10 years of outstanding performance

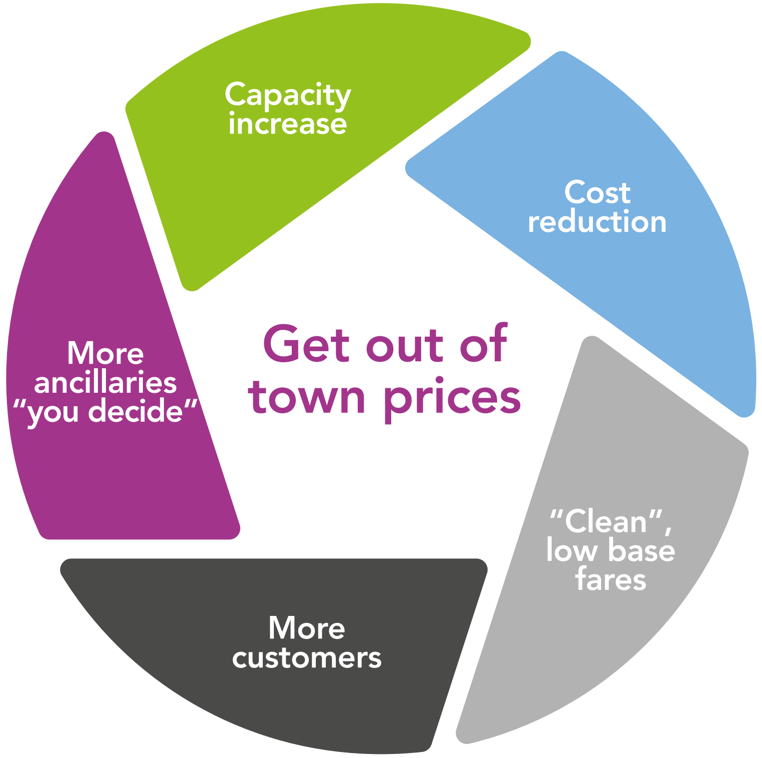
volaris

ANNUAL REPORT 2016

WHO WE ARE

Controladora Vuela Compañía de Aviación, S.A.B. de C.V., "Volaris" or the "Company" (NYSE: VLRS and BMV: VOLAR), is an ultra-low-cost carrier, with point-to-point operations, serving Mexico, the United States and Central America. Volaris offers low base fares to build its market, providing quality service and extensive customer choice. Volaris targets passengers who are visiting friends and relatives, cost-conscious business people and leisure travelers in Mexico and to select destinations in the United States and Central America. Through its strong and diversified network, Volaris serves 40 cities in Mexico and 27 in the United States and Central America.

WHAT HAVE WE ACCOMPLISHED



Over **65 million** passengers transported

Diversified and resilient **point-to-point** network

Strong penetration of **Mexican air travel market**

Bus to **air substitution**

First **airbus A320 NEO operator in North America**

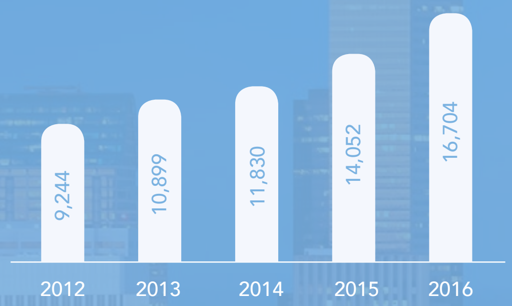
First ultra-low cost carrier in Central America

Sustained profitability with **strong balance sheet**

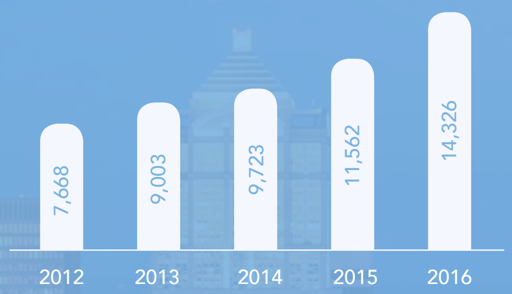
Strong ULCC model with best-in-class cost structure

WHAT WE DELIVER

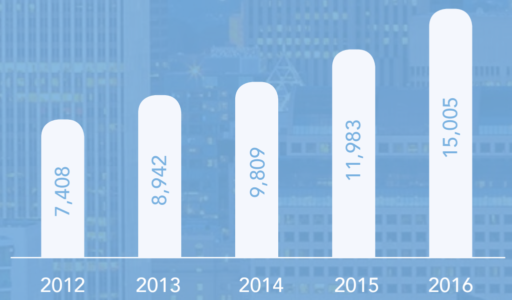
AVAILABLE SEAT MILES
(ASMs, MILLIONS)



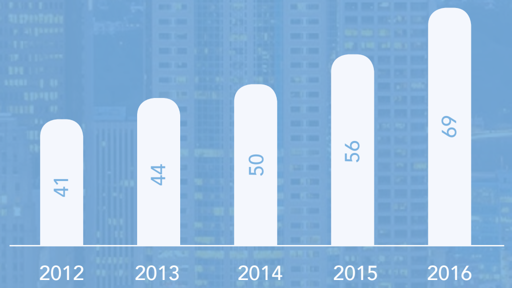
REVENUE PASSENGER MILES
(RPMs, MILLIONS)



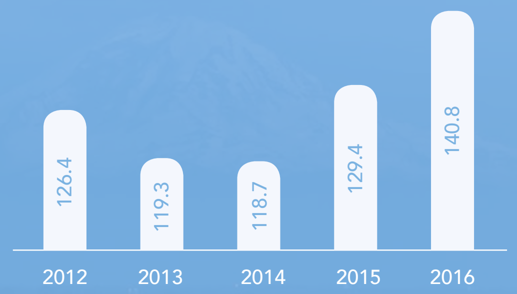
PASSENGERS



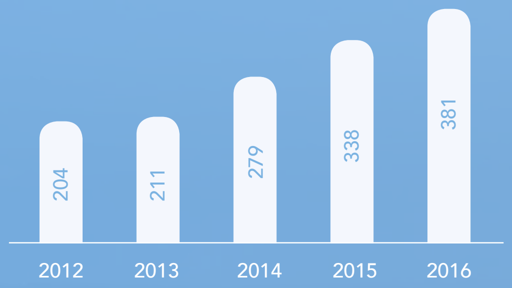
AIRCRAFT
(END OF PERIOD)



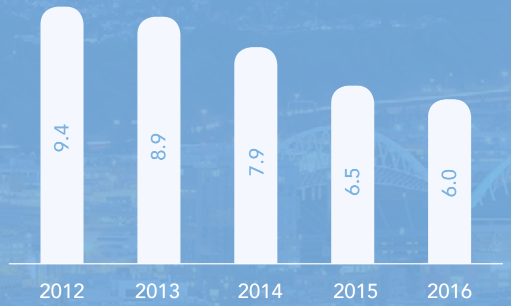
TOTAL OPERATING REVENUE
PER AVAILABLE SEAT MILE (TRASM, MXN CENTS)



