	1,595,923	1,848,150	3,055,456
Interest received	5,361	105,795	102,591	47,034
Income tax paid	(36,272)	(715,849)	(972,009)	(32,877)
Net cash flows provided by operating activities	49,956	985,869	978,732	3,069,613
Investing activities				
Acquisitions of rotable spare parts, furniture and equipment (Note 12)	(127,778)	(2,521,752)	(2,198,697)	(1,403,863)
Acquisitions of intangible assets (Note 13)	(6,633)	(130,908)	(60,792)	(52,228)
Pre–delivery payments reimbursements (Note 12)	10,841	213,947	1,733,093	669,718
Proceeds from disposals of rotable spare parts, furniture and equipment	9,033	178,273	498,438	185,096
Net cash flows used in investing activities	(114,537)	(2,260,440)	(27,958)	(601,277)
Financing activities				
Proceeds from exercised stock options (Note 17)	32	638	20,186	23,461
Treasury shares purchase	(512)	(10,108)	(17,025)	–
Interest paid	(5,340)	(105,388)	(39,350)	(41,538)
Other finance interest paid	–	–	(137,830)	(40,113)
Payments of financial debt	(46,864)	(924,867)	(1,531,460)	(801,335)
Proceeds from financial debt	123,535	2,438,025	1,716,244	924,611
Net cash flows provided by financing activities	70,851	1,398,300	10,765	65,086
Increase in cash and cash equivalents	6,270	123,729	961,539	2,533,422
Net foreign exchange differences on cash balance	(12,369)	(244,101)	952,399	359,034
Cash and cash equivalents at beginning of year	358,303	7,071,251	5,157,313	2,264,857
Cash and cash equivalents at end of year	US$ 352,204	Ps. 6,950,879	Ps. 7,071,251	Ps. 5,157,313

*Convenience translation to U.S. dollars (Ps. 19.7354) – Note 1y.

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

Notes to Consolidated Financial Statements

CONTROLADORA VUELA COMPAÑÍA DE AVIACIÓN, S.A.B. DE C.V. AND SUBSIDIARIES (d.b.a. VOLARIS)
For the years ended December 31, 2017, 2016 and 2015
(In thousands of Mexican pesos and thousands of U.S. dollars, except when indicated otherwise)

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

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

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

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

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

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

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

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

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

The accompanying consolidated financial statements and notes were authorized for issuance by the Company's Chief Executive Officer, Enrique Beltranena, and Chief Financial Officer, Fernando Suárez, on April 6, 2018. The Company´s Board of Directors and Shareholders have the authority to approve or modify the Company´s consolidated financial statements. Subsequent events have been considered through April 6, 2018 (Note 25).

a) Relevant events

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

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

Operations in Central America

On December 1, 2016, the Company's subsidiary Vuela Aviación, started operations in Costa Rica.

Secondary follow–on equity offering

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

b) Basis of preparation

Statement of compliance

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, and were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the *International Accounting Standards Board* ("IASB").

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

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

Basis of measurement and presentation

The accompanying consolidated financial statements have been prepared under the historical–cost convention, except for derivative financial instruments that are measured at fair value and investments in marketable securities measured at fair value through profit and loss ("FVTPL"). The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts reported in the accompanying consolidated financial statements and notes. Actual results could differ from those estimates.

c) Basis of consolidation

The accompanying consolidated financial statements comprise the financial statements of the Company and its subsidiaries. At December 31, 2017 and 2016, for accounting purposes the companies included in the consolidated financial statements are as follows:

Name	Principal Activities	Country	% Equity interest	
			2017	2016
Concesionaria	Air transportation services for passengers, cargo and mail throughout Mexico and abroad	Mexico	100%	100%
Volaris Costa Rica	Air transportation services for passengers, cargo and mail in Costa Rica and abroad	Costa Rica	100%	100%
Vuela, S.A. ("Vuela")*	Air transportation services for passengers, cargo and mail in Guatemala and abroad	Guatemala	100%	100%
Comercializadora Volaris, S.A. de C.V.	Merchandising of services	Mexico	100%	100%
Servicios Earhart, S.A.*	Recruitment and payroll	Guatemala	100%	100%
Servicios Corporativos Volaris, S.A. de C.V. ("Servicios Corporativos")	Recruitment and payroll	Mexico	100%	100%
Servicios Administrativos Volaris, S.A. de C.V. ("Servicios Administrativos")	Recruitment and payroll	Mexico	100%	100%
Operaciones Volaris, S.A. de C.V ("Operaciones Volaris") (1)	Recruitment and payroll	Mexico	100%	100%
Deutsche Bank México, S.A., Trust 1710	Pre–delivery payments financing (Note 5)	Mexico	100%	100%
Deutsche Bank México, S.A., Trust 1711	Pre–delivery payments financing (Note 5)	Mexico	100%	100%
Irrevocable Administrative Trust number F/307750 "Administrative Trust"	Share administration trust (Note 17)	Mexico	100%	100%
Irrevocable Administrative Trust number F/745291	Share administration trust (Note 17)	Mexico	100%	100%

* The Company has not started operations in Guatemala.

(1) With effect from August 3, 2016, the name of the Company was changed from Servicios Operativos Terrestres Volaris, S.A. de C.V. to Operaciones Volaris, S.A. de C.V.

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

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

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

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

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

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

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

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

d) Revenue recognition

Passenger revenues:

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

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

Non–ticket revenues:

The most significant non–ticket revenues include revenues generated from: (i) air travel–related services (ii) revenues from non–air travel–related services and (iii) cargo services.

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

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

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

The breakdown of the Company's non–ticket revenues for the years ended December 31, 2017, 2016 and 2015 is as follows:

	For the years ended December 31,					
		2017		2016		2015
Air travel–related services	Ps.	6,293,747	Ps.	5,055,836	Ps.	3,418,654
Non–air travel–related services		589,338		494,864		441,393
Cargo		170,973		171,621		189,292
Total non–ticket revenues	Ps.	7,054,058	Ps.	5,722,321	Ps.	4,049,339

e) Cash and cash equivalents

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

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

f) Financial instruments

A financial instrument is any contract that gives rise to a financial asset for one entity and a financial liability or equity instrument for another entity. The Company early adopted IFRS 9.

Under IFRS 9 (2013), the FVTPL category used under IAS 39 remains permissible, although new categories of financial assets are introduced. These new categories are based on the characteristics of the instruments and the business model under which these are held, to either be measured at fair value or at amortized cost.

For financial liabilities, categories provided under IAS 39 are kept. As a result, there was no difference in valuation and recognition of the financial assets under IFRS 9 (2013), since those financial assets categorized under IAS 39 as FVTPL remain in that same category under IFRS 9 (2013). In the case of trade receivables, these were not affected in terms of valuation model by this version of IFRS 9 (2013), since they are carried at amortized cost and continued to be accounted for as such.

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

IFRS 9 requires the Company to record expected credit losses on all trade receivables, either on a 12 month or lifetime basis. The Company recorded lifetime expected losses on all trade receivables.

i) Financial assets

Classification of financial assets

The Company determines the classification and measurement of financial assets, in accordance with the categories in IFRS 9 (2013), which are based on both: the characteristics of the contractual cash flows of these assets and the business model objective for holding them.

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

Initial recognition

All the Company’s financial assets are initially recognized at fair value, including derivative financial instruments.

Subsequent measurement

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

1. Financial assets at FVTPL which include financial assets held for trading.
2. Financial assets at amortized cost, whose characteristics meet the SPPI criterion and were originated to be held to collect principal and interest in accordance with the Company’s business model.
3. Derivative financial instruments are designated for hedging purposes under the cash flow hedge (“CFH”) accounting model and are measured at fair value.

Derecognition

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

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

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

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

ii) Impairment of financial assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events has occurred since the initial recognition of an asset (an incurred ‘loss event’), that has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in receivable, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Further disclosures related to impairment of financial assets are also provided in Note 2vi) and Note 8.

For trade receivables, the Company records allowance for credit losses in accordance with the objective evidence of the incurred losses. Based on this evaluation, allowances are taken into account for the expected losses of these receivables.

For the years ended December 31, 2017, 2016 and 2015, the Company recorded an impairment on accounts receivable of Ps.4,720, Ps.9,164 and Ps.8,825, respectively (Note 8).

iii) Financial liabilities

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

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

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

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

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

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

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

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

Financial liabilities at FVTPL
FVTPL include financial liabilities designated upon initial recognition at fair value through profit or loss. Financial liabilities under the fair value option are classified as held for trading, if they are acquired for the purpose of selling them in the near future. This category includes derivative financial instruments that are not designated as hedging instruments in hedge relationships as defined by IFRS 9 (2013). During the years ended December 31, 2017, 2016 and 2015 the Company has not designated any financial liability as at FVTPL.

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

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

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

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

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

g) Other accounts receivable

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

h) Inventories

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

i) Intangible assets

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

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

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

For the years ended December 31, 2017, 2016 and 2015, there were no indicators of impairment. No impairment charges were recorded in respect of the Company's value of intangible assets.

j) Guarantee deposits

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

Aircraft maintenance deposits paid to lessors

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

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

Maintenance deposits expected to be recovered from lessors are reflected as guarantee deposits in the accompanying consolidated statement of financial position. The portion of prepaid maintenance deposits that is deemed unlikely to be recovered, primarily relating to the rate differential between the maintenance deposits and the expected cost for the next related maintenance event that the deposits serve to collateralize, is recognized as supplemental rent in the consolidated statements of operations. Thus, any excess of the required deposit over the expected cost of the major maintenance event is recognized as supplemental rent in the consolidated statements of operations starting from the period the determination is made.

For the years ended December 31, 2017, 2016 and 2015, the Company expensed as supplemental rent Ps.103,648, Ps.143,923 and Ps.73,258, respectively.

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

During the year ended December 31 2017 and, 2016, the Company added five and 17 new net aircraft to its fleet, respectively. Some lease agreements of these aircraft do not require the obligation to pay maintenance deposits to lessors in advance in order to ensure major maintenance activities, so the Company does not record guarantee deposits regarding these aircraft. However, some lease agreements provide the obligation to make a maintenance adjustment payment to the lessors at the end of the contract period. This adjustment covers maintenance events that are not expected to be made before the termination of the contract.

The Company recognizes this cost as a contingent rent during the lease term of the related aircraft, in the consolidated statement of operations.

For the years ended December 31, 2017, 2016 and 2015, the Company expensed as contingent rent Ps.162,108, Ps.201,434 and Ps.290,857, respectively.

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

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

During the years ended December 31, 2017 and 2016, the Company extended the lease term of three and two aircraft agreements, respectively, and two engine agreements in 2017. These extensions made available to the Company maintenance deposits that were recognized in prior periods in the consolidated statements of operations as contingent rent of Ps.65,716 and Ps.92,528 during 2017 and 2016, respectively. The maintenance event for which the maintenance deposits were previously expensed was scheduled to occur after the original lease term and as such the contingent rental payments were expensed. However, when the leases were amended the maintenance deposits amounts became probable of recovery due to the longer lease term and as such they are being recognized as an asset.

The effect of these lease extensions were recognized as a guarantee deposit and a deferred aircraft and engine lease extension benefit 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 statement of financial position and are being recognized on a straight–line basis over the remaining revised lease terms. For the years ended December 31, 2017, 2016 and 2015, the Company amortized Ps.88,224, Ps.74,748 and Ps.45,313, respectively, of lease incentives 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 consist of scheduled maintenance checks on the Company's aircraft, including pre–flight, daily, weekly and overnight checks, any diagnostics and routine repairs and any unscheduled tasks performed as required. This type of maintenance events is 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 six weeks to accomplish and typically are required approximately every five to six years.

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

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

During the years ended December 31, 2017 and 2016, the Company capitalized major maintenance events as part of leasehold improvements to flight equipment for an amount of Ps.529,331 and Ps.226,526, respectively (Note 12).

For the years ended December 31, 2017, 2016 and 2015, the amortization of major maintenance leasehold improvement costs was Ps.382,745, Ps.404,659 and Ps.352,932, respectively (Note 12). The amortization of deferred maintenance costs is recorded as part of depreciation and amortization in the consolidated statements of operations.

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

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

l) Rotable spare parts, furniture and equipment, net

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

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

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

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

During the years ended December 31, 2017, 2016 and 2015, the Company capitalized borrowing costs which amounted to Ps.193,389, Ps.95,445 and Ps.90,057, respectively (Note 21). The rate used to determine the amount of borrowing cost was 3.30%, 2.88% and 2.80%, for the years ended December 31, 2017, 2016 and 2015, respectively.

Depreciation rates are as follows:

	Annual depreciation rate
Aircraft parts and rotable spare parts	8.3–16.7%
Aircraft spare engines	4.0–8.3%
Standardization	Remaining contractual lease term
Computer equipment	25%
Communications equipment	10%
Office furniture and equipment	10%
Electric power equipment	10%
Workshop machinery and equipment	10%
Service carts on board	20%
Leasehold improvements to flight equipment	The shorter of: (i) remaining contractual lease term, or (ii) the next major maintenance event

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

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

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

For the years ended December 31, 2017, 2016 and 2015, there were no indicators of impairment. 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 Company's consolidated financial statements are presented in Mexican peso, which is the reporting and functional currency of the parent company. For each subsidiary, the Company determines the functional currency and items included in the financial statements of each entity are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

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

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

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

For the year ended December 31, 2017 and 2016 the exchange rates of local currencies translated to functional currencies are as follows:

			Exchange rates of local currencies translated to functional currencies		Exchange rates of local currencies translated to functional currencies	
Country	Local currency	Functional currency	Average exchange rate for 2017	Exchange rate as of 2017	Average exchange rate for 2016	Exchange rate as of 2016
Costa Rica	Colon	U.S. dollar	₡. 572.2000	₡. 572.5600	₡. 564.3332	₡. 561.1000
Guatemala	Quetzal	U.S. dollar	Q. 7.3509	Q. 7.3448	Q. 7.4931	Q. 7.5221

The exchange rates used to translate the above amounts to Mexican pesos at December 31, 2017 and 2016 were Ps.19.7354 and Ps.20.6640, respectively, per U.S. dollar.

Foreign currency differences arising on translation into the presentation currency are recognized in OCI. Exchange differences on translation of foreign entities for the year ended December 31, 2017 and 2016 were Ps.7,178 and Ps.4,756, respectively. For the year ended December 31, 2015 exchange differences on translation of foreign entities were immaterial

n) Liabilities and provisions

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

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

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

The aircraft lease agreements of the Company also require that the aircraft and engines be returned to lessors under specific conditions of maintenance. The costs of return, which in no case are related to scheduled major maintenance, are estimated and recognized ratably as a provision from the time it becomes likely such costs will be incurred and can be estimated reliably. These return costs are recognized on a straight–line basis as a component of supplemental rent and the provision is included as part of other liabilities, through the remaining lease term. The Company estimates the provision related to airframe, engine overhaul and limited life parts using certain assumptions including the projected usage of the aircraft and the expected costs of maintenance tasks to be performed. For the years ended December 31, 2017, 2016 and 2015, the Company expensed as supplemental rent Ps.851,410, Ps.933,730 and Ps.91,698, respectively.

o) Employee benefits

i) Personnel vacations

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

ii) Termination benefits

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

a) When it can no longer withdraw the offer of those benefits; and

b) When it recognizes costs for a restructuring that is within the scope of IAS 37, Provisions, *Contingent Liabilities and Contingent Assets*, and involves the payment of termination benefits.

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

For the years ended December 31, 2017, 2016 and 2015, no termination benefits provision has been recognized.

iii) Seniority premiums

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

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

The latest actuarial computation was prepared as of December 31, 2017.

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

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

For entities in Costa Rica and Guatemala there is no obligation to pay seniority premium or other retirement benefits.

iv) Incentives

The Company has a quarterly incentive plan for certain personnel whereby cash bonuses are awarded for meeting certain performance targets. These incentives are payable shortly after the end of each quarter and are accounted for as a short–term benefit under IAS 19, *Employee Benefits*. A provision is recognized based on the estimated amount of the incentive payment.

During the years ended December 31, 2017, 2016 and 2015 the Company expensed Ps.48,384, Ps.40,829 and Ps.50,558, respectively, as quarterly incentive bonuses, recorded under the caption salaries and benefits.

During the year ended December 31, 2015, the Company adopted a new short–term benefit plan for certain key personnel whereby cash bonuses are awarded when certain Company's performance targets are met. These incentives are payable shortly after the end of each year and also are accounted for as a short–term benefit under IAS 19. A provision is recognized based on the estimated amount of the incentive payment. During the years ended December 31, 2017, 2016 and 2015 the Company recorded an expense for an amount of Ps.0, Ps.53,738, and Ps.70,690, respectively, under the caption salaries and benefits.

v) Long–term retention plan ("LTRP")

The Company has adopted a Long–term incentive plan ("LTIP"). This plan consists of a share purchase plan (equity–settled) and a share appreciation rights "SARs" plan (cash settled), and therefore accounted under IFRS 2 "Shared based payments"

vi) Share–based payments

a) LTIP

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

During the years ended December 31, 2017, 2016 and 2015, the Company expensed Ps.13,508, Ps.7,816 and Ps.6,018, respectively, related to RSUs. The expenses were recorded under the caption salaries and benefits.

– SARs plan (cash settled)
The Company granted SARs to key employees, which entitle them to a cash payment after a service period. The amount of the cash payment is determined based on the increase in the share price of the Company between the grant date and the time of exercise. The liability for the SARs is measured, initially and at the end of each reporting period until settled, at the fair value of the SARs, taking into account the terms and conditions on which

the SARs were granted. The compensation cost is recognized in the consolidated statement of operations under the caption of salaries and benefits, over the requisite service period (Note 17).

During the years ended December 31, 2017, 2016 and 2015, the Company recorded a (benefit) expense for Ps.(8,999), Ps.31,743, Ps.44,699, respectively, related to the SARs included in the LTIP. These amounts were recorded under the caption salaries and benefits.

b) Management incentive plan ("MIP")

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

During the year ended December 31, 2015, the Company recorded an expense by Ps.327 as cost of the MIP, related to the vested shares, the expense was recorded in the consolidated statement of operations under the caption salaries and benefits.

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

During the years ended December 31, 2017 and 2016, the Company recorded a (benefit) expense for Ps.(16,499) and Ps.54,357, respectively, related to MIP II into the consolidated statement of operations.

vii) Employee profit sharing

The Mexican Income Tax Law ("MITL"), establishes that the base for computing current year employee profit sharing shall be the taxpayer's taxable income of the year for income tax purposes, including certain adjustments established in the Income Tax Law, at the rate of 10%. For the years ended December 2017, 2016 and 2015, the cost of employee profit sharing earned is Ps.8,342, Ps.9,967 and Ps.9,938, respectively, and is presented as an expense in the consolidated statements of operations. Subsidiaries in Central America do not have such profit sharing benefit, as it is not required by local regulation.

p) Leases

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

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

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

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

Sale and leaseback

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

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

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

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

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

q) Other taxes and fees payable

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

r) Income taxes

Current income tax

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

Current income tax relating to items recognized directly in equity is recognized in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

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

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

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

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

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

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

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

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

s) Derivative financial instruments and hedge accounting

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

In accordance with IFRS 9 (2013), derivative financial instruments are recognized in the consolidated statement of financial position at fair value. At inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting, as well as the risk management objective and strategy for undertaking the hedge. The documentation includes the hedging strategy and objective, identification of the hedging instrument, the hedged item or transaction, the nature of the risks being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk(s).

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

Under the cash flow hedge (CFH) accounting model, the effective portion of the hedging instrument's changes in fair value is recognized in OCI, while the ineffective portion is recognized in current year earnings. During the years ended

December 31, 2017, 2016 and 2015, there was no ineffectiveness with respect to derivative financial instruments. The amounts recognized in OCI are transferred to earnings in the period in which the hedged transaction affects earnings.

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

Accounting for the time value of options

The Company accounts for the time value of options in accordance with IFRS 9 (2013), which requires all derivative financial instruments to be initially recognized at fair value. Subsequent measurement for options purchased and designated as CFH requires that the option's changes in fair value be segregated into its intrinsic value (which will be considered the hedging instrument's effective portion in OCI) and its correspondent changes in extrinsic value (time value and volatility). The extrinsic value changes will be considered as a cost of hedging (recognized in OCI in a separate component of equity) and accounted for in income when the hedged items also is recognized in income.

t) Financial instruments – Disclosures

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

u) Treasury shares

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

v) Operating segments

The Company is managed as a single business unit that provides air transportation and related services, accordingly it has only one operating segment.

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

w) Current versus non–current classification

The Company presents assets and liabilities in the consolidated statement of financial position based on current/non–current classification. An asset is current when it is: (i) expected to be realized or intended to be sold or consumed in normal operating cycle, (ii) expected to be realized within twelve months after the reporting period, or, (iii) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as non–current.

A liability is current when: (i) it is expected to be settled in normal operating cycle, (ii) it is due to be settled within twelve months after the reporting period, or, (iii) there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. The Company classifies all other liabilities as non–current. Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

x) Impact of new International Financial Reporting Standards

New and amended standards and interpretations already effective

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2017. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Although these new standards and amendments applied for the first time in 2017, they did not have a material impact on the annual consolidated financial statements of the Company. The nature and the impact of these changes to each new standard and amendment are described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non–cash changes (such as foreign exchange gains or losses). The Company has provided the information for both the current and the comparative period in Note 5.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. However, their application has no effect on the Company's financial position and performance as there are no deductible temporary differences or assets that are in the scope of the amendments.

New and amended standards and interpretations not yet effective

Except for IFRS 9 adopted in 2014, the Company has not early adopted any of the following standards, interpretations or amendments that have been issued but is not yet effective.

IFRS 9 (2014) *Financial Instruments*
The Company adopted IFRS 9 (2013) in connection with its 2014 consolidated financial statements. IFRS 9 (2014) requires entities to apply an expected credit loss (ECL) model that replaces the IAS 39's incurred loss model. The ECL model applies to debt instruments accounted for at amortized cost or at fair value through OCI, most loan commitments, financial guarantee contracts, contract assets under IFRS 15 *Revenue from Contracts with Customers* and lease receivables under IAS 17 *Leases* or IFRS 16 *Leases*.

IFRS 9 (2014) is effective for annual periods beginning on or after January 1, 2018, since the Company early adopted IFRS 9 (2013), no additional impact is expected

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and amended in April 2016, and establishes a five–step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard will supersede all current revenue recognition requirements under IFRS. IFRS 15 also requires additional disclosures about the nature, timing, and uncertainty of revenue cash flows arising from customer contracts, including significant judgments and changes in judgments.

The Company will adopt the new standard on the required effective date as of January 1, 2018, using the full retrospective method of adoption, in order to provide for comparative results in all periods presented, recognizing the effect in retained earnings as of January 1, 2016.

During 2016, the Company performed a preliminary assessment of IFRS 15, which was continued with a more detailed analysis completed in 2017. The Company expects that the main impact of IFRS 15 is the timing of recognition of certain air travel–related services ("ancillaries"). Under the current accounting policy, certain ancillaries are recognized as revenue at the time of the booking by customer (or when the service is provided); under the new standard, those ancillaries will be recognized when the air transportation service is rendered (at the time of the flight). This change arises primarily because those ancillaries do not constitute separate performance obligations or represent administrative tasks that do not represent a promised service and therefore should be accounted for together with the air fare as a single performance obligation of providing passenger transportation. Also certain services provided to the Company's customers that under the new standard qualify as variable considerations that will be recorded as reduction to revenues. The Company considers this accounting change will not have a material impact on its results of operations and financial position.

The Company also expects that the classification of certain ancillary fees in the statement of operations, such as advanced seat selection, fees charges for excess baggage, itinerary changes and other air travel–related services, will change upon adoption of IFRS 15 since they are part of the single performance obligation of providing passenger transportation. The Company expects that these revenues currently classified as non–ticket revenues, approximately Ps.5,915,263 in 2017 and Ps.4,758,074 in 2016, will be reclassified to passenger revenues.

The Company also evaluated the principal versus agent considerations as it relates to certain non–air travel services arrangements with third party providers. The Company expects that there will be no changes on revenue.

The Company has also identified and implemented changes to its accounting policies and practices, systems and controls, as well as designed and implemented specific controls over its evaluation of the impact of the new guidance on the Company, including the cumulative effect calculation, disclosure requirements and the collection of relevant data into the reporting process. While the Company is substantially complete with the process of quantifying the impacts from applying the new guidance, final impact assessment will be finalized during the first quarter of 2018.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC–15 *Operating Leases–Incentives* and SIC–27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on–balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low–value' assets (e.g., personal computers) and short–term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right–of–use asset).

Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right–of–use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right–of–use asset.

IFRS 16 also requires lessees to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Company is in process of completing an assessment of the potential impact of adopting IFRS 16. The adoption of this standard will have a significant impact on the accounting for leased aircraft, engines and other lease agreements, requiring the presentation of those leases with durations of greater than twelve months on the consolidated statement of financial position. The Company anticipates adopting the new standard using the full retrospective method, see Note 14 for more information on the Company's lease agreements.

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

In June 2016, the IASB issued amendments to IFRS 2 Share–based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash–settled, share–based payment transaction; the classification of a share–based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share–based payment transaction changes its classification from cash–settled to equity–settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company does not expect the amendments to have a significant effect on its consolidated financial statements.

IFRIC 23 — Uncertainty over Income Tax Treatments
IFRIC 23 clarifies the accounting for uncertainties in income taxes, the interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

An entity has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, that it used or plans to use in its income tax filing; if the entity concludes that it is probable that a particular tax treatment is accepted, the entity has to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings.

IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. The Company expects to adopt this interpretation at the effective date.

y) Convenience translation

U.S. dollar amounts at December 31, 2017 shown in the consolidated financial statements have been included solely for the convenience of the reader and are translated from Mexican pesos, using an exchange rate of Ps.19.7354 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, 2017. Such translation should not be construed as a representation that the peso amounts have been or could be converted into U.S. dollars at this or any other rate. The referred information in U.S. dollars is solely for information purposes and does not represent that the amounts are in accordance with IFRS or the equivalent in U.S. dollars in which the transactions were conducted or in which the amounts presented in Mexican pesos can be translated or realized.