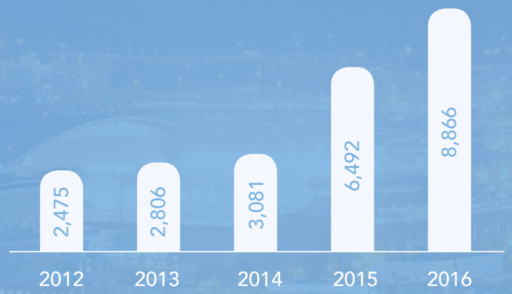
NON-TICKET REVENUE PER PASSENGER
(MXN)



OPERATING COST PER AVAILABLE SEAT MILE
(CASM*, USD CENTS)



ADJUSTED EBITDAR
(MXN, MILLIONS)



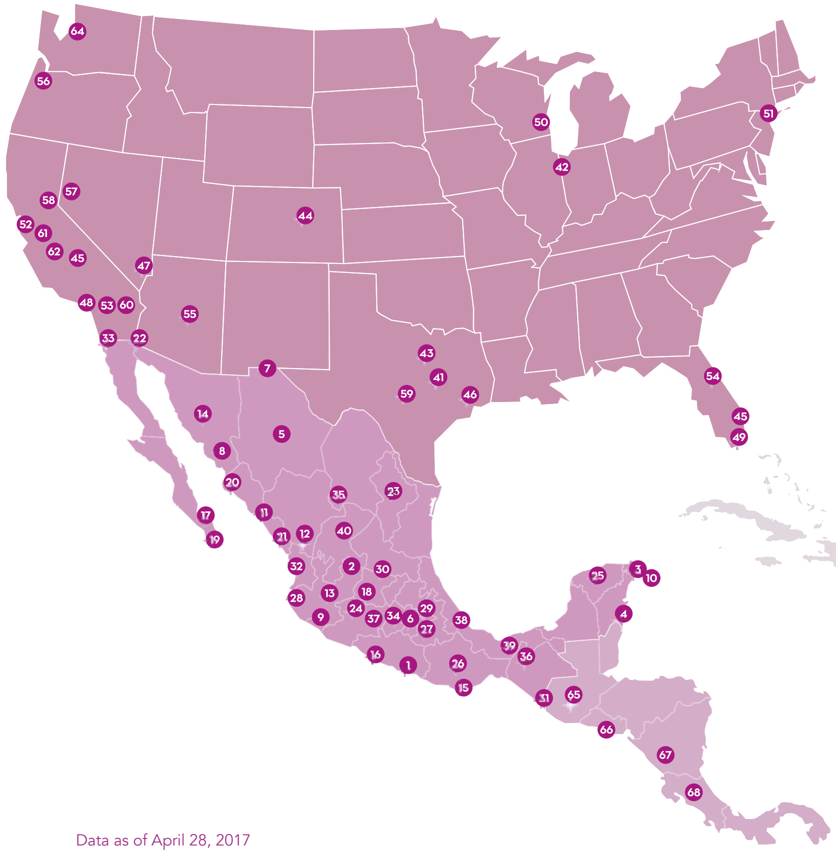
* Peso amounts were converted to U.S. dollars at an end of period exchange rate"

Seattle, Washington

MEXICO
1. ACAPULCO
2. AGUASCALIENTES
3. CANCUN
4. CHETUMAL
5. CHIHUAHUA
6. MEXICO CITY
7. CIUDAD JUAREZ
8. CIUDAD OBREGON
9. COLIMA
10. CULIACAN
11. DURANGO
12. GUADALAJARA
13. HERMOSILLO
14. HUATULCO
15. IXTAPA / ZIHUATANEJO
16. LA PAZ
17. LEON
18. LOS CABOS
19. LOS MOCHIS
20. MAZATLAN
21. MEXICALI
22. MONTERREY
23. MORELIA
24. MERIDA
25. OAXACA
26. PUEBLA
27. PUERTO VALLARTA
28. QUERETARO
29. REYNOSA
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
43. DALLAS - FORT WORTH
44. DENVER
45. FRESNO
46. HOUSTON
47. LAS VEGAS
48. LOS ANGELES
49. MIAMI
50. MILWAUKEE
51. NEW YORK (JFK)
52. OAKLAND (SAN FRANCISCO)
53. ONTARIO
54. ORLANDO
55. PHOENIX
56. PORTLAND
57. RENO
58. SACRAMENTO
59. SAN ANTONIO
60. SAN BERNARDINO
61. SAN FRANCISCO
62. SAN JOSE, CALIFORNIA
63. SAN JUAN, PUERTO RICO
64. SEATTLE

CENTRAL AMERICA
65. GUATEMALA CITY, GUATEMALA
66. SAN SALVADOR, EL SALVADOR
67. MANAGUA, NICARAGUA
68. SAN JOSE, COSTA RICA



Data as of April 28, 2017

WHERE WE ARE TODAY

[1] Domestic market penetration as of March 2017

MESSAGE FROM THE CEO

"2016 was a great year for Volaris, reaching the milestones set forth for our airline in terms of network geographic diversification, profitability and the continued strengthening of our financial position. We have built a resilient ULCC business model and strong point-to-point network, positioning us to continue developing our region's air travel market."

10 YEARS… A HISTORY OF SUCCESS

Volaris has come a long way since its first flight Toluca-Tijuana ten years ago. I am proud to say that during this decade, we have built a strong and resilient ULCC Model with a diversified point-to-point network, a best-in-class cost structure and an increasingly strong penetration of the Mexican air travel market to become a key player in the industry. Remarkably 49% of total passenger volume growth in Mexico in 2016 was attributed to Volaris, proving that we are the main engine behind our industry's growth.

Our resilient business model has allowed us to offer people the opportunity to travel and discover more than 50 routes no other airline operates. Furthermore, we have continuously focused on offering low fares and a suitable customer experience, having pioneered the unbundling of fares, with our successful "You decide" campaign. This strategy has allowed us to stimulate passenger demand to reach 65 million passengers transported in our first 10 years in operation.

During this time, we have built a strong network in key growth regions, becoming market leaders in Tijuana, Guadalajara and Cancun. We have also diversified our reach in underserved markets between the U.S. and Mexico adding new routes and becoming the first ULCC in Central America upon receiving our Costa Rican AOC in 2016. We have differentiated ourselves by capitalizing on the opportunities found in offering direct service in Mexico, to the US and now Central America.

We pride ourselves on running a seamless operation with our A320 family fleet, which is among the youngest and most efficient in the region, becoming the first recipient of the A320 NEO in North America. At the close of 2016 we had 69 aircraft giving service to 67 destinations in 162 routes.

Our performance for 2016 was among the strongest, with a 29% increase in total revenues to reach Ps. 23,512, boosted by a growth of 41% in non-ticket revenues. The continuation of strict cost controls and operating efficiencies contributed to our 43% increase in EPS to Ps. 3.48 per share in 2016. Furthermore, our low leverage and strong cash position have enabled us to comfortably navigate the sharp peso devaluation experienced in 2016. There is no doubt that Volaris is on the right path to continue generating shareholder value while profitably growing in the region's airline industry.

These 10 years were just the beginning. We will continue stimulating demand with our low "clean" base fares and switching passengers from bus to air travel, while keeping our best-in-class cost structure and offering outstanding services for our customers.

I am confident that with the leadership of our experienced and professional team we will be able to achieve all the milestones we have set forth for the Company for decades to come.