2. Significant accounting judgments, estimates and assumptions

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

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

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

i) Aircraft maintenance deposits paid to lessors

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

ii) LTIP and MIP (equity settled)

The Company measures the cost of its equity–settled transactions at fair value at the date the equity benefits are conditionally granted to employees.

The cost of equity–settled transactions is recognized in earnings, together with a corresponding increase in 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).

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

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, 2017, the Company's tax loss carry–forwards amounted to Ps.1,501,630, (Ps.111,083 at December 31, 2016). These losses relate to operations of the Company on a stand–alone basis, which in conformity with current Mexican Income Tax Law ("MITL") and Costa Rican Income Tax Law ("CRITL") may be carried forward against taxable income generated in the succeeding ten and three years, respectively, and may not be used to offset taxable income elsewhere in the Company's consolidated group (Note 19).

During the years ended December 31, 2017, 2016 and 2015, the Company used Ps.16,378, Ps.195,116 and Ps.1,618,850, respectively, of the available tax loss carry–forwards (Note 19).

iv) Fair value of financial instruments

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

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

v) Impairment of long–lived assets

The Company assesses whether there are 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 expected credit loss

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

3. Financial instruments and risk management

Financial risk management

The Company's activities are exposed to different financial risks stemming from exogenous variables which are not under their control but whose effects might be potentially adverse such as: (i) market risk, (ii) credit risk, and (iii) liquidity risk. The Company's global risk management program is focused on uncertainty in the financial markets and tries to minimize the potential adverse effects on net earnings and working capital requirements. The Company uses derivative financial instruments to hedge part of such risks. The Company does not enter into derivatives for trading or speculative purposes.

The sources of these financial risks exposures are included in both "on balance sheet" exposures, such as recognized financial assets and liabilities, as well as in "off–balance sheet" contractual agreements and on highly expected forecasted transactions. These on and off–balance sheet exposures, depending on their profiles, do represent potential cash flow variability exposure, in terms of receiving less inflows or facing the need to meet outflows which are higher than expected, therefore increase the working capital requirements.

Also, since adverse movements erode the value of recognized financial assets and liabilities, as well some other off–balance sheet financial exposures such as operating leases, there is a need for value preservation, by transforming the profiles of these fair value exposures.

The Company has a Finance and Risk Management department, which identifies and measures financial risk exposures, in order to design strategies to mitigate or transform the profile of certain risk exposures, which are taken up to the corporate governance level for approval.

Market risk

a) Jet fuel price risk

Since the contractual agreements with jet fuel suppliers include reference to jet fuel index, the Company is exposed to fuel price risk which might have an impact on the forecasted consumption volumes. The Company's jet fuel risk management policy aims to provide the Company with protection against increases in jet fuel prices. In an effort to achieve the aforesaid, the risk management policy allows the use of derivative financial instruments available on over the counter ("OTC") markets with approved counterparties and within approved limits. Aircraft jet fuel consumed in the years ended December 31, 2017, 2016 and 2015 represented 29%, 28% and 30%, of the Company's operating expenses, respectively.

During the years ended December 31, 2017 and 2016, the Company entered into US Gulf Coast Jet fuel 54 Asian call options designated to hedge 61.1 million gallons and 134.3 million gallons, respectively. Such hedges represent a portion of the projected consumption for the next nine and twenty–one months respectively.

The Company decided to early adopt IFRS 9 (2013), beginning on October 1, 2014, which allows the Company to separate the intrinsic value from the extrinsic value of an option contract; as such, the change in the intrinsic value can be designated as hedge accounting. Because extrinsic value (time and volatility values) of the Asian call options is related to a "transaction related hedged item", it is required to be segregated and accounted for as a cost of hedging in OCI and accrued as a separate component of stockholders' equity until the related hedged item matures and therefore impacts profit and loss.

The underlying (US Gulf Coast Jet Fuel 54) of the options held by the Company is a consumption asset (energy commodity), which is not in the Company's inventory. Instead, it is directly consumed by the Company's fleet at different airport terminals. Therefore, although a non–financial asset is involved, its initial recognition does not generate a book adjustment in the Company's inventories. Rather, it is initially accounted for in the Company's OCI and a reclassification adjustment is made from OCI to profit and loss and recognized in the same period or periods in which the hedged item is expected to be allocated to profit and loss. Furthermore, the Company hedges its forecasted jet fuel consumption month after month, which is congruent with the maturity date of the monthly serial Asian call options.

As of December 31, 2017 and 2016, the fair value of the outstanding US Gulf Coast Jet Fuel Asian call options was Ps.497,403 and Ps.867,809, respectively, and is presented as part of the financial assets in the consolidated statement of financial position. (See Note 5)

The amount of positive cost of hedging derived from the extrinsic value changes of these options as of December 31, 2017 recognized in other comprehensive income totals Ps.163,836 (the positive cost of hedging in 2016 totals Ps. 218,038), and will be recycled to the fuel cost during 2018, as these options expire on a monthly basis and the jet fuel is consumed. During the years ended December 31, 2017, 2016 and 2015, the net cost of these options recycled to the fuel cost was Ps.26,980, Ps.305,166 and Ps.112,675 respectively.

The following table includes the notional amounts and strike prices of the derivative financial instruments outstanding as of the end of the year:

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

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

	Position as of December 31, 2016 Jet fuel Asian call option contracts maturities											
Jet fuel risk		1 Half 2017		2 Half 2017		2017 Total		1 Half 2018		3Q 2018		2018 Total
Notional volume in gallons (thousands)*		55,436		63,362		118,798		62,492		7,746		70,238
Strike price agreed rate per gallon (U.S. dollars)**	US$	1.6245	US$	1.4182	US$	1.5145	US$	1.6508	US$	1.5450	US$	1.6392
Approximate percentage of hedge (of expected consumption value)		51%		53%		52%		45%		10%		24%

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

b) Foreign currency risk

While Mexican Peso is the functional currency of the Company, a significant portion of its operating expenses is denominated in U.S. dollar; thus, Volaris relies on sustained U.S. dollar cash flows coming from operations in the United States of America and Central America to support part of its commitments in such currency, however there's still a mismatch. Foreign currency risk arises from possible unfavorable movements in the exchange rate which could have a negative impact in the Company's cash flows. To mitigate this risk, the Company may use foreign exchange derivative financial instruments.

Most of the Company's revenue is generated in Mexican pesos, although 30% of its revenues came from operations in the United States of America and Central America for the year ended at December 31, 2017 (33% at December 31, 2016) and U.S. dollar denominated collections accounted for 40% and 38% of the Company's total collections in 2017 and 2016, respectively.

However, certain of its expenditures, particularly those related to aircraft leasing and acquisition, are also U.S. dollar denominated. In addition, although jet fuel for those flights originated in Mexico are paid in Mexican pesos, the price formula is impacted by the Mexican peso /U.S. dollar exchange rate. The Company's foreign exchange on and off–balance sheet exposure as of December 31, 2017 and 2016 is as set forth below:

	Thousands of U.S. dollars			
		2017		2016
Assets:				
Cash and cash equivalents	US$	344,038	US$	297,565
Other accounts receivable		13,105		11,619
Aircraft maintenance deposits paid to lessors		352,142		343,787
Deposits for rental of flight equipment		25,343		30,025
Derivative financial instruments		25,204		41,996
Total assets		759,832		724,992
Liabilities:				
Financial debt (Note 5)		128,296		76,789
Foreign suppliers		53,729		56,109
Taxes and fees payable		10,304		6,874
Derivative financial instruments		–		684
Total liabilities		192,329		140,456
Net foreign currency position	US$	567,503	US$	584,536

At April 6, 2018, date of issuance of these financial statements, the exchange rate was Ps.18.2244 per U.S. dollar.

	Thousands of U.S. dollars			
		2017		2016
Off–balance sheet transactions exposure:				
Aircraft and engine operating lease payments (Note 14)	US$	1,840,316	US$	1,727,644
Aircraft and engine commitments (Note 23)		1,123,377		315,326
Total	US$	2,963,693	US$	2,042,970

During the year ended December 31, 2017, the Company entered into foreign currency forward contracts in U.S. dollars to hedge approximately 9% of the aircraft rental expense for the second half of 2017. As of December 31, 2016, the Company did not enter into foreign exchange rate derivatives financial instruments.

All of the Company's position in foreign currency forward contracts matured throughout the second half of 2017 (August, September, November and December), therefore there is no outstanding balance as of December 31, 2017. For the year ended December 31, 2017, the net loss on the foreign currency forward contracts was Ps.11,290, which was recognized as part of rental expense in the consolidated statements of operations. As there were no foreign currency forward contracts as of December 31, 2016, no impact was recognized in the consolidated statements of operations.

c) Interest rate risk

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

The Company's results are affected by fluctuations in certain benchmark market interest rates due to the impact that such changes may have on operational lease payments indexed to the *London Inter Bank Offered Rate* ("LIBOR"). The Company uses derivative financial instruments to reduce its exposure to fluctuations in market interest rates and accounts for these instruments as an accounting hedge. In most cases, when a derivative can be tailored within the terms and it perfectly matches cash flows of a leasing agreement, it may be designated as a CFH and the effective portion of fair value variations are recorded in equity until the date the cash flow of the hedged lease payment is recognized in the consolidated statements of operation.

As of December 31, 2016, the Company had outstanding hedging contracts in the form of interest rate swaps with notional amount of US$ 70 million and fair value of Ps.14,144, respectively, recorded in liabilities. For the years ended December 31, 2017, 2016 and 2015, the reported loss on the interest rate swaps was Ps.13,827, Ps.48,777 and Ps.46,545, respectively, which was recognized as part of rental expense in the consolidated statements of operations. All of the Company's position in the form of interest rate swaps matured on March 31 and April 30, 2017 consequently there is no outstanding balance as of December 31, 2017.

d) Liquidity risk

Liquidity risk represents the risk that the Company has insufficient funds to meet its obligations.

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

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

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

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

	December 31, 2017					
		Within one year		One to five year		Total
Interest–bearing borrowings:						
Pre–delivery payments facilities (Note 5)	Ps.	1,449,236	Ps.	1,079,152	Ps.	2,528,388
Short–term working capital facilities (Note 5)		948,354		–		948,354
Total	Ps.	2,397,590	Ps.	1,079,152	Ps.	3,476,742

	December 31, 2016					
		Within one year		One to five year		Total
Interest–bearing borrowings:						
Pre–delivery payments facilities (Note 5)	Ps.	328,845	Ps.	943,046	Ps.	1,271,891
Short–term working capital facilities (Note 5)		716,290		–		716,290
Derivative financial instruments:						
Interest rate swaps contracts		14,144		–		14,144
Total	Ps.	1,059,279	Ps.	943,046	Ps.	2,002,325

e) Credit risk

Credit risk is the risk that any counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments including derivatives.

Financial instruments that expose the Company to credit risk involve mainly cash equivalents and accounts receivable. Credit risk on cash equivalents relate to amounts invested with major financial institutions.

Credit risk on accounts receivable relates primarily to amounts receivable from the major international credit card companies.

The Company has a high receivable turnover; hence management believes credit risk is minimal due to the nature of its businesses, which have a large portion of their sales settled in credit cards.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit–ratings assigned by international credit–rating agencies.

Some of the outstanding derivative financial instruments expose the Company to credit loss in the event of nonperformance by the counterparties to the agreements. However, the Company does not expect any of its counterparties to fail to meet their obligations. The amount of such credit exposure is generally the unrealized gain, if any, in such contracts.

To manage credit risk, the Company selects counterparties based on credit assessments, limits overall exposure to any single counterparty and monitors the market position with each counterparty. The Company does not purchase or hold derivative financial instruments for trading purposes. At December 31, 2017, the Company concluded that its credit risk related to its outstanding derivative financial instruments is low, since it has no significant concentration with any single counterparty and it only enters into derivative financial instruments with banks with high credit–rating assigned by international credit–rating agencies.

f) Capital management

Management believes that the resources available to the Company are sufficient for its present requirements and will be sufficient to meet its anticipated requirements for capital expenditures and other cash requirements for the 2017 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, 2017 and 2016. The Company is not subject to any externally imposed capital requirement, other than the legal reserve (Note 18).

4. Fair value measurements

The only financial assets and liabilities recognized at fair value on a recurring basis are the derivative financial instruments.

Fair value is the price that would be received from sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

(i) In the principal market for the asset or liability, or
(ii) In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company.

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

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

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

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

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re–assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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

	Carrying amount		Fair value	
	2017	2016	2017	2016
Assets				
Derivative financial instruments	Ps. 497,403	Ps. 867,809	Ps. 497,403	Ps. 867,809
Liabilities				
Financial debt	(3,476,742)	(1,988,181)	(3,481,741)	(1,988,445)
Derivative financial instruments	–	(14,144)	–	(14,144)
Total	Ps. (2,979,339)	Ps. (1,134,516)	Ps. (2,984,338)	Ps. (1,134,780)

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

	Fair value measurement			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Assets				
Derivatives financial instruments:				
Jet fuel Asian call options contracts*	Ps. –	Ps. 497,403	Ps. –	Ps. 497,403
Liabilities for which fair values are disclosed:				
Interest–bearing loans and borrowings**	–	(3,481,741)	–	(3,481,741)
Net	Ps. –	Ps. (2,984,338)	Ps. –	Ps. (2,984,338)

* Jet fuel forwards levels and LIBOR curve.
** LIBOR curve and TIIE Mexican interbank rate. Includes short–term and long–term debt.
There were no transfers between level 1 and level 2 during the period.

The following table summarizes the fair value measurements at December 31, 2016:

	Fair value measurement			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Assets				
Derivatives financial instruments:				
Jet fuel Asian call options contracts*	Ps. –	Ps. 867,809	Ps. –	Ps. 867,809
Liabilities				
Derivatives financial instruments:				
Interest rate swap contracts**	–	(14,144)	–	(14,144)
Liabilities for which fair values are disclosed:				
Interest–bearing loans and borrowings**	–	(1,988,445)	–	(1,988,445)
Net	Ps. –	Ps. (1,134,780)	Ps. –	Ps. (1,134,780)

* Jet fuel forwards levels and LIBOR curve.
** LIBOR curve and TIIE Mexican interbank rate. Includes short–term and long–term debt.
There were no transfers between level 1 and level 2 during the period.

The following table summarizes the loss from derivatives financial instruments recognized in the consolidated statements of operations for the years ended December 31, 2017, 2016 and 2015:

Consolidated statements of operations

Instrument	Financial statements line	2017	2016	2015
Jet fuel swap contracts	Fuel	Ps. –	Ps. –	Ps. (128,330)
Jet fuel Asian call options contracts	Fuel	(26,980)	(305,166)	(112,675)
Foreign currency forward	Aircraft and engine rent expenses	(11,290)	–	–
Interest rate swap contracts	Aircraft and engine rent expenses	(13,827)	(48,777)	(46,545)
Total		Ps. (52,097)	Ps. (353,943)	Ps. (287,550)

The following table summarizes the net (loss) gain on CFH before taxes recognized in the consolidated statements of comprehensive income for the years ended December 31, 2017, 2016 and 2015:

Consolidated statements of other comprehensive (loss) income

Instrument	Financial statements line		2017		2016		2015
Jet fuel Asian call options							
Contracts	OCI	Ps.	(54,202)	Ps.	583,065	Ps.	(221,592)
Interest rate swap contracts	OCI		14,144		41,629		27,723
Foreign currency forward	OCI		(2,090)		–		–
Total (Note 22)		Ps.	(42,148)	Ps.	624,694	Ps.	(193,869)

5. Financial assets and liabilities

At December 31, 2017 and 2016, the Company's financial assets are represented by cash and cash equivalents, trade and other accounts receivable, accounts receivable with carrying amounts that approximate their fair value.

a) Financial assets

		2017		2016
Derivative financial instruments designated as cash flow hedges (effective portion recognized within OCI)				
Jet fuel Asian call options	Ps.	497,403	Ps.	867,809
Total financial assets	Ps.	497,403	Ps.	867,809
Presented on the consolidated statements of financial position as follows:				
Current	Ps.	497,403	Ps.	543,528
Non–current	Ps.	–	Ps.	324,281

b) Financial debt

(i) At December 31, 2017 and 2016, the Company's short–term and long–term debt consists of the following:

		2017		2016
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 30, 2021, bearing annual interest rate at the three–month LIBOR plus a spread according to the contractual conditions of each disbursement in a range of 199 to 225 basis points.	Ps.	2,528,388	Ps.	1,271,891
II. In December 2016, the Company entered into a short–term working capital facility with Banco Nacional de México S.A. ("Citibanamex") in Mexican pesos, bearing annual interest rate at TIIE 28 days plus a spread according to the contractual conditions of each disbursement in a range of 20 to 80 basis points.		948,354		406,330
III. In December 2016, the Company entered into a U.S. dollar denominated short–term working capital facility with Bank of America México S.A. Institución de Banca Múltiple ("Bank of America") in U.S. dollars, bearing annual interest rate at the one–month LIBOR plus 160 basis points.		–		309,960
IV. Accrued interest		5,972		6,102
		3,482,714		1,994,283
Less: Short–term maturities		2,403,562		1,051,237
Long–term	Ps.	1,079,152	Ps.	943,046

TIIE: Mexican interbank rate

(ii) The following table provides a summary of the Company's scheduled principal payments of financial debt and accrued interest at December 31, 2017:

	2018	2019	2020	2021	Total
Finance debt denominated in foreign currency:					
Santander/Bancomext	Ps. 1,452,826	Ps. 670,388	Ps. 333,303	Ps. 75,461	Ps. 2,531,978
Citibanamex	950,736	–	–	–	950,736
Total	Ps. 2,403,562	Ps. 670,388	Ps. 333,303	Ps. 75,461	Ps. 3,482,714

(iii) Since 2011, the Company has financed the pre–delivery payments for the acquisition of its aircraft through a revolving financing facility. During the year ended December 31, 2017, the pre–delivery payments for one A320NEO aircraft were financed through this revolving financing facility.

On August 1, 2013, the Company signed an amendment to the loan agreement to finance the pre–delivery payments of eight additional A320CEO ("Current Engine Option") that were delivered in 2015 and 2016.

On February 28, 2014 and November 27, 2014, the Company signed amendments to the loan agreement to finance pre–delivery payments of two and four additional A320CEO, respectively, one was delivered in 2014 and five in 2016.

On August 25, 2015, the Company signed an amendment to the loan agreement to finance pre–delivery payments of eight additional A320NEO aircraft to be delivered between 2017 and 2018. One of this aircraft was incorporated to the Company´s fleet during 2017.

On November 30, 2016, the Company signed an additional amendment to the loan agreement to finance pre–delivery payments of 22 additional A320NEO aircraft to be delivered between 2019 and 2020. This amendment was modified on December 19, 2017 to reschedule the delivery dates of the aircraft listed on August 25, 2015 and November 30, 2016, seven and twenty two aircraft, respectively. The new delivery date will be between 2019 and 2021. In accordance with this last amendment the revolving line with Santander Bancomext will expire as of November 30, 2021.

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

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

At December 31, 2017 and 2016, the Company was in compliance with the covenants under the above–mentioned loan agreement.

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

(iv) At December 31, 2017, the Company had available credit lines totaling Ps.7,368,346, of which Ps.4,616,861 were related to financial debt and Ps.2,751,485 were related to letters of credit (Ps.1,739,775 were undrawn). At December 31, 2016, the Company had available credit lines totaling Ps. 6,936,237, of which Ps. 5,048,477 were related to financial debt and Ps.1,887,760 were related to letters of credit (Ps.3,703,184 were undrawn).

Changes in liabilities arising from financing activities

At December 31, 2017 and 2016, the changes in liabilities from financing activities from the Company are summarized in the following table:

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

	January 1, 2016	Net cash flows	Foreign exchange movement	Current vs non current reclassification and other	December, 31, 2016
Current interest– bearing loans and borrowings	Ps. 1,371,202	Ps. (753,897)	Ps. 121,271	Ps. 312,661	Ps. 1,051,237
Non–current interest – bearing loans and borrowings	219,817	938,681	98,450	(313,902)	943,046
Total liabilities from financing activities	Ps. 1,591,019	Ps. 184,874	Ps. 219,721	Ps. (1,241)	Ps. 1,994,283

c) Other financial liabilities

	2017	2016
Derivative financial instruments designated as CFH (effective portion recognized within OCI):		
Interest rate swap contracts	Ps. –	Ps. 14,144
Total financial liabilities	Ps. –	Ps. 14,144
Presented on the consolidated statements of financial position as follows:		
Current	Ps. –	Ps. 14,144
Non–current	Ps. –	Ps. –

6. Cash and cash equivalents

An analysis of this caption is as follows:

	2017	2016
Short–term investments	Ps. 5,982,314	Ps. 4,433,559
Cash in banks	963,162	2,632,878
Cash on hand	5,403	4,814
Total cash and cash equivalents	Ps. 6,950,879	Ps. 7,071,251

7. Related parties

a) An analysis of balances due from/to related parties at December 31, 2017 and 2016 is provided below. All companies are considered affiliates, since the Company's primary shareholders or directors are also direct or indirect shareholders of the related parties:

	Type of transaction	Country of origin	2017	2016	Terms
Due to:					
One Link, S.A. de C.V. ("One Link")	Call center fees	El Salvador	Ps. 24,980	Ps. 33,775	30 days
Aeromantenimiento, S.A. ("Aeroman")	Aircraft and engine maintenance	El Salvador	15,951	30,627	30 days
SearchForce, Inc. ("SearchForce")	Internet services	Mexico	–	620	30 days
			Ps. 40,931	Ps. 65,022	

b) During the years ended December 31, 2017, 2016 and 2015, the Company had the following transactions with related parties:

Related party transactions	Country of origin	2017	2016	2015
Expenses:				
Aircraft and engine maintenance	El Salvador/Guatemala	Ps. 249,266	Ps. 304,399	Ps. 111,641
Call center fees and other fees	Mexico/El Salvador	202,689	173,197	57,809
Other	Mexico/El Salvador/ Guatemala	8,088	8,105	2,516

During the years ended December 31, 2017, 2016 and 2015 the Company did not have any revenue transactions with related parties.

c) Servprot

Servprot S.A. de C.V. ("Servprot") is a related party because Enrique Beltranena, the Company's Chief Executive Officer, and Rodolfo Montemayor, a member of the board of directors, are shareholders of such company. Servprot provides security services for Mr. Beltranena and his family, as well as for Mr. Montemayor. During the years ended December 31, 2017, 2016 and 2015 the Company expensed Ps.1,838, Ps.1,733 and Ps.768, respectively for this concept.

d) Aeroman

Aeroman is a related party because Roberto José Kriete Ávila, a member of the Company's board of directors, and members of his immediate family are shareholders of Aeroman. The Company entered into an aircraft repair and maintenance service agreement with Aeroman on January 1, 2017. This agreement provides that the Company has to use Aeroman, exclusively for aircraft repair and maintenance services, subject to availability. Under this agreement, Aeroman provides inspection, maintenance, repair and overhaul services for aircraft. The Company makes payments under this agreement depending on the services performed. This agreement is for a 10 year term. As of December 31, 2017 and 2016, the balances due under the agreement with Aeroman were Ps.15,951 and Ps.30,627,respectively. The Company incurred expenses in aircraft, engine maintenance and technical support under this agreement of Ps.251,731, Ps.308,731 and Ps.114,157 for the years ended December 31, 2017, 2016 and 2015, respectively.

e) Human Capital International

The Company entered into a professional services agreement with Human Capital International HCI, S.A. de C.V., or Human Capital International, on February 25, 2015, for the selection and hiring of executives. Rodolfo Montemayor Garza, a member of the Company's board of directors, is a founder and chairman of the board of directors of Human Capital International. As of December 31, 2017 and 2016, the Company recognized an expense under this agreement of Ps.816 and Ps.3,127, respectively.

f) One Link

One Link is a related party because Marcho Baldochi, an alternate member of the board, is a director of the Company. Pursuant to this agreement, One Link receives calls from the customers to book flights and provides customers with information about fares, schedules and availability. As of December 31, 2017 and 2016, the balance due under this agreement was Ps.24,980 and Ps.33,775, respectively and the Company recognized an expense under this agreement of Ps.200,035 and Ps.168,337 for the years ended December 31, 2017 and 2016, respectively.

g) SearchForce

SearchForce is a related party because William Dean Donovan, an alternate member of the board, is a director of the Company. Pursuant to this agreement, SearchForce provides consultation services, reports, findings, analysis or other deliverables to us regarding the software and the implementation of the internet marketing strategy developed to the Company at its request. As of December 31, 2016, the balance due under this agreement was Ps.620 and the Company recognized an expense under this agreement of Ps.1,946 and Ps.3,446 for the years ended December 31, 2017 and 2016, respectively.

h) Directors and officers

During the years ended December 31, 2017, 2016 and 2015, all of the Company's senior managers received an aggregate compensation of short and long–term benefits of Ps.134,370, Ps.160,762 and Ps.120,440, respectively.

For the years ended December 31, 2017, 2016 and 2015 the cost of the share–based payments transactions (MIP and LTIP) were Ps.13,508, Ps.7,816 and Ps.6,345, respectively. Cash–settled payments transactions MIP II and SARs were Ps.(25,498), Ps.86,100 and Ps.44,699, respectively (Note 17).

Starting 2015, the Company adopted a new short–term benefit plan for certain personnel whereby cash bonuses are awarded for meeting certain Company's performance target. During the years ended December 31, 2017 and 2016, the Company recorded a provision in the amount of Ps.0 and Ps.53,738, respectively.

During the year ended December 31, 2017, 2016 and 2015, the chairman and the independent members of the Company's board of directors received an aggregate compensation of approximately Ps.8,993, Ps.7,751 and Ps.5,480, respectively, and the rest of the directors received a compensation of Ps.7,834, Ps.7,308 and Ps.4,183, respectively.