Enrique J. Beltranena Mejicano
CEO

2016 FINANCIAL AND OPERATING METRICS SUMMARY

Unaudited (In Mexican pesos, except otherwise indicated)	2016 ($USD)	2016	2015	Variation (%)
Operating revenues (millions)	1,138	23,512	18,180	29.3%
Operating expenses (millions)	1,005	20,773	15,669	32.6%
EBIT (millions)	133	2,740	2,510	9.1%
EBIT margin	11.7%	11.7%	13.8%	(2.1) pp
Adjusted EBITDA (millions)	159	3,276	2,967	10.4%
Adjusted EBITDA margin	13.9%	13.9%	16.3%	(2.4) pp
Adjusted EBITDAR (millions)	429	8,866	6,492	36.6%
Adjusted EBITDAR margin	37.7%	37.7%	35.7%	2.0 pp
Net income (millions)	170	3,519	2,464	42.8%
Net income margin	15.0%	15.0%	13.6%	1.4 pp
Earnings per share:				
Basic (pesos)	0.17	3.48	2.43	42.8%
Diluted (pesos)	0.17	3.48	2.43	42.8%
Earnings per ADS:				
Basic (pesos)	1.68	34.78	24.35	42.8%
Diluted (pesos)	1.68	34.78	24.35	42.8%
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)	2016 ($USD)	2016	2015	Variation (%)
Available seat miles (ASMs) (millions)(1)	-	16,704	14,052	18.9%
Domestic	-	11,595	9,845	17.8%
International	-	5,109	4,207	21.4%
Revenue passenger miles (RPMs) (millions)(1)	-	14,326	11,562	23.9%
Domestic	-	10,008	8,125	23.2%
International	-	4,318	3,437	25.6%
Load factor(2)	-	85.8%	82.3%	3.5 pp
Domestic	-	86.3%	82.5%	3.8 pp
International	-	84.5%	81.6%	2.9 pp
Passenger revenue per ASM (RASM) (cents)(1)	5.2	106.5	100.6	5.9%
Passenger revenue per RPM (Yield) (cents)(1)	6.0	124.2	122.2	1.6%
Average fare(2)	58	1,189	1,181	0.7%
Non-ticket revenue per passenger (1)	18.5	381	338	12.9%
Operating expenses per ASM (CASM) (cents)(1)	6.0	124.4	111.5	11.5%
Operating expenses per ASM (CASM) (US cents)(1)	-	6.0	6.5	(7.1%)
CASM ex fuel (cents)(1)	4.4	90.0	77.9	15.5%
CASM ex fuel (US cents)(1)	-	4.4	4.5	(3.8%)
Booked passengers (thousands)(1)	-	15,005	11,983	25.2%
Departures(1)	-	101,811	87,931	15.8%
Block hours(1)	-	271,204	230,569	17.6%
Fuel gallons consumed (millions)	-	196.7	164.0	19.9%
Average economic fuel cost per gallon	1.4	29.2	28.8	1.4%
Aircraft at end of period	-	69	56	23.2%
Average aircraft utilization (block hours)	-	12.8	12.7	1.0%
Average exchange rate	-	18.66	15.85	17.7%
End of period exchange rate	-	20.66	17.21	20.1%

*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

BOARD OF DIRECTORS

Alfonso González Migoya
Independent Director and Chairman of the Board

Brian H. Franke
Director

William A. Franke
Director

Harry F. Krensky
Director

Roberto José Kriete Ávila
Director

Stan L. Peace
Independent Director

William Dean Donovan
Independent Director

Enrique Javier Beltranena Mejicano
Director

José Luis Fernández Fernández
Independent Director

Joaquín Alberto Palomo Déneke
Independent Director

John A. Slowik
Independent Director

AUDIT AND CORPORATE GOVERNANCE COMMITTEE:

José Luis Fernández Fernández
Chairman

Joaquín Alberto Palomo Déneke
Member

John A. Slowik
Member

COMPENSATION AND NOMINATING COMMITTEE:

Roberto José Kriete Ávila
Chairman

Brian H. Franke
Member

Harry F. Krensky
Member

SUSTAINABILITY

Our Sustainability Model is aligned to Volaris' business strategy and ensures our commitment to society and the environment

Flying safe: ethics and Corporate Governance

Flying High: market growth and attention vulnerable groups

Flying Together: relationship with stakeholders

Flying Always: environment protection

Flying with the best people and the best service: quality of life for our people

2016 OUTSTANDING FIGURES

- Members of the **Sustainability Index of the Mexican Stock Exchange** for the second consecutive year
- **Socially Responsible Company** (ESR) distinction for the 7th consecutive year
- Top Member in the implementation of **The Code** (ECPAT) for the 4th consecutive year
- Certification in **Environmental and Quality Management Systems** ISO 14001:2004 and ISO 9001:2008
- Positioning of the VFundación membership
- **Ps. 3,598,408 invested on social actions during 2016**
- **26,975 certified carbon credits** procured since 2015
- **Transport of 147 organs and tissues** jointly with CENATRA since 2009
- **Ps. 2,595,500** invested to **donate 637 plane tickets**
- Collection of **Ps. 4,334,949** through our **#CielitoLimpio** campaign since 2011
- **4,120 volunteering hours**, with 70 activities and 1,808 Volunteers participating

Puerto Viejo, Costa Rica

COMMENTS AND ANALYSIS FROM THE BOARD ON OPERATING RESULTS AND FINANCIAL SITUATION

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Operating Results

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

Operating Revenues

Passenger Revenue. We derive our operating revenues primarily from transporting passengers on our aircraft. Approximately 76% of our total operating revenues were derived from passenger fares in 2016. 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 24% of our total operating revenues in 2016 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:

	2014	2015	2016
Operating revenues:			
Passenger	81%	78%	76%
Non-ticket	19%	22%	24%
Total operating revenues	**100%**	**100%**	**100%**
Other operating income	0%	(1%)	(2%)
Fuel	38%	26%	24%
Aircraft and engine rent expense	18%	19%	24%
Landing, take-off and navigation expenses	15%	14%	14%
Salaries and benefits	11%	10%	10%
Sales, marketing and distribution expenses	6%	6%	6%
Maintenance expenses	5%	5%	6%
Other operating expenses	3%	4%	4%
Depreciation and amortization	2%	3%	2%
Total operating expenses, net	**99%**	**86%**	**88%**
Operating income	1%	14%	12%
Finance income	0%	0%	0%
Finance cost	0%	0%	0%
Exchange gain, net	3%	5%	9%
Income before income tax	5%	19%	21%
Income tax expense	0%	(6%)	(6%)
Net income	**4%**	**14%**	**15%**

Revenues from our international operations represented 27.2%, 30.8% and 33.1% of our total revenues in 2014, 2015 and 2016, respectively, and revenues from our domestic operations represented 72.8%, 69.2% and 66.9% of our total revenues in 2014, 2015 and 2016, 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 69 aircraft and 11 spare engines, as of December 31, 2016, under the terms of the related operating leases and is recognized on a straight line basis. Aircraft rent expense also includes gains and losses related to our interest rate swap contracts that qualify for hedge accounting. Additionally, if we determine that we will probably not recover partially or completely the maintenance deposits we pay to the lessor as maintenance deposits, we record these amounts in the results of operations as additional aircraft rent (supplemental and contingent rent) from the time we make the determination over the remaining term of the lease.

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

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

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

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

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

Depreciation and Amortization. LDepreciation 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,			
	2014	2015	2016	2016
	(En centavos de peso)			(In U.S. $ cents)[(1)]
Other operating income	(0.2)	(1.4)	(3.0)	(0.1)
Fuel	45.3	33.6	34.4	1.6
Aircraft and engine rent expense	21.4	25.1	33.5	1.6
Landing, take-off and navigation expenses	17.5	18.5	19.6	0.9
Salaries and benefits	13.3	13.5	14.5	0.7
Sales, marketing and distribution expenses	6.9	7.7	8.5	0.4
Maintenance expenses	5.6	6.2	8.0	0.4
Other operating expenses	4.1	5.0	5.7	0.3
Depreciation and amortization	2.9	3.3	3.2	0.2
Total operating expenses, net	**116.9**	**111.5**	**6.5**	**6.0**

(1) Peso amounts were converted to U.S. dollars solely for the convenience of the reader at the rate of Ps.20.6640 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, 2016. 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 2016 was 3.36% according to the INEGI. As of December 31, 2016, international reserves were at U.S. $176.5 billion.

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

Our principal competitive advantages are our low base fares and our focus on VFR travelers, leisure travelers and cost-conscious business people. These low base fares are facilitated by our low CASM, which at Ps.124.4 cents (U.S. $6.0 cents) we believe was the lowest CASM in Latin America in 2016, compared to Avianca at U.S. $13.2 cents, Copa at U.S. $8.8 cents, Gol at U.S. $9.8 cents, Grupo Aeroméxico at U.S. $9.0 cents and LATAM at U.S. $10.7 cents. We also have lower costs than our publicly traded target market competitors in the United States, including Alaska Air at U.S. $10.4 cents, American at U.S. $12.8 cents, Delta at U.S. $13.0 cents, JetBlue at U.S. $10.8 cents, Southwest Airlines at U.S. $11.2 cents and United at U.S. $12.7 cents.

Our principal competitors for the domestic market are Grupo Aeroméxico, Interjet and VivaAerobus, Interjet and VivaAerobus are low-cost carriers in Mexico. In 2016, the Mexican low-cost carriers (including us) combined had 63.5% of the domestic market based on passenger flight segments. We had 27.5% 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 3.0 billion in 2016, of which approximately 80 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 35% market share on the routes that we operate and 10% market share considering all routes between Mexico and the United States in 2016, 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 the first quarter of 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 39%, 30% and 28% of our total operating expenses for 2014, 2015 and 2016. 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 2016, we did not enter into US Gulf Coast Jet Fuel 54 swap contracts. During the years ended December 31, 2014 and 2015 we entered into US Gulf Coast Jet fuel 54 swap contracts to hedge approximately 20% and 5% of our fuel consumption, respectively. These instruments were formally designated and qualified for hedge accounting and accordingly, the effective portion is allocated within other comprehensive income, while the effects of transforming into a fixed jet fuel prices by these hedges are presented as part of jet fuel costs when recognized in the consolidated statements of operations. Our fuel hedging practices are dependent upon many factors, including our assessment of market conditions for fuel, our access to the capital necessary to support margin requirements under swap agreements and the pricing of hedges and other derivative products in the market.

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

As of December 31, 2016, 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, 33% of our revenues came from our operations in the United States and Central America during the year ended December 31, 2016 (compared to 31% during the year ended December 31, 2015) and U.S. dollar denominated collections accounted for 36% and 38% of our total collections in 2015 and 2016, respectively. In addition, the majority of our operating costs are denominated in or indexed to U.S. dollars, constituting 67% and 69% of our total operating costs in 2015 and 2016. 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, 2015, and 2016, our net asset position denominated in U.S. dollars was U.S. $390.1 million and U.S. $584.5 million, respectively. As a result of the significant depreciation of the peso against the U.S. dollar in the last three years and our net U.S. dollar asset position, we recorded a foreign exchange gain, net of Ps.448.7 million in 2014, Ps.966.6 million in 2015 and Ps.2.2 billion in 2016.

Maintenance Expenses. We are required to conduct varying levels of aircraft and engine maintenance which involve significantly different labor and materials inputs. Maintenance requirements depend on the age and type of aircraft and the route network over which they operate.

Fleet maintenance requirements may involve short cycle engineering checks, for example, component checks, monthly checks, annual airframe checks and periodic major maintenance and engine checks. Aircraft maintenance and repair costs for routine and non-routine maintenance are divided into three general categories:

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

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

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

Due to the young age of our fleet (approximately 4.2 years on average as of December 31, 2016), maintenance expense in 2015 and 2016 remained relatively low. For the years ended December 31, 2015 and 2016 we capitalized major maintenance events as part of leasehold improvements to the flight equipment in the amount of Ps.295.8 million and Ps.226.5 million, respectively. For the years ended December 31, 2014, 2015 and 2016 the amortization of these deferred major maintenance expenses was Ps.253.4 million, Ps.352.9 million Ps.404.7 million, respectively. The amortization of deferred maintenance expenses is included in depreciation and amortization rather than total maintenance costs as described in "—Critical Accounting Polices and Estimates." In 2014, 2015 and 2016, total maintenance costs amounted to Ps.664.6 million, Ps.874.6 million and Ps.1.3 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. $107.1 million) in 2017.

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 2014 we opened 38 new routes, added 22 more in 2015 and 20 more in 2016. 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.834.9 million, Ps.1.4 billion and Ps.2.2 billion in maintenance deposits, net of reimbursements, to our lessors for the years ended December 31, 2014, 2015 and 2016, respectively

At lease inception and at each consolidated statement of financial position date, we assess whether the maintenance deposit payments required by the lease agreements are substantively and contractually related to the maintenance of the leased asset.

Maintenance deposit payments that are substantively and contractually related to the maintenance of the leased asset are accounted for as maintenance deposits. Maintenance deposits expected to be recovered from lessors are reflected as guarantee deposits in the accompanying consolidated statement of financial position.

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

Thus, any excess of the required deposit over the expected cost of the major maintenance event is recognized as supplemental rent starting from the period the determination is made. When it is not probable that we will recover amounts currently on deposit with a lessor, such amounts are expensed as supplemental rent. We expensed Ps.43.0 million in 2014, Ps.73.3 million in 2015 and Ps.143.9 million in 2016 of maintenance deposits as supplemental rent.

As of December 31, 2014, 2015 and 2016 we had prepaid maintenance deposits of Ps.3.4 billion, Ps.4.9 billion and Ps.7.1 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, 2014, 2015 and 2016 we extended the lease term of one aircraft agreement, three aircraft agreements and two 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.47.4 million, Ps.92.6 million and Ps.92.5 million during 2014, 2015 and 2016, 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, 2014, 2015 and 2016, we amortized Ps.26.9 million, Ps.45.3 million and Ps.74.7 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, 2016, we added 13 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, 2014, 2015 and 2016, we expensed as contingent rent Ps.110,736, Ps.290,857 and Ps.201,434, 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 2014, 2015 and 2016, we capitalized costs of major maintenance events of Ps.585.7 million, Ps.415.0 million and Ps.226.5 million, respectively and we recognized amortization expenses of Ps.253.4 million, Ps.352.9 million and Ps.404.7 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.918.0 million, Ps.1,227.5 million and Ps.1,748.8 million for the years ended December 31, 2014, 2015 and 2016, respectively

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

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

During the year ended December 31, 2014, 2015 and 2016 we sold and transferred aircraft and engines to third parties, giving rise to a gain of approximately Ps.14.2 million, Ps.181.7 million and Ps.484.8 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, 2014, 2015 and 2016, 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 ofaircraft 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 2014, 2015 and 2016, we amortized a corresponding benefit from these credit notes of, Ps.9.3 million, Ps.9.3 million and Ps.9.3 million, respectively, which is recognized in the consolidated statements of operations as a reduction of maintenance expenses.