8. Other accounts receivable, net

An analysis of other accounts receivable at December 31, 2017 and 2016, is detailed below:

		2017		2016
Credit cards	Ps.	191,322	Ps.	253,374
Other accounts receivable		117,582		26,236
Other points of sales		54,719		23,867
Affinity credit card		40,517		8,950
Cargo clients		34,655		29,901
Travel agencies and insurance commissions		27,925		20,477
Marketing services receivable		13,435		11,070
Airport services		5,898		9,479
Employees		8,878		7,551
Insurance claims		1,345		55,815
		496,276		446,720
Allowance for credit losses		(17,809)		(19,317)
	Ps.	478,467	Ps.	427,403

Accounts receivable have the following aging:

Days	Impaired 2017	Not impaired 2017	Total 2017	2016 Impaired	2016 Not impaired	Total 2016
0–30	Ps. 16,962	Ps. 415,847	Ps. 432,809	Ps. 15,723	Ps. 398,721	Ps. 414,444
31–60	–	38,705	38,705	–	11,231	11,231
61–90	–	17,918	17,918	–	14,492	14,492
91–120	847	5,997	6,844	3,594	2,959	6,553
	Ps. 17,809	Ps. 478,467	Ps. 496,276	Ps. 19,317	Ps. 427,403	Ps. 446,720

The movement in the allowance for doubtful accounts from January 1, 2015 to December 31, 2017 is as follows:

Balance as of January 1, 2015	Ps.	(27,786)
Write–offs		11,999
Increase in allowance		(8,825)
Balance as of December 31, 2015		(24,612)
Write–offs		14,459
Increase in allowance		(9,164)
Balance as of December 31, 2016		(19,317)
Write–offs		6,228
Increase in allowance		(4,720)
Balance as of December 31, 2017	Ps.	(17,809)

9. Inventories

An analysis of inventories at December 31, 2017 and 2016 is as follows:

	2017	2016
Spare parts and accessories of flight equipment	Ps. 285,185	Ps. 235,330
Miscellaneous supplies	9,665	8,554
	Ps. 294,850	Ps. 243,884

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, 2017, 2016 and 2015, the amount of consumption of inventories, recorded as an operating expense as part of maintenance expense was Ps.242,265, Ps.186,719 and Ps.143,992, respectively.

10. Prepaid expenses and other current assets

An analysis of prepaid expenses and other current assets at December 31, 2017 and 2016 is as follows:

	2017	2016
Advances to suppliers	Ps. 346,263	Ps. 705,105
Prepaid aircraft rent	215,784	668,306
Prepaid insurance	68,712	47,663
Other prepaid expenses	65,642	33,555
Sales commission to travel agencies	54,501	73,413
Advances for constructions of aircraft and engines	13,764	31,437
Loss on sale and leaseback transactions to be amortized (Note 14)	3,047	3,047
	Ps. 767,713	Ps. 1,562,526

11. Guarantee deposits

An analysis of this caption at December 31, 2017 and 2016 is as follows:

	2017	2016
Current asset:		
Aircraft maintenance deposits paid to lessors (Note 1j)	Ps. 1,317,663	Ps. 1,145,913
Deposits for rental of flight equipment	17,178	14,155
Other guarantee deposits	18,052	7,141
	1,352,893	1,167,209
Non–current asset:		
Aircraft maintenance deposits paid to lessors (Note 1j)	5,631,304	5,951,831
Deposits for rental of flight equipment	441,110	589,804
Other guarantee deposits	25,838	18,243
	6,098,252	6,559,878
	Ps. 7,451,145	Ps. 7,727,087

12. Rotable spare parts, furniture and equipment, net

	Gross value				Accumulated depreciation				Net carrying value			
		At December 31, 2017		At December 31, 2016		At December 31, 2017		At December 31, 2016		At December 31, 2017		At December 31, 2016
Leasehold improvements to flight equipment	Ps.	2,382,687	Ps.	1,709,868	Ps.	(1,769,589)	Ps.	(1,386,844)	Ps.	613,098	Ps.	323,024
Pre–delivery payments		2,783,303		1,206,330		–		–		2,783,303		1,206,330
Aircraft parts and rotable spare parts		506,735		393,522		(181,091)		(137,712)		325,644		255,810
Aircraft spare engines		323,410		323,025		(18,132)		(1,337)		305,278		321,688
Construction and improvements in process		193,607		255,374		–		–		193,607		255,374
Standardization		192,808		176,975		(113,407)		(94,864)		79,401		82,111
Constructions and improvements		131,503		120,886		(106,335)		(85,873)		25,168		35,013
Computer equipment		30,113		24,172		(20,790)		(16,972)		9,323		7,200
Workshop tools		20,500		20,500		(18,229)		(15,915)		2,271		4,585
Electric power equipment		15,439		14,818		(9,185)		(7,890)		6,254		6,928
Communications equipment		11,229		9,261		(6,502)		(5,706)		4,727		3,555
Workshop machinery and equipment		8,405		7,240		(4,345)		(3,622)		4,060		3,618
Motorized transport equipment platform		5,587		5,703		(4,701)		(4,346)		886		1,357
Service carts on board		5,403		5,403		(5,021)		(4,645)		382		758
Office furniture and equipment		44,749		36,310		(22,454)		(18,653)		22,295		17,657
Total	Ps.	6,655,478	Ps.	4,309,387	Ps.	(2,279,781)	Ps.	(1,784,379)	Ps.	4,375,697	Ps.	2,525,008

* *During the years ended December 31, 2017 and 2016, the Company capitalized borrowing costs of Ps.193,389 and Ps.95,445, respectively. The amount of this line is net of disposals of capitalized borrowing costs related to sale and leaseback transactions of Ps.110,274 and Ps.84,936, respectively.*

	Aircraft parts and rotable spare parts	Aircraft spare Engines	Constructions and improvements	Standar-dization	Computer equipment	Office furniture and equipment	Electric power equipment	Workshop Tools	Motorized transport equipment platform	Commu nications equipment	Workshop machinery and equipment	Service carts on board	Pre–delivery payments	Construction and improvements in process	Leasehold improvements to flight equipment	Total
Net book amount as of December 31, 2015	Ps. 179,947	Ps. –	Ps. 18,202	Ps. 83,886	Ps. 4,195	Ps. 12,932	Ps. 9,033	Ps. 4,815	Ps. 1,326	Ps. 3,764	Ps. 4,179	Ps. 1,453	Ps. 1,583,835	Ps. 140,926	Ps. 501,157	Ps. 2,549,650
Additions	110,592	323,025	2,218	21,953	740	517	1,467	4,217	505	129	131	36	1,345,081	161,560	226,526	2,198,697
Disposals and transfers	(1,299)	–	–	–	–	(110)	(1,626)	–	(49)	–	–	–	(1,733,093)	(2,132)	–	(1,738,309)
Borrowing costs, net*	–	–	–	–	–	–	–	–	–	–	–	–	10,507	–	–	10,507
Other movements	–	–	32,441	–	4,814	7,877	–	25	46	493	–	–	–	(44,980)	–	716
Depreciation	(33,430)	(1,337)	(17,848)	(23,728)	(2,549)	(3,559)	(1,946)	(4,472)	(471)	(831)	(692)	(731)	–	–	(404,659)	(496,253)
As of December 31, 2016	255,810	321,688	35,013	82,111	7,200	17,657	6,928	4,585	1,357	3,555	3,618	758	1,206,330	255,374	323,024	2,525,008
Cost	393,522	323,025	120,886	176,975	24,172	36,310	14,818	20,500	5,703	9,261	7,240	5,403	1,206,330	255,374	1,709,868	4,309,387
Accumulated depreciation	(137,712)	(1,337)	(85,873)	(94,864)	(16,972)	(18,653)	(7,890)	(15,915)	(4,346)	(5,706)	(3,622)	(4,645)	–	–	(1,386,844)	(1,784,379)
Net book amount as of December 31, 2016	Ps. 255,810	Ps. 321,688	Ps. 35,013	Ps. 82,111	Ps. 7,200	Ps. 17,657	Ps. 6,928	Ps. 4,585	Ps. 1,357	Ps. 3,555	Ps. 3,618	Ps. 758	Ps. 1,206,330	Ps. 255,374	Ps. 323,024	Ps. 2,525,008
Additions	115,173	385	–	15,833	1,845	6,805	–	–	–	–	123	–	1,707,805	206,932	529,331	2,584,232
Disposals and transfers	(930)	–	–	–	–	(15)	–	–	–	–	–	–	(213,947)	(3,555)	(101,224)	(319,671)
Borrowing costs, net*	–	–	–	–	–	–	–	–	–	–	–	–	83,115	–	–	83,115
Other movements	–		10,371	–	4,087	1,649	620	–	–	1,968	1,041	–	–	(265,144)	244,712	(696)
Depreciation	(44,409)	(16,795)	(20,216)	(18,543)	(3,809)	(3,801)	(1,294)	(2,314)	(471)	(796)	(722)	(376)	–	–	(382,745)	(496,291)
As of December 31, 2017	325,644	305,278	25,168	79,401	9,323	22,295	6,254	2,271	886	4,727	4,060	382	2,783,303	193,607	613,098	4,375,697
Cost	506,735	323,410	131,503	192,808	30,113	44,749	15,439	20,500	5,587	11,229	8,405	5,403	2,783,303	193,607	2,382,687	6,655,478
Accumulated depreciation	(181,091)	(18,132)	(106,335)	(113,407)	(20,790)	(22,454)	(9,185)	(18,229)	(4,701)	(6,502)	(4,345)	(5,021)	–	–	(1,769,589)	(2,279,781)
Net book amount as of December 31, 2017	Ps. 325,644	Ps. 305,278	Ps. 25,168	Ps. 79,401	Ps. 9,323	Ps. 22,295	Ps. 6,254	Ps. 2,271	Ps. 886	Ps. 4,727	Ps. 4,060	Ps. 382	Ps. 2,783,303	Ps. 193,607	Ps. 613,098	Ps. 4,375,697

a) Depreciation expense for the years ended December 31, 2017, 2016 and 2015, was Ps.496,291, Ps.496,253 and Ps.425,439, respectively. Depreciation charges for the year are recognized as a component of operating expenses in the consolidated statements of operations.

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

In 2011, the Company amended the agreement with Airbus for the purchase of 44 A320 family aircraft to be delivered from 2015 to 2020. The new order includes 14 A320CEO and 30 A320NEO.

On August 16, 2013, the Company entered into certain agreements with IAE and United Technologies Corporation Pratt & Whitney Division ("P&W"), which included the purchase of the engines for 14 A320CEO and 30 A320NEO respectively, to be delivered between 2014 and 2020. This agreement also included the purchase of one spare engine for the A320CEO fleet (which was received during the fourth quarter of 2016) and six spare engines for the A320NEO fleet to be received from 2017 to 2020. In November 2015, the Company amended the agreement with the engine supplier to provide major maintenance services for the engines of sixteen aircrafts (10 A320NEO and 6 A321NEO). This agreement also includes the purchase of three spare engines, two of them for the A320NEO fleet, and one for the A321NEO fleet.

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

In December 2017, the Company amended the agreement with Airbus to reschedule the delivery of 29 aircrafts between 2018 and 2021.

Additionally, during December 2017, the Company amended the agreement with Airbus for the purchase of 80 aircraft to be delivered from 2022 to 2026. The new order includes 46 A320NEO and 34 A321NEO. Under such agreement and prior to the delivery of each aircraft, the Company agreed to make pre–delivery payments, which shall be calculated based on the reference price of each aircraft, and following a formula established for such purpose in the agreement.

During the years ended December 31, 2017 and 2016, the amounts paid for aircraft and spare engine pre–delivery payments were of Ps.1,707,805 (US$90.0 million), and Ps.1,345,081 (US$82.7 million), respectively.

The current purchase agreement with Airbus requires the Company to accept delivery of 109 Airbus A320 family aircraft during nine years (from January 2018 to November 2026). The agreement provides for the addition of 109 A320NEO to its fleet as follows: four in 2018, seven in 2019, 12 in 2020, six in 2021, 13 in 2022, eighteen in 2023, nine in 2024, fifteen in 2025 and twenty–five in 2026.

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

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

Additionally, the total support agreement included a sale and leaseback agreement of certain components. As part of the original total support agreement with LHT, the Company received credit notes of Ps.46,461 (US$3.5 million), which were amortized on a straight line basis, during the term of the agreement. As of December 31, 2017, 2016 and 2015, the Company amortized a corresponding benefit from these credit notes of Ps.6,580, Ps.9,292 and Ps.9,292, respectively, which is recognized as an offset to maintenance expenses in the consolidated statements of operations.

During December 2016, the Company entered into a new total support agreement with Lufthansa for 66 months, with an effective date on July 1, 2017. This agreement includes similar terms and conditions as the original agreement.

As part of the new agreement, the Company received credit notes of Ps.28,110 (US$1.5 million), which are being amortized on a straight line basis, prospectively during the term of the agreement. As of December 31, 2017, the Company amortized a corresponding benefit from these credit notes of Ps.1,961, which is recognized as an offset to maintenance expenses in the consolidated statements of operations.

d) On October 12, 2016 and December 12, 2016, the Company acquired two aircraft spare engines, which were accounted for at cost for a total amount of Ps.323,025. The assets contain two major components which are assumed to have different useful lives, the limited life parts (LLPs) have an estimated useful life of 12 years, and the rest of the aircraft engine has an estimated useful life of 25 years. The Company had identified the major components as separate parts at their respective cost. These major components of the spare engines are presented as part of the spare aircraft engines and depreciated over their useful life.