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

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

Long-term Incentive Plans

Share Purchase Plan

In November 2014, we 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 April 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.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 2014, 2015 and 2016, we recognized Ps.1.1 million, Ps.6.0 million and Ps.7.8 million, respectively, as compensation expense associated with the complete share purchase plan in our consolidated statement of operations.

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

	Number of Series A shares
Outstanding as of December 31, 2015	617,001*
Purchased during the year	513,002
Granted during the year	-
Exercised during the year	(425,536)
Forfeited during the year	(86,419)
Outstanding as of December 31, 2016	**618,048***

* These shares were presented as treasury shares in the consolidated statement of financial position as of December 31, 2015 and 2016 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
345,270	November 2016 – 2017
171,010	November 2017 – 2018
101,768	November 2018 – 2019
618,048	

* Includes the shares acquired during November 2015.

During the years ended December 31, 2015 and 2016, some key employees left the Company; therefore, these employees did notfulfill 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 will end on December 31, 2015. During 2012, we did not recognize any compensation expense associated with the management incentive plan in our consolidated statement of operations.

During 2013, 2014 and 2015, we recorded Ps.2.1 million Ps.0.3 million and Ps.0.3 million, respectively, as a cost of the management incentive plan related to the vested shares, as recorded in our consolidated statement of operations.

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

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

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

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

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

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

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

On September 18, 2013, the key employees participating in the management incentive plan exercised 4,891,410 shares. As a result, the key employees paid Ps.25.9 million to the 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.

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)	5.3	(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**

At December 31, 2012, 2013, 2014, 2015 and 2016, the shares held in trust to satisfy the management options were considered as treasury shares. As of December 31, 2015, and 2016, 15,857,856 and 12,557,857 share options were vested, respectively.

As of December 31, 2014, the total number of vested and unvested shares amounted to 17,246,405 and 3,026,311, respectively. As of December 31, 2013, the total number of vested and unvested shares amounted to 14,228,364 and 6,044,352, respectively.

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

Long-term Retention Plan

During 2010, we adopted an employee long-term retention plan, the purpose of which is to retain high-performing employees within the organization by paying incentives depending on our performance. Incentives under this plan were payable in three annual installments, following the provisions for other long-term benefits under IAS 19. During 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 and 2,044,604, respectively, which amounts to a cost of Ps.11.6 million (or Ps.7.6 million, net of withheld taxes) and Ps.14.5 million (or Ps.9.5 million, net of withheld taxes), for the years ended December 31, 2015 and 2016, 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 and 2016 was Ps.14.5 million and Ps.15.7 million, 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, 2014, 2015 and 2016, we recorded Ps.1.7 million, Ps.44.7 million and Ps.31.7 million, respectively, in respect of these SARs in our consolidated statement of operations.

Number of SARs (Grant date: November 6, 2014)	Exercisable date
2,031,000	November 2016 - 2017
1,055,996	November 2017 -2018
482,475	November 2018 - 2019
3,839,471	

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 2016, 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, 2016 we did not have any collateral recorded as a guarantee deposits.

(i) **Aircraft Fuel Price Risk.** 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 2014, 2015 and 2016 represented 39%, 30% and 28% 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 2016, we did not enter into US Gulf Jet Fuel 54 swap contracts. During the years ended December 31, 2014 and 2015, we entered into US Gulf Coast Jet fuel 54 swap contracts to hedge approximately 20% and 5% of our fuel consumption, respectively.These instruments were formally designated and qualified for hedge accounting and accordingly, the effective portion is allocated within other comprehensive income, while the effects of transforming into a fixed jet fuel prices by these hedges are presented as part of jet fuel costs when recognized in the consolidated statements of operations. Our fuel hedging practices are dependent upon many factors, including our assessment of market conditions for fuel, our access to the capital necessary to support margin requirements under swap agreements and the pricing of hedges and other derivative products in the market.

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

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, the fair value of our outstanding U.S. Gulf Coast Jet fuel 54 Asian call options was Ps.867.8 million, which was presented as part of the financial assets line item of our consolidated statement of financial position. As of December 31, 2016, the hedging costs attributable to extrinsic value changes in these options as recognized in other comprehensive income totaled Ps.218 million. They were, and will be, recycled to our fuel cost throughout 2017 and until 2018, as these options expire on a monthly basis.

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

During the years ended on December 31, 2014, 2015 and 2016 the Company did not enter into exchange rate derivatives financial instruments.

Our foreign exchange exposure as of December 31, 2014, 2015 and 2016 was a net asset position of U.S. $234.0 million, U.S. $390.1 million and U.S. $584.5 million, respectively.

(iv) **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, 2014, 2015 and 2016, we had outstanding hedging contracts in the form of interest rate swaps with fair value of Ps.83.5 million, Ps.55.8 million and Ps.14.1 million, respectively.

These instruments are included as liabilities in our consolidated statement of financial position. In 2014, 2015 and 2016, the reported loss on the instruments was Ps.39.6 million, Ps.46.5 million and Ps.48.8 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, 2016			
	Within one Year	One to five Years	In five Years or more	Total
	(In thousands of pesos))			
Interest-bearing borrowings				
Pre-delivery payment facilities	328,845	943,046	-	1,271,891
Short-term working capital facilities	716,290	-	-	716,290
Derivative financial instruments				
Interest rate swaps	14,144	-	-	14,144
Total	**1,059,279**	**943,046**	**-**	**2,002,325**

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, 2014, 2015 and 2016 we had tax loss carry-forwards amounting to Ps.1.7 billion, Ps.194.5 million and Ps.111.1 million, respectively. These losses relate to our and our subsidiaries' operations on a standalone 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, 2014, 2015 and 2016 we used tax-loss carry-forwards of Ps.424.5 million, Ps.1.6 billion and Ps.195.1 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, 2016, we obtained a net operating loss which has not been recognized as a deferred tax asset. We recognized Ps. 17.2 million of recoverable deferred taxes due to the carryforward tax loss in Costa Rica.

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, 2014, 2015 and 2016, no impairment charges were recorded in respect of our long-lived assets.

Allowance for Doubtful Accounts. An allowance for doubtful accounts receivables is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. At December 31, 2014, 2015 and 2016, the allowance for doubtful accounts was Ps.27.8 million, Ps.24.6 million and Ps.19.3 million, respectively.

(i) Resultados de Operaciones

Operating Revenues

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%	-	4.0 pp
Booked passengers (in thousands)	11,983	15,005	3,002	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 Revenues

2015 compared to 2016

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

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

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

Operating Expenses, net
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 2016 and 2015, we recorded amortization of major maintenance leasehold improvements of Ps.404.7 million and Ps.352.9 million, respectively.