13. Intangible assets, net

The composition and movement of intangible assets is as follows:

		Gross value		Accumulated amortization		Net carrying amount	
	Useful	At December 31,					
	life	2017	2016	2017	2016	2017	2016
Software	1 – 4 years	Ps. 441,803	Ps. 313,028	Ps. (251,383)	Ps. (198,987)	Ps. 190,420	Ps. 114,041

Balance as of January 1, 2016	Ps.	94,649
Additions		60,792
Disposals		(1,277)
Amortization		(40,290)
Exchange differences		167
Balance as of December 31, 2016		114,041
Additions		130,908
Disposals		(1,976)
Amortization		(52,396)
Exchange differences		(157)
Balance as of December 31, 2017	Ps.	190,420

Software amortization expense for the years ended December 31, 2017, 2016 and 2015 was Ps.52,396, Ps.40,290 and Ps.31,278, respectively. These amounts were recognized in depreciation and amortization in the consolidated statements of operations.

14. Operating leases

The most significant operating leases are as follows:

a) **Aircraft and engine rent.** At December 31, 2017, the Company leases 71 aircraft (69 as of December 31, 2016) and 8 spare engines under operating leases (11 as of December 31, 2016) that have maximum terms through 2031. Rents are guaranteed by deposits in cash or letters of credit. The aircraft lease agreements contain certain covenants to which the Company is bound. The most significant covenants include the following:

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

As of December 31, 2017 and 2016, the Company was in compliance with the covenants under the above mentioned aircraft lease agreements.

Composition of the fleet and spare engines, operating leases*:

Aircraft Type	Model	At December 31, 2017	At December 31, 2016	At December 31, 2015
A319	132	6	6	6
A319	133	6	9	12
A320	233	39	39	32
A320	232	4	4	4
A320NEO	271N	6	1	–
A321	231	10	10	2
		71	69	56

Engine Type	Model	At December 31, 2017	At December 31, 2016	At December 31, 2015
V2500	V2527M–A5	3	3	3
V2500	V2527E–A5	3	4	3
V2500	V2527–A5	2	4	–
		8	11	6

* Certain of the Company's aircraft and engine lease agreements include an option to extend the lease term period. Terms and conditions are subject to market conditions at the time of renewal.

During the year ended December 31, 2017, the Company incorporated five aircraft to its fleet (one of them based on the terms of the Airbus purchase agreement and four from a lessor´s order book). These new aircraft lease agreements were accounted for as operating leases. Also, the Company returned three aircraft to their respective lessors. All the aircraft incorporated through the lessor´s aircraft order book were not subject to sale and leaseback transactions.

Additionally, during 2017 the Company extended the lease term of three aircraft (effective from 2018) and two spare engines (effective from July 2017 and September 2017 respectively). Such leases were accounted for as operating leases and were not subject to sale and leaseback transactions.

During the year ended December 31, 2016, the Company incorporated 17 aircraft to its fleet (eight of them based on the terms of the Airbus purchase agreement and 9 from a lessor's aircraft order book). These new aircraft lease agreements were accounted for as operating leases. Also, the Company returned four aircraft to their respective lessors. All the aircraft incorporated through the lessor's aircraft order book were not subject to sale and leaseback transactions.

Additionally, during 2016 the Company extended the lease term of two aircraft effective from 2016 and entered into certain agreements with different lessors to lease five spare engines which were received during the same period. Such leases were accounted for as operating leases and were not subject to sale and leaseback transactions.

During 2016, the Company purchase two spare engines, which were accounted as part of the property, plant and equipment (See Note 12).

During the year ended December 31, 2015, the Company incorporated seven aircraft to its fleet (five of them based on the terms of the Airbus purchase agreement and two from a lessor's aircraft order book), and returned one aircraft to a lessor. These new aircraft lease agreements were accounted for as operating leases. Additionally, during August 2015 the Company extended the lease term of three A319CEO, one effective from 2015 and the other two effective from 2016.

As of December 31, 2017, 2016 and 2015, all of the Company's aircraft and spare engines lease agreements were accounted for as operating leases.

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

	Aircraft operating leases				Engine operating leases			
	in U.S. dollars		in Mexican pesos(1)		in U.S. dollars		in Mexican pesos (1)	
2018	US$	257,681	Ps.	5,085,438	US$	4,336	Ps.	85,573
2019		244,264		4,820,648		3,986		78,665
2020		238,837		4,713,544		3,366		66,429
2021		233,002		4,598,388		3,209		63,331
2022 and thereafter		863,604		17,043,570		4,624		91,256
Total	US$	1,837,388	Ps.	36,261,588	US$	19,521	Ps.	385,254

(1) Using the exchange rate as of December 31, 2017 of Ps. 19.7354.

Such amounts are determined based on the stipulated rent contained within the agreements without considering renewals and using the prevailing exchange rate and interest rates at December 31, 2017.

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

Provided below is an analysis of future minimum land and building lease payments denominated in U.S. dollars or Mexican pesos as stablished in the lease agreement:

	Operating leases denominated in U.S. dollars		Equivalent in Mexican pesos*		Operating leases denominated in Mexican pesos	
2018	US$	6,718	Ps.	132,582	Ps.	66,243
2019		4,563		90,053		52,575
2020		4,548		89,757		42,335
2021		1,672		32,998		9,168
2022 and thereafter		702		13,854		53,194
Total	US$	18,203	Ps.	359,244	Ps.	223,515

* Convenience translation to U.S. dollars (Ps.19.7354).

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

	2017		2016		2015	
Aircraft and engine (Note 1p)	Ps.	6,072,502	Ps.	5,590,058	Ps.	3,525,336
Real estate:						
Airports facilities		44,251		40,591		39,993
Offices, maintenance warehouse and hangar (Note 20)		30,544		33,517		25,889
Total rental expenses on real estate		74,795		74,108		65,882
Total cost of operating leases	Ps.	6,147,297	Ps.	5,664,166	Ps.	3,591,218

During the years ended December 31, 2017, 2016 and 2015 the Company entered into aircraft and spare engines sale and leaseback transactions, resulting in a gain of Ps.65,886, Ps.484,827 and Ps.181,736, respectively, that was recorded under the caption other income in the consolidated statement of operations (Note 20).

During the year ended December 31, 2011, the Company entered into aircraft and spare engines 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, 2017 and 2016, the current portion of the loss on sale amounts to Ps.3,047 and Ps.3,047, respectively, which is recorded in the caption of prepaid expenses and other current assets (Note 10), and the non–current portion amounts to Ps.11,413 and Ps.14,460, respectively, which is recorded in the caption of other assets in the consolidated statements of financial position.

For each of the years ended December 31, 2017, 2016 and 2015, the Company amortized a loss of Ps.3,047, as additional aircraft rental expense.

15. Accrued liabilities

a) An analysis of accrued liabilities at December 31, 2017 and 2016 is as follows:

	2017	2016
Fuel and traffic accrued expenses	Ps. 1,106,913	Ps. 922,607
Maintenance and aircraft parts accrued expenses	194,366	130,897
Sales, marketing and distribution accrued expenses	143,758	102,880
Maintenance deposits	132,519	179,288
Salaries and benefits	114,781	170,994
Accrued administrative expenses	90,459	80,981
Aircraft and engine lease extension benefit (Note 1j)	83,047	85,124
Deferred revenue from VClub membership	76,261	32,771
Information and communication accrued expenses	44,638	32,950
Supplier services agreement	10,634	6,333
Depositary services benefit	1,473	2,068
Advances from travel agencies	650	1,536
Others	51,474	37,010
	Ps. 2,050,973	Ps. 1,785,439

b) Accrued liabilities long–term:

	2017	2016
Aircraft and engine lease extension benefit (Note 1j)	Ps. 107,400	Ps. 127,831
Supplier services agreement	77,174	4,350
Depositary services benefit	–	1,473
Other	15,274	36,154
	Ps. 199,848	Ps. 169,808

c) An analysis of other liabilities is as follows:

	Balance as of January 1, 2017	Increase for the year	Payments	Unwinding discount *	Balance as of December 31, 2017
Aircraft lease return obligation	Ps. 410,060	Ps. 960,548	Ps. 859,659	Ps. 22,566	Ps. 488,383
Employee profit sharing (Note 16)	10,695	8,342	9,974	–	9,063
	Ps. 420,755	Ps. 968,890	Ps. 869,633	Ps. 22,566	Ps. 497,446
Short–term maturities					Ps. 280,744
Long–term					Ps. 216,702

* Discount rate adjustment

	Balance as of January 1, 2016	Increase for the year	Payments	Unwinding discount*	Balance as of December 31, 2016
Aircraft lease return obligation	Ps. 149,326	Ps. 1,038,764	Ps. 765,023	Ps. 13,007	Ps. 410,060
Employee profit sharing (Note 16)	10,173	9,967	9,445	–	10,695
	Ps. 159,499	Ps. 1,048,731	Ps. 774,468	Ps. 13,007	Ps. 420,755
Short–term maturities					Ps. 284,200
Long–term					Ps. 136,555

* Discount rate adjustment

During the years ended December 31, 2017, 2016 and 2015 no cancellations, or write–offs related to these liabilities were recorded.

16. Employee benefits

The components of net period cost recognized in the consolidated statement of operations and the obligations for seniority premium for the years ended December 31, 2017, 2016 and 2015, are as follows:

		2017		2016		2015
Analysis of net period cost:						
Current service cost	Ps.	3,657	Ps.	2,421	Ps.	2,012
Interest cost on benefit obligation		1,000		701		537
Net period cost	Ps.	4,657	Ps.	3,122	Ps.	2,549

Changes in the defined benefit obligation are as follows:

		2017		2016		2015
Defined benefit obligation at January 1,	Ps.	13,438	Ps.	10,056	Ps.	7,737
Net period cost charged to profit or loss:						
Current service cost		3,657		2,421		2,012
Interest cost on benefit obligation		1,000		701		537
Remeasurement losses in other comprehensive income:						
Actuarial changes arising from changes in assumptions		1,776		442		1,174
Payments made		(582)		(182)		(1,404)
Defined benefit obligation at December 31,	Ps.	19,289	Ps.	13,438	Ps.	10,056

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

	2017	2016	2015
Financial:			
Discount rate	7.72%	7.78%	7.29%
Expected rate of salary increases	5.50%	5.50%	5.50%
Annual increase in minimum salary	4.00%	4.00%	4.00%
Biometric:			
Mortality (1)	EMSSA 09	EMSSA 09	EMSSA 09
Disability (2)	IMSS–97	IMSS–97	IMSS–97

(1) Mexican Experience of social security (EMSSA).

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

Accruals for short–term employee benefits at December 31, 2017 and 2016, respectively, are as follows:

		2017		2016
Employee profit–sharing (Note 15c)	Ps.	9,063	Ps.	10,695

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

17. Share–based payments

a) LTRP

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

b) LTIP

– Share purchase plan (equity–settled)

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

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

(ii) The bonus amount by Ps.7,059, net of withheld taxes, was transferred on November 11, 2014, as per the written instructions of each key employees, to the Administrative Trust for the acquisition of Series A shares of the Company through an intermediary authorized by the BMV based on the Administration Trust's Technical Committee instructions;

(iii) Subject to specified terms and conditions set forth in the Administrative Trust, the acquired shares were in escrow under the Administrative Trust for its administration until the vesting period date for each key executive, date as of which the key executive can fully dispose of the shares and instruct as desired.

(iv) The share purchase plan provides that if the terms and conditions are not met by the vesting period date, then the shares would be sold in the BMV, and Servicios Corporativos would be entitled to receive the proceeds of the sale of shares.

(v) The key employees' account balance will be tracked by the Administrative Trust. The Administrative Trust's objectives are to acquire Series A shares on behalf of the key employees and to manage the shares granted to such key executive based on instructions set forth by the Technical Committee.

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

In November 2017, April and October 2016, extensions to the LTIP were approved by the Company's shareholder's and Company's Board of Directors, respectively. The total cost of the extensions approved were Ps.15,765 (Ps.10,108 net of withheld taxes), Ps.14,532 (Ps.9,466 net of withheld taxes) and Ps.11,599 (Ps.7,559 net of withheld taxes), respectively. Under the terms of the incentive plan, certain key employees of the Company were granted a special bonus that was transferred to the Administrative Trust for the acquisition of Series A shares of the Company.

As of December 31, 2017 and 2016, the number of shares into the Administrative Trust associated with the Company's share purchase payment plans is as follows:

	Number of Series A shares
Outstanding as of December 31, 2015	617,001
Purchased during the year	513,002
Granted during the year	–
Exercised/vested during the year	(425,536)
Forfeited during the year	(86,419)
Outstanding as of December 31, 2016	618,048*
Purchased during the year	547,310
Granted during the year	–
Exercised/vested during the year	(345,270
Forfeited during the year	–
Outstanding as of December 31, 2017	820,088*

* These shares are presented as treasury shares in the consolidated statement of financial position as of December 31, 2017 and 2016.