2015 comparado con 2016

	For the Years ended December 31,			
	2015	2016	Variation	
	(In thousands of pesos, except for %)			
Other operating income	(22,107)	(193,155)	(171,048)	>100%
Fuel	5,363,864	4,721,108	(642,756)	(12.0%)
Aircraft and engine rent expense	2,534,522	3,525,336	990,814	39.1%
Landing, take-off and navigation expenses	2,065,501	2,595,413	529,912	25.7%
Salaries and benefits	1,576,517	1,902,748	326,231	20.7%
Sales, marketing and distribution expenses	817,281	1,088,805	271,524	33.2%
Maintenance expenses	664,608	874,613	210,005	31.6%
Other operating expenses	489,938	697,786	207,848	42.4%
Depreciation and amortization	342,515	456,717	114,202	33.3%
Total operating expenses, net	**13,832,639**	**15,669,371**	**1,836,732**	**13.3%**

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

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

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

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

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

Aircraft and Engine Rent Expense. Aircraft and engine rent expense increased 39.1%. This increase

was primarily driven by: (i) an increase of Ps.246.9 million in rent expense relating to seven new A320 aircraft, (ii) an increase of Ps.279.4 relating to the full year operation of the new A320 aircraft received during the year ended December 31, 2015, (iii) the depreciation of approximately 19.22% of the average exchange rate of the peso against the U.S. dollar, negatively affecting our aircraft rent in peso terms in an amount of Ps.353.6 million, and (iv) an increase in our supplemental and contingent rent of Ps.192.1 million. These increases were partially offset by: (i) a Ps.74.0 million decrease related to the redelivery of one aircraft to the lessors, and (ii) other rent expenses of Ps.7.2 million.

Landing, Take-off and Navigation Expenses. The 25.7% increase in landing, take-off and navigation expenses in 2015 was primarily due to a 15.1% increase in the number of airports served. In addition, our operations as measured by number of departures increased by 17.8%. These increases were partially offset by incentives received from certain airport groups as a result of our increased operations.

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

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

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

Operating Results
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 a 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.

2014 compared to 2015

	For the Years ended December 31,			
	2015	2016	Variation	
Operating Results	(In thousands of pesos, except for %)			
Total operating revenues	14,036,742	18,179,704	4,142,962	29.5%
Total operating expenses, net	13,832,639	15,669,371	1,836,732	13.3%
Operating income	204,103	2,510,333	2,306,230	>100%

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

Financial Results
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, 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.

2014 compared to 2015

	For the Years ended December 31,			
	2015	2016	Variation	
Financing Results	(In thousands of pesos, except for %)			
Finance income	23,464	47,034	23,570	>100%
Finance cost	(32,335)	(21,703)	10,632	(32.9%)
Exchange gain, net	448,672	966,554	517,882	>100%
Total financing results	**439,801**	**991,885**	**552,084**	**>100%**

Total Financing Results. The variation in financing results was primarily due to our exchange gain. This exchange gain resulted from the significant 16.91% depreciation of the peso against the U.S. dollar since we maintained a net asset position of U.S. $390.1 million in 2015. Our U.S. dollar net asset position mainly resulted from our aircraft maintenance deposits paid to the lessors.

Additionally, our finance income increased Ps.23.6 million, due to an increase in short-term investments.

Income Tax Expense and Net Income
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.

2014 compared to 2015

	For the Years ended December 31,			
	2015	2016	Variation	
Net income	(In thousands of pesos, except for %)			
Income before income tax	643,904	3,502,218	2,858,314	>100%
Income tax expense	(38,720)	(1,038,348)	(999,628)	>100%
Net income	**605,184**	**2,463,870**	**1,858,686**	**>100%**

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

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

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

B. Liquidity and Capital Resources

Liquidity

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

	For the years ended December 31,		
	2014	2015	2016
	(In thousands of pesos)		
Net cash flows provided by operating activities	333,783	3,069,613	978,732
Net cash flows used in investing activities	(1,184,968)	(601,277)	(27,958)
Net cash flows provided by financing activities	524,704	65,086	10,765

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 increased by Ps.1.9 billion, from Ps.5.2 billion at December 31, 2015 to Ps.7.1 billion at December 31, 2016. 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). At December 31, 2015, we had available credit lines totaling Ps.3.0 billion, of which Ps.1.8 billion were related to financial debt and Ps.1.2 billion were related to letters of credit (Ps.680.4 million were undisbursed).

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, 2016, 87% of our cash, cash equivalents and short-term investments were denominated in U.S. dollars and 13% 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.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 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.

During 2014, net cash flow used in investing activities totaled Ps.1.2 billion, which consisted primarily of pre-delivery payments for aircraft acquisitions totaling Ps.906.1 million, partially offset by pre-delivery payments reimbursements totaling Ps.395.6 million.

Additionally, we recorded other capital expenditures relating to aircraft parts and rotable spare parts acquisitions and major maintenance costs, net of disposals of Ps.674.5 million.

Net cash flows provided by financing activities. 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.

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

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 2016, we entered into two short-term working capital facilities: the first with Bank of America México, S.A. Institución de Banca Múltiple in the amount of U.S. $15.0 million, bearing annual interest at one-month LIBOR plus a spread of 1.60 percentage points, and the other with Banco Nacional de México S.A. in the amount of Ps.406.3 million, bearing annual interest at TIIE 28 days plus a spread of 0.80 percentage points (the Interbank Equilibrium Interest Rate (tasa de interés interbancaria de equilibrio) or the TIIE).

As of December 31, 2016, 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.

volaris

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

Consolidated Financial Statements

Years Ended December 31, 2016, 2015 and 2014
with Report of Independent Auditors

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated statements of financial position of Controladora Vuela Compañía de Aviación, S.A.B. de C.V. and subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Controladora Vuela Compañía de Aviación, S.A.B. de C.V. and subsidiaries at December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Controladora Vuela Compañía de Aviación, S.A.B. de C.V. and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 27, 2017 expressed an unqualified opinion thereon.

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

MANCERA, S.C.
Mexico City, Mexico
April 27, 2017

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In thousands of Mexican pesos)

	2016 (Thousands of U.S. dollars*)	At December 31, 2016	2015
Assets			
Current assets:			
Cash and cash equivalents (Note 6)	US$ 342,201	Ps. 7,071,251	Ps. 5,157,313
Accounts receivable:			
Other accounts receivable, net (Note 8)	20,683	427,403	263,022
Recoverable value added tax and others	16,567	342,348	156,905
Recoverable income tax	9,338	192,967	15,028
Inventories (Note 9)	11,802	243,884	163,073
Prepaid expenses and other current assets (Note 10)	75,616	1,562,526	585,276
Financial instruments (Notes 3 and 5)	26,303	543,528	10,123
Guarantee deposits (Note 11)	56,485	1,167,209	873,022
Total current assets	558,995	11,551,116	7,223,762
Non–current assets:			
Rotable spare parts, furniture and equipment, net (Note 12)	122,194	2,525,008	2,549,650
Intangible assets, net (Note 13)	5,519	114,041	94,649
Financial instruments (Notes 3 and 5)	15,693	324,281	68,602
Deferred income taxes (Note 19)	27,054	559,083	544,598
Guarantee deposits (Note 11)	317,454	6,559,878	4,692,603
Other assets	7,180	148,364	57,640
Total non–current assets	495,094	10,230,655	8,007,742
Total assets	US$ 1,054,089	Ps. 21,781,771	Ps. 15,231,504
Liabilities and equity			
Short–term liabilities:			
Unearned transportation revenue	US$ 104,218	Ps. 2,153,567	Ps. 1,957,254
Suppliers	41,706	861,805	781,094
Related parties (Note 7)	3,147	65,022	14,316
Accrued liabilities (Note 15a)	86,402	1,785,439	1,379,575
Other taxes and fees payable (Note 1q)	71,440	1,476,242	1,106,726

	2016 (Thousands of U.S. dollars*)	At December 31, 2016	2015
Income taxes payable	9,497	196,242	308,536
Financial instruments (Notes 3 and 5)	684	14,144	44,301
Financial debt (Note 5)	50,873	1,051,237	1,371,202
Other liabilities (Note 15c)	13,752	284,200	110,368
Total short–term liabilities	381,719	7,887,898	7,073,372
Long–term liabilities:			
Financial instruments (Notes 3 and 5)	–	–	11,473
Financial debt (Note 5)	45,637	943,046	219,817
Accrued liabilities (Note 15b)	8,218	169,808	157,331
Other liabilities (Note 15c)	6,608	136,555	49,131
Employee benefits (Note 16)	650	13,438	10,056
Deferred income taxes (Note 19)	88,896	1,836,950	885,493
Total long–term liabilities	150,009	3,099,797	1,333,301
Total liabilities	531,728	10,987,695	8,406,673
Equity (Note 18):			
Capital stock	143,900	2,973,559	2,973,559
Treasury shares	(4,034)	(83,365)	(91,328)
Contributions for future capital increases	–	1	1
Legal reserve	1,851	38,250	38,250
Additional paid–in capital	87,138	1,800,613	1,791,040
Retained earnings	286,855	5,927,576	2,408,087
Accumulated other comprehensive income (loss)	6,651	137,442	(294,778)
Total equity	522,361	10,794,076	6,824,831
Total liabilities and equity	US$ 1,054,089	Ps. 21,781,771	Ps. 15,231,504

* Convenience translation to U.S. dollars (Ps.20.6640) – Note 1z.

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	2016 (Thousands of U.S. dollars*, except for earnings per share)	For the years ended December 31, 2016	2015	2014
Operating revenues (Notes 1d and 24):				
Passenger	US$ 860,924	Ps. 17,790,130	Ps. 14,130,365	Ps. 11,303,327
Non–ticket (Note 1d)	276,922	5,722,321	4,049,339	2,733,415
	1,137,846	23,512,451	18,179,704	14,036,742
Other operating income (Note 20)	(24,039)	(496,742)	(193,155)	(22,107)
Fuel	277,846	5,741,403	4,721,108	5,363,864
Aircraft and engine rent expenses (Note 14c)	270,522	5,590,058	3,525,336	2,534,522
Landing, take–off and navigation expenses	158,345	3,272,051	2,595,413	2,065,501
Salaries and benefits	117,089	2,419,537	1,902,748	1,576,517
Sales, marketing and distribution expenses	68,397	1,413,348	1,088,805	817,281
Maintenance expenses	65,046	1,344,110	874,613	664,608
Other operating expenses (Note 20)	46,093	952,452	697,786	489,938
Depreciation and amortization (Notes 12 and 13)	25,965	536,543	456,717	342,515
Operating income	132,582	2,739,691	2,510,333	204,103
Finance income (Note 21)	4,965	102,591	47,034	23,464
Finance cost (Note 21)	(1,699)	(35,116)	(21,703)	(32,335)
Foreign exchange gain, net	104,990	2,169,505	966,554	448,672
Income before income tax	240,838	4,976,671	3,502,218	643,904
Income tax expense (Note 19)	(70,518)	(1,457,182)	(1,038,348)	(38,720)
Net income	US$ 170,320	Ps. 3,519,489	Ps. 2,463,870	Ps. 605,184
Earnings per share basic:	US$ 0.168	Ps. 3.478	Ps. 2.435	Ps. 0.598
Earnings per share diluted:	US$ 0.168	Ps. 3.478	Ps. 2.435	Ps. 0.598

* Convenience translation to U.S. dollars (Ps.20.6640) – Note 1z.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of Mexican pesos)

	2016 (Thousands of U.S. dollars*)	For the years ended December 31, 2016	2015	2014
Net income for the year	US$ 170,320	Ps. 3,519,489	Ps. 2,463,870	Ps. 605,184
Other comprehensive income (loss):				
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:				
Net gain (loss) on cash flow hedges (Note 22)	30,231	624,694	(193,869)	(129,506)
Income tax effect (Note 19)	(9,069)	(187,408)	58,161	38,852
Exchange differences on translation of foreign operations	(230)	(4,756)	–	–
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:				
Remeasurement loss of employee benefits (Note 16)	(21)	(442)	(1,174)	(1,581)
Income tax effect (Note 19)	6	132	352	474
Other comprehensive income (loss) for the year, net of tax	US$ 20,917	Ps. 432,220	Ps. (136,530)	Ps. (91,761)
Total comprehensive income for the year, net of tax	US$ 191,237	Ps. 3,951,709	Ps. 2,327,340	Ps. 513,423

* Convenience translation to U.S. dollars (Ps.20.6640) – Note 1z.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2016, 2015 and 2014
(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 January 1, 2014	Ps. 2,973,559	Ps. (107,730)	Ps. 1	Ps. 38,250	Ps. 1,785,744	Ps. (660,967)	Ps. (375)	Ps. (66,112)	Ps. –	Ps. 3,962,370
Treasury shares	–	(7,059)	–	–	–	–	–	–	–	(7,059)
Long–term incentive plan cost (Note 17)	–	–	–	–	1,046	–	–	–	–	1,046
Net income for the period	–	–	–	–	–	605,184	–	–	–	605,184
Other comprehensive loss items	–	–	–	–	–	–	(1,107)	(90,654)	–	(91,761)
Total comprehensive income (loss)	–	–	–	–	–	605,184	(1,107)	(90,654)	–	513,423
Balance as of December 31, 2014	2,973,559	(114,789)	1	38,250	1,786,790	(55,783)	(1,482)	(156,766)	–	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	Ps. 2,973,559	Ps. (83,365)	Ps. 1	Ps. 38,250	Ps. 1,800,613	Ps. 5,927,576	Ps. (2,614)	Ps. 144,812	Ps. (4,756)	Ps. 10,794,076
	US$ 143,900	US$ (4,034)	US$ –	US$ 1,851	US$ 87,138	US$ 286,855	US$ (127)	US$ 7,008	US$ (230)	US$ 522,361

*Convenience translation to U.S. dollars (Ps.20.6640) – Note 1z.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of Mexican pesos)

	(Thousands of U.S. dollars*)	For the years ended December 31,		
	2016	2016	2015	2014
Operating activities				
Income before income tax	US$ 240,838	Ps. 4,976,671	Ps. 3,502,218	Ps. 643,904
Non–cash adjustment to reconcile income before tax to net cash flows from operating activities:				
Depreciation and amortization (Notes 12 and 13)	25,965	536,543	456,717	342,515
Provision for doubtful accounts (Note 8)	443	9,164	8,825	9,964
Finance income (Note 21)	(4,965)	(102,591)	(47,034)	(23,464)
Finance cost (Note 21)	1,699	35,116	21,703	32,335
Net foreign exchange differences	(51,023)	(1,054,333)	(483,329)	(294,966)
Financial instruments (Notes 4 and 22)	17,128	353,943	287,550	125,339
Net gain on disposal of rotable spare parts, furniture and equipment and gain on sale of aircraft (Note 20)	(23,401)	(483,565)	(180,433)	(13,908)
Employee benefits (Note 16)	151	3,122	2,549	1,764
Aircraft and engine lease extension benefit and other benefits from service agreements	(3,977)	(82,178)	(62,122)	(40,234)
Management incentive and long–term incentive plans (Note 17)	234	4,826	4,250	1,046
Cash flows from operating activities before changes in working capital	203,092	4,196,718	3,510,894	784,295
Changes in operating assets and liabilities:				
Related parties	2,454	50,706	13,749	(1,584)
Other accounts receivable	(7,616)	(157,370)	(52,157)	41,570
Recoverable and prepaid taxes	(17,489)	(361,377)	63,499	97,276
Inventories	(3,911)	(80,811)	(23,400)	(25,838)
Prepaid expenses	(49,702)	(1,027,040)	(353,451)	55,234
Other assets	946	19,540	28,758	2,928
Guarantee deposits	(94,723)	(1,957,350)	(1,164,911)	(694,566)
Suppliers	6,589	136,178	300,447	(16,717)
Accrued liabilities	24,177	499,584	272,555	134,915
Other taxes and fees payable	25,335	523,524	433,863	73,185
Unearned transportation revenue	9,500	196,313	536,319	27,466

	(Thousands of U.S. dollars*)	For the years ended December 31,		
	2016	2016	2015	2014
Financial instruments	(21,821)	(450,902)	(637,879)	(164,877)
Other liabilities	12,603	260,437	127,170	8,144
	89,434	1,848,150	3,055,456	321,431
Interest received	4,965	102,591	47,034	23,490
Income tax paid	(47,039)	(972,009)	(32,877)	(11,138)
Net cash flows provided by operating activities	47,360	978,732	3,069,613	333,783
Investing activities				
Acquisitions of rotable spare parts, furniture and equipment (Note 12)	(106,402)	(2,198,697)	(1,403,863)	(1,574,137)
Acquisitions of intangible assets (Note 13)	(2,942)	(60,792)	(52,228)	(28,457)
Pre–delivery payments reimbursements (Note 12)	83,870	1,733,093	669,718	395,639
Proceeds from disposals of rotable spare parts, furniture and equipment (Note 12)	24,121	498,438	185,096	21,987
Net cash flows used in investing activities	(1,353)	(27,958)	(601,277)	(1,184,968)
Financing activities				
Proceeds from exercised stock options (Note 17)	977	20,186	23,461	–
Treasury shares purchase	(824)	(17,025)	–	(7,059)
Interest paid	(1,902)	(39,350)	(41,538)	(23,151)
Other finance interest paid	(6,670)	(137,830)	(40,113)	(11,216)
Payments of financial debt	(74,112)	(1,531,460)	(801,335)	(399,815)
Proceeds from financial debt	83,055	1,716,244	924,611	965,945
Net cash flows provided by financing activities	524	10,765	65,086	524,704
Increase (decrease) in cash and cash equivalents	46,531	961,539	2,533,422	(326,481)
Net foreign exchange differences on cash balance	46,090	952,399	359,034	140,565
Cash and cash equivalents at beginning of year	249,580	5,157,313	2,264,857	2,450,773
Cash and cash equivalents at end of year	US$ 342,201	Ps. 7,071,251	Ps. 5,157,313	Ps. 2,264,857

* Convenience translation to U.S. dollars (Ps.20.6640) – Note 1z.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016, 2015 and 2014
(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.

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 March 9, 2017. Those consolidated financial statements and notes were approved by the Company's Board of Directors and by the Shareholders on April 19, 2017. The accompanying consolidated financial statements were approved for issuance in the Company's annual report on Form 20–F by the Company's Chief Executive Officer and Chief Financial Officer on April 26, and subsequent events were considered through that date (Note 25).

a) Relevant events

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.

Acquisition of additional interest in Concesionaria

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

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

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

The Company did not legally own all of the shares of Concesionaria as they were owned by the Trust, however, the Company was the beneficiary of those shares pursuant to the guidelines of IFRS 10, beginning April 22, 2013; for accounting purposes the Company had control over the shares of Concesionaria in accordance with the Trust agreement.

Pursuant to IFRS 10, Consolidated Financial Statements, the foregoing represented for accounting purposes a 2.04% increase in the Company's direct control of the outstanding shares of Concesionaria, thus increasing it to 99.99% with a corresponding decrease in the non–controlling interest.

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

On September 30, 2016, the trust fully transferred the mentioned shares to Controladora; therefore, the trust extinguished its legal obligations and it is no longer consolidated by the Company. This does not have any accounting effect into the consolidated financial statements. The Company legally owns all the shares of Concesionaria as of December 31, 2016.

b) Basis of preparation

Statement of compliance

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016, 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 and functional 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. Certain comparative amounts in the consolidated statement of financial position have been reclassified or re–represented, as a result of a change in the classification of prepaid income tax during the current year (see Note 1x).

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, 2016 and 2015, for accounting purposes the companies included in the consolidated financial statements are as follows:

Name	Principal Activities	Country	% Equity interest 2016	2015
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 ("Servicios Operativos")(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 and Safeguard Trust, denominated F/1405 "DAIIMX/VOLARIS" (2)	Share administration trust (Note 18)	Mexico	–	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.

(2) On September 30, 2016, the trust fully transferred the Company Swap Shares to Controladora; therefore, the trust extinguished its legal obligations and is no longer consolidated by the Company. The Company legally owns all of the shares of Concesionaria as of December 31, 2016.

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 Volaris' sale of VClub membership and the sale of advertising spaces to third parties. VClub membership fees are recognized as revenues over the term of the membership. Revenue from the sale of advertising spaces is recognized over the period in which the space is provided.

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

The breakdown of our non–ticket revenues for the years ended December 31, 2016, 2015 and 2014 is as follows:

	For the years ended December 31,					
		2016		2015		2014
Air travel–related services	Ps.	5,055,836	Ps.	3,418,654	Ps.	2,234,175
Non–air travel–related services		494,864		441,393		274,404
Cargo		171,621		189,292		224,836
Total non–ticket revenues	Ps.	5,722,321	Ps.	4,049,339	Ps.	2,733,415

e) Cash and cash equivalents

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

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

f) Financial instruments

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

Adoption of IFRS 9 (2013)

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

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

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

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

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 new categories introduced by IFRS 9 (2013), which are based on both: the characteristics of the contractual cash flows of these assets and the business model objective for holding them.

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

Initial recognition

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

Subsequent measurement

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

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

Derecognition

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

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

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

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

ii) Impairment of financial assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. Receivables are evaluated by the Company based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer, the risk characteristic of the financial project and indications that the debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

For trade receivables, the Company assesses whether objective