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

Number of Series A shares	Vesting period
353,457	November 2017 – 2018
284,200	November 2018 – 2019
182,431	November 2019 – 2020
820,088	

In accordance with IFRS 2, the share purchase plans are classified as equity–settled transactions on the grant date. This valuation is the result of multiplying the total number of Series A shares deposited in the Administrative Trust and the price per share, plus the balance in cash deposited in the Administrative Trust.

For the years ended December 31, 2017, 2016 and 2015, the compensation expense recorded in the consolidated statement of operations amounted to Ps.13,508, Ps.7,816 and Ps.6,018, respectively.

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

During 2016, some key employees left the Company; therefore, the vesting conditions were not fulfilled. In accordance with the terms of the plan, Servicios Corporativos is entitled to receive the proceeds of the sale of such shares, the number of forfeited shares as of December 31, 2016 were (86,419).

– SARs (cash settled)

On November 6, 2014, the Company granted 4,315,264 SARs to key employees that entitle them to a cash payment and vest as long as the employee continues to be employed by the Company at the end of each anniversary, during a 3 year period. The total amount of the appreciation rights granted under this plan at the grant date was Ps.10,831 at such date.

Under the LTIP extensions, the number of SARs granted to certain key executives of the Company were 3,965,351, 2,044,604 and 1,793,459, which amounts to Ps.15,765, Ps.14,532 and Ps.11,599, for the years ended December 31, 2017,2016 and 2015, respectively. The SARs vest as long as the employee continues to be employed by the Company at the end of each anniversary, during a 3 years period.

Fair value of the SARs is measured at each reporting date. The carrying amount of the liability relating to the SARs as of December 31, 2017 and 2016 was Ps.723 and Ps.15,744, respectively. The compensation cost is recognized in the consolidated statement of operations under the caption of salaries and benefits over the service period. During the years ended December 31, 2017, 2016 and 2015, the Company recorded a (benefit) expense of Ps.(8,999), Ps.31,743 and Ps.44,699, respectively, in the consolidated statement of operations.

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

Number of SARs	Exercisable date
2,766,811	November 2018
1,649,493	November 2019
941,749	November 2020
5,358,053	

During the years ended December 31, 2017, 2016 and 2015, the Company made a cash payment to key employees related to the SARs plan in the amount of Ps.6,021, Ps.31,261 and Ps.31,090, respectively. Such payments were determined based on the increase in the share price of the Company from the grant date to the exercisable date.

c) MIP

– MIP I

In April 2012, the Board of Directors authorized a MIP for the benefit of certain key employees, subject to shareholders' approval. On December 21, 2012, the shareholders approved the MIP consisting of: (i) the issuance of an aggregate of 25,164,126 Series A and Series B shares, representing 3.0% of the Company's fully diluted capital stock; (ii) a grant of options to acquire shares of the Company or CPOs having shares as underlying securities for which, as long as certain conditions occur, the employees will have the right to request the delivery of those shares (iii) the creation of an Administrative Trust to deposit such shares in escrow until they are delivered to the officers or returned to the Company in the case that certain conditions do not occur; and (iv) the execution of share sale agreements setting forth the terms and conditions upon which the officers may exercise its shares at Ps.5.31 (five Mexican pesos 31/100) per share.

On December 24, 2012, the Administrative Trust was created and the share sale agreements were executed. On December 27, 2012, the trust borrowed Ps.133,723 from the Company and immediately after; the trust paid the Company the same amount borrowed as purchase price for the shares.

The share sale agreements provide that the officers may pay for the shares at the same price upon the occurrence of either an initial public offering of the Company's capital stock or a change of control and as long as they remain employees until the options are exercised, with a maximum term of ten years. Upon payment of the shares by the officers to the Management Trust, it has to pay such amount back to the Company as repayment of the loan, for which the Company charges no interest.

The MIP has been classified as equity–settled, by which, the grant date, fair value is fixed and is not adjusted by subsequent changes in the fair value of capital instruments. Equity–settled transactions are measured at fair value at the date the equity benefits are conditionally granted to employees. The total cost of the MIP determined by the Company was Ps.2,722 to be recognized from the time it becomes probable the performance condition will be met over the vesting period. During 2015, the Company recorded Ps.327, as the final cost of the MIP related to the vested shares, in the consolidated statements of operations.

This cost was determined by using the improved Binomial valuation model from Hull and White, on the date in which the plan had already been approved by the shareholders and a shared understanding of the terms and conditions of the plan was reached with the employees (December 24, 2012, defined as the grant date), with the following assumptions:

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

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

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

In 2017, the key employees exercised 120,000 Series A shares. In 2015, the key employees exercised 3,299,999 Series A shares. As a result, the key employees paid Ps.638 and Ps.17,536, for the years ended December 31, 2017 and 2016, respectively, to the Management Trust corresponding to the exercised shares. Thereafter, the Company received from the Management Trust the payment related to the exercised shares by the key employees as a repayment of the loan between the Company and the Management Trust.

Movements in share options

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

	Number of share options		Exercise price in Mexican pesos		Total in thousands of Mexican pesos
Outstanding as of December 31, 2015	15,857,856	Ps.	5.31	Ps.	84,269
Granted during the year	–		–		–
Forfeited during the year	–		–		–
Exercised during the year	(3,299,999)		5.31		(17,536)
Outstanding as of December 31, 2016	12,557,857	Ps.	5.31	Ps.	66,733
Granted during the year	–		–		–
Forfeited during the year	–		–		–
Exercised during the year	(120,000)		5.31		(638)
Outstanding as of December 31, 2017	12,437,857	Ps.	5.31	Ps.	66,095

At December 31, 2017 and 2016, 12,437,857 and 12,557,857 share options pending to exercise were considered as treasury shares, respectively.

– MIP II

On February 19, 2016, the Board of Directors of the Company authorized an extension to the MIP for certain key employees. Such extension was modified as of November 6, 2016. Under MIP II, 13,536,960 share appreciation rights of our Series A shares were granted to be settled annually in cash in a period of five years in accordance with the established service conditions. In addition, a five year extension to the period in which the employees can exercise MIP II once the SARs are vested was approved.

Fair value of the SARs is measured at each reporting period using a Black–Scholes option pricing model, taking into consideration the terms and conditions granted to the employees. The amount of the cash payment is determined based on the increase in our share price between the grant date and the settlement date.

The carrying amount of the liability relating to the SARs as of December 31, 2017 and 2016 was Ps.37,858 and Ps.54,357, respectively. The compensation cost is recognized in the consolidated statement of operations under the caption of salaries and benefits over the service period. During the years ended December 31, 2017 and 2016, the Company recorded a (benefit) expense of Ps.(16,499) and Ps.54,357, respectively, in the consolidated statement of operations. No SARs were exercised during 2017. The vesting schedule is summarized in the table below:

Number of SARs	Exercisable date
2,030,540	February 2017
2,030,540	February 2018
2,030,540	February 2019
3,384,240	February 2020
4,061,100	February 2021
13,536,960	

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

		2017		2016		2015
(Benefit) expense arising from cash–settled share–based payments transactions	Ps.	(25,498)	Ps.	86,100	Ps.	44,699
Expense arising from equity–settled share–based payments transactions		13,508		7,816		6,345
Total expense arising from share–based payments transactions	Ps.	(11,990)	Ps.	93,916	Ps.	51,044

18. Equity

As of December 31, 2017, the total number of authorized shares was 1,011,876,677; represented by common registered shares, issued and with no par value, fully subscribed and paid, comprised as follows:

	Shares		
	Fixed Class I	Variable Class II	Total shares
Series A shares	3,224	877,852,982	877,856,206
Series B shares	20,956	133,999,515	134,020, 471
	24,180	1,011,852,497	1,011,876,677
Treasury shares (Note 17)	–	(13,257,945)	(13,257,945)
	24,180	998,594,552	998,618,732

As of December 31, 2016, the total number of authorized shares was 1,011,876,677; represented by common registered shares, issued and with no par value, fully subscribed and paid, comprised as follows:

	Shares		
	Fixed Class I	Variable Class II	Total shares
Series A shares	3,224	877,852,982	877,856,206
Series B shares	20,956	133,999,515	134,020,471
	24,180	1,011,852,497	1,011,876,677
Treasury shares (Note 17)	–	(13,175,905)	(13,175,905)
	24,180	998,676,592	998,700,772

All shares representing the Company's capital stock, either Series A shares or Series B shares, grant the holders the same economic rights and there are no preferences and/or restrictions attaching to any class of shares on the distribution of dividends and the repayment of capital. Holders of the Company's Series A common stock and Series B common stock are entitled to dividends when, and if, declared by a shareholders' resolution. The Company's revolving line of credit with Santander and Bancomext limits the Company's ability to declare and pay dividends in the event that the Company fails to comply with the payment terms thereunder.

During the years ended December 31, 2017, 2016 and 2015, the Company did not declare any dividends.

a) Secondary follow–on equity offering

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

b) (Loss) Earnings per share

Basic (loss) earnings per share ("LPS or EPS") amounts are calculated by dividing the net (loss) income for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted LPS or EPS amounts are calculated by dividing the (loss) profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares, if any), by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares (to the extent that their effect is dilutive).

The following table shows the calculations of the basic and diluted (loss) earnings per share for the years ended December 31, 2017, 2016 and 2015.

	At December 31,		
	2017	2016	2015
Net (loss) income for the period	Ps. (594,599)	Ps. 3,519,489	Ps. 2,463,870
Weighted average number of shares outstanding (in thousands):			
Basic	1,011,877	1,011,877	1,011,877
Diluted	1,011,877	1,011,877	1,011,877
LPS –EPS:			
Basic	(0.588)	3.478	2.435
Diluted	(0.588)	3.478	2.435

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorization of these financial statements.

c) In accordance with the Mexican Corporations Act, the Company is required to allocate at least 5% of the net income of each year to increase the legal reserve. This practice must be continued until the legal reserve reaches 20% of capital stock. As of December 31, 2017, the Company's legal reserve was Ps.291,178 or 9.8% of our capital stock.

At an ordinary general shareholders' meeting held on April 19, 2017 the shareholders approved to increase legal reserve in the amount of Ps.252,928. As of December 31, 2017 and 2016, the Company's legal reserve has not reached the 20% of its capital stock.

d) Any distribution of earnings in excess of the net tax profit account (*Cuenta de utilidad fiscal neta* or "CUFIN") balance will be subject to corporate income tax, payable by the Company, at the enacted income tax rate at that time. A 10% withholding tax is imposed on dividends distributions to individuals and foreign shareholders from earnings generated starting January 1, 2014.

e) Shareholders may contribute certain amounts for future increases in capital stock, either in the fixed or variable capital. Said contributions will be kept in a special account until the shareholders meeting authorizes an increase in the capital stock of the Company, at which time each shareholder will have a preferential right to subscribe and pay the increase with the contributions previously made. As it is not strictly regulated in Mexican law, the shareholders meeting may agree to return the contributions to the shareholders or even set a term in which the increase in the capital stock has to be authorized.

19. Income tax

a) In accordance with the MITL, the Company and its Mexican subsidiaries are subject to income tax and each files its tax returns on an individual entity basis and the related tax results are included in the accompanying consolidated financial statements. The income tax is computed taking into consideration the taxable and deductible effects of inflation, such as depreciation calculated on 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.

(i) Based on the approved law corporate income tax rate for 2017 and thereafter is 30%.

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

(iii) The MITL sets forth criteria and limits for applying some deductions, such as: the deduction of payments which, in turn, are exempt income for workers, contributions for creating or increasing provisions for pension funds, contributions to the Mexican Institute of Social Security payable by the worker that are paid by the employer, as well as the possible non–deduction of payments made to related parties in the event of failing to meet certain requirements.

(iv) Taxable income for purposes of the employee profit sharing is the same used for the Corporate Income Tax except for certain items.

(v) A 10% withholding tax is imposed on dividends distributions to individuals and foreign shareholders from earnings generated starting January 1, 2014.

The income tax rates for 2017 and 2016 in Guatemala and Costa Rica are 25% and 30%, respectively.

b) For the years ended December 31, 2017, 2016 and 2015, the Company reported on a consolidated basis taxable income of Ps.171,046, Ps.2,702,355 and Ps.2,751,813, respectively, which was partially offset by tax losses from prior years.

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

c) An analysis of consolidated income tax expense for the years ended December 31, 2017, 2016 and 2015 is as follows:

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		2017		2016		2015
Current year income tax expense	Ps.	(51,313)	Ps.	(706,244)	Ps.	(337,997)
Deferred income tax benefit (expense)		212,488*		(750,938)**		(700,351)
Total income tax benefit (expense)	Ps.	161,175	Ps.	(1,457,182)	Ps.	(1,038,348)

* Includes translation effect by Ps.1,008

** Includes translation effect by Ps.1,242

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		2017		2016		2015
Deferred tax related to items recognized in OCI during the year						
Net gain (loss) on cash flow hedges	Ps.	12,017	Ps.	(187,408)	Ps.	58,161
Remeasurement gain of employee benefits		533		132		352
Deferred tax charged to OCI	Ps.	12,550	Ps.	(187,276)	Ps.	58,513

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

	2017	2016	2015
Statutory income tax rate	30.00%	30.00%	30.00%
Non–deductible expenses	(3.90%)	0.28%	0.66%
Unrecorded deferred taxes on tax losses	(14.55%)	0.09%	–
Foreign countries difference with Mexican statutory rate	(0.32%)	0.04%	–
Inflation of tax losses	1.50%	(0.01%)	(0.02%)
Amendment tax return effects and other tax adjustments	(0.31%)	(0.11%)	(0.42%)
Inflation on furniture, intangible and equipment	4.91%	(0.38%)	(0.34%)
Annual inflation adjustment	4.00%	(0.63%)	(0.23%)
	21.33%	29.28%	29.65%

Mexican income tax matters

For Mexican purposes, corporate income tax is computed on accrued basis. MITL requires taxable profit to be determined by considering revenue net of tax deductions. Prior years' tax losses can be utilized to offset current year taxable income. Income tax is determined by applying the 30% rate on the net amount after tax losses utilization.

For tax purposes, income is considered taxable at the earlier of: (i) the time the revenue is collected, (ii) the service is provided or (iii) the time of the issuance of the invoice. Expenses are deductible for tax purposes generally on accrual basis, with some exceptions, once the requirements established in the tax law are fulfilled.

Central America (Guatemala and Costa Rica)

According to Guatemala Corporate Income tax law, under the regime on profits from business activities, net operating losses cannot offset taxable income in prior or future years. For the year ended December 31, 2016, the Company obtained a net operating loss which has not been recognized as a deferred tax asset.

According to Costa Rica Corporate Income tax law, under the regime on profits from business activities, net operating losses can offset taxable income in a term of three years. For the years ended December 31, 2017 and 2016, the Company generated net operating losses for an amount of Ps.300,613 and Ps.57,414, respectively, for which no deferred tax asset has been recognized.

e) An analysis of consolidated deferred taxes is as follows:

	Consolidated statement of financial position	Consolidated statement of operations	Consolidated statement of financial position	Consolidated statement of operations
Deferred income tax assets:				
Intangible	Ps. 463,211	Ps. (18,415)	Ps. 481,626	Ps. (16,637)
Provisions	351,989	8,695	343,294	56,727
Tax losses available for offsetting against future taxable income	343,082	309,758	33,324	(25,030)
Extension lease agreement	143,135	41,411	101,724	25,405
Unearned transportation revenue	35,941	(29,814)	65,755	7,039
Allowance for doubtful accounts	7,324	433	6,891	(2,179)
Employee benefits	5,786	1,222	4,031	886
Employee profit sharing	2,716	(490)	3,206	158
	1,353,184	312,800	1,039,851	46,369
Deferred income tax liabilities:				
Supplemental rent	1,563,363	223,753	1,339,610	363,783
Rotable spare parts, furniture and equipment, net	476,917	108,890	368,027	103,926
Prepaid expenses and other assets	196,152	(239,586)	435,738	280,660
Inventories	88,169	15,286	72,883	23,979
Financial instruments	49,151	–	61,168	–
Other prepayments	33,269	(7,023)	40,292	23,717
	2,407,021	101,320	2,317,718	796,065
	Ps. (1,053,837)	Ps. 211,480	Ps. (1,277,867)	Ps. (749,696)

	2017	2016
Reflected in the consolidated statement of financial position as follows:		
Deferred tax assets	Ps. 562,445	Ps. 559,083
Deferred tax liabilities	(1,616,282)	(1,836,950)
Deferred tax liability, net	Ps. (1,053,837)	Ps. (1,277,867)

A reconciliation of deferred tax liability, net is as follows:

	2017	2016
Opening balance as of January 1,	Ps. (1,277,867)	Ps. (340,895)
Deferred income tax benefit (expense) during the current year recorded on profits	211,480	(749,696)
Deferred income tax benefit (expense) during the current year recorded in accumulated other comprehensive income (loss)	12,550	(187,276)
Closing balance as of December 31,	Ps. (1,053,837)	Ps. (1,277,867)

At December 31, 2017 and 2016, the table shown above includes deferred income tax asset recognized by Concesionaria and Operaciones Volaris (2017), Comercializadora (2016) for tax losses carry–forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

According to IAS 12, *Income Taxes*, a deferred tax asset should be recognized for the carryforward of available tax losses to the extent that it is probable that future taxable income will be available against which the available tax losses can be utilized. In this regards the Company has recognized at December 31, 2017, 2016 and 2015 a deferred tax asset for tax losses of Ps.343,082, Ps.33,324 and Ps.58354 respectively.

During 2017, the Company recognized a deferred tax asset for the carryforward of available tax losses of Concesionaria, Comercializadora and Operaciones Volaris, based on the positive evidence of the Company to generate taxable profit related to the same taxation authority against which the available tax losses can be utilized before they expire. Positive evidence includes Concesionaria's actions to increase its aircraft fleet in the following year, increase in flight frequencies, and routes, inside and outside of Mexico; the profit of Comercializadora and Operaciones Volaris, respectively, is detrived directly from Concesionaria's operations.

An analysis of the available tax losses carry–forward of the Company at December 31, 2017 is as follows:

Year of loss		Historical Loss		Restated tax loss		Utilized		Total remaining amount	Year of expiration
2016		57,414		57,414		–		57,414	2019
2016		52,221		56,573		16,378		40,195	2026
2017		300,613		300,613		–		300,613	2020
2017		1,068,498		1,103,408		–		1,103,408	2027
	Ps.	1,478,746	Ps.	1,518,008	Ps.	16,378	Ps.	1,501,630	

A breakdown of available tax loss carry–forward of Controladora and its subsidiaries at December 31, 2017 is as follows:

		Historical loss		Restated tax loss		Utilized		Total remaining amount
Comercializadora	Ps.	52,221	Ps.	56,573	Ps.	16,378	Ps.	40,195
Concesionaria		1,067,836		1,102,726		–		1,102,726
Operaciones Volaris		662		682		–		682
Vuela Aviación		358,027		358,027		–		358,027
	Ps.	1,478,746	Ps.	1,518,008	Ps.	16,378	Ps.	1,501,630

f) At December 31, 2017 the Company had the following tax balances:

		2017
Restated contributed capital account (*Cuenta de capital de aportación* or "CUCA")	Ps.	3,737,048
CUFIN*		2,558,378

* The calculation comprises all the subsidiaries of the Company.

20. Other operating income and expenses

An analysis of other operating income is as follows:

		2017		2016		2015
Gain on sale and leaseback (Note 14c)	Ps.	65,886	Ps.	484,827	Ps.	181,736
Administrative benefits		27,180		9,072		–
Other income		3,699		2,843		11,419
	Ps.	96,765	Ps.	496,742	Ps.	193,155

An analysis of other operating expenses is as follows:

		2017		2016		2015
Administrative and operational support expenses	Ps.	562,739	Ps.	541,826	Ps.	383,805
Technology and communications		373,394		266,898		173,078
Passenger services		59,261		45,439		23,195
Insurance		54,569		56,414		54,609
Rents of offices, maintenance warehouse and hangar (Note 14c)		30,544		33,517		25,889
Disposal of intangible, rotable spare parts, furniture and equipment		11		436		632
Equity transaction costs (Note 18)		–		–		22,955
Others		7,922		7,922		13,623
	Ps.	1,088,440	Ps.	952,452	Ps.	697,786

21. Finance income and cost

An analysis of finance income is as follows:

		2017		2016		2015
Interest on cash and equivalents	Ps.	105,151	Ps.	78,793	Ps.	47,029
Interest on recovery of guarantee deposits		644		23,792		–
Others		–		6		5
	Ps.	105,795	Ps.	102,591	Ps.	47,034

An analysis of finance cost is as follows:

		2017		2016		2015
Cost of letter credit notes	Ps.	42,294	Ps.	28,067	Ps.	18,279
Interest on debts and borrowings*		37,565		1,245		–
Bank fees and others		5,279		5,804		3,424
Other finance costs		1,219		–		–
	Ps.	86,357	Ps.	35,116	Ps.	21,703

* The borrowing costs related to the acquisition or construction of qualifying assets are capitalized as part of the cost of the asset (Note 12) Interest expense not capitalized is related to the short term working capital facility from Citibanamex..

		2017		2016		2015
Interest on debts and borrowings	Ps.	230,954	Ps.	96,690	Ps.	90,057
Capitalized interest (Note 12)		(193,389)		(95,445)		(90,057)
Net interest on debts and borrowing in the consolidated statements of operations	Ps.	37,565	Ps.	1,245	Ps.	–

22. Components of other comprehensive income (loss)

		2017		2016		2015
Derivative financial instruments:						
Reclassification during the year to profit or loss	Ps.	52,097	Ps.	353,943	Ps.	287,550
Extrinsic value of changes on jet fuel Asian call options		(81,182)		277,899		(450,768)
Loss of the not–yet matured fuel swap contracts		–		–		(11,828)
Gain (loss) of the matured foreign currency forward contracts		(13,380)		–		–
Gain (loss) of the not–yet matured interest rate swap contracts		317		(7,148)		(18,823)
Total	Ps.	(42,148)	Ps.	624,694	Ps.	(193,869)

23. Commitments and contingencies

Aircraft related commitments and financing arrangements

Committed expenditures for aircraft purchase and related flight equipment related to the Airbus purchase agreement, including estimated amounts for contractual prices escalations and pre–delivery payments, will be as follows:

		Commitment expenditures in U.S. dollars		Commitment expenditures equivalent in Mexican pesos (1)
2018	US$	76,194	Ps.	1,503,719
2019		130,013		2,565,859
2020		101,585		2,004,821
2021		145,683		2,875,112
2022 and thereafter		669,902		13,220,784
	US$	1,123,377	Ps.	22,170,295

(1) Using the exchange rate as of December 31, 2017 of Ps.19.7354.

All aircraft acquired by the Company through the Airbus purchase agreement through December 31, 2017 have been executed through sale and leaseback transactions.

Litigation

a) The Company and its CEO, CFO, certain of its current directors and certain of its former directors, as well as certain underwriters were among the defendants in a putative class action commenced on February 24, 2015 in the United States District Court for the Southern District of New York brought on behalf of purchasers of ADSs in and/or traceable to the September 2013 IPO. The complaint, which also named as defendants the underwriters of the IPO, generally alleged that the registration statement and prospectus for the ADSs contained misstatements and omissions with respect to the recognition of non–ticket revenue in violation of the federal securities laws, and sought unspecified damages and rescission. The motion to dismiss requested by the Company and all defendants was granted with prejudice in their favor on July 6, 2016. The plaintiff has not appealed the judge's decision and the time to appeal has expired. Accordingly, any right of the plaintiff to pursue the litigation has ended.

b) The Company is a party to legal proceedings and claims that arise during the ordinary course of business. The Company believes the ultimate outcome of these matters will not have a material adverse effect on the Company's financial position, results of operations, or cash flows.

24. Operating segments

The Company is managed as a single business unit that provides air transportation services. The Company has two geographic segments identified below:

	2017	2016	2015
Operating revenues:			
Domestic (Mexico)	Ps. 17,313,740	Ps. 15,720,807	Ps. 12,579,806
International:			
United States of America and Central America*	7,531,635	7,791,644	5,599,898
Total operating revenues	Ps. 24,845,375	Ps. 23,512,451	Ps. 18,179,704

* United States of America represents approximately 29%, 32% and 31% of total revenues from external customers in 2017, 2016 and 2015, respectively.

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

The Company does not have material non–current assets located in foreign countries.

25. Subsequent events

Subsequent to December 31, 2017 and through April 6, 2018:

a) On January 18, 2018, the Mexican antitrust authority, *Comisión Federal de Competencia Económica* ("COFECE"), served Volaris with a preliminary ruling of potential responsibility (Dictamen de Probable Responsabilidad or "DPR") in which the investigating body of COFECE asserts certain allegations regarding antitrust activities in Mexico´s domestic commercial air passenger transportation market during the period from April 2008 up to February 2010 by different Mexican carriers, including Volaris. The DPR does not constitute a final ruling of culpability against Volaris. Since all the activities which were allegedly committed by the carriers were committed within the framework of the Mexican Federal Antitrust Law *(Ley Federal de Competencia Económica)* in effect during 2010, any applicable fines would be made pursuant to such 2010 law. The maximum fine contemplated by Article 35 section IV of such law is one million five hundred thousand times the minimum wage for Mexico City in effect during 2010. Therefore, in the event that the final ruling imposes a fine on Volaris, such fine is not expected to have a material adverse effect on the financial position or performance of the Company. Nevertheless, the COFECE proceedings are ongoing and the Company cannot predict the final outcome of such proceedings and accordingly the Company has not established a provision on the accompanying consolidated financial statements for a loss arising from this assessment.

b) On January 16, 2018, the Company and Frontier Airlines (Frontier) signed the first codeshare agreement in history between two ultra–low–cost airlines, which is subject to governmental approvals in Mexico and the United States. Once implemented the Company´s customers will gain access to new cities in the U.S. beyond the current destinations, and Frontier customers will gain first–time access to new destinations in Mexico.

c) On February 16, 2018, one of the Company's shareholders concluded the conversion of 45,968,598 Series B Shares for the equivalent number of Series A Shares. This conversion has no impact either on the total number of outstanding shares or on the earnings–per–share calculation.

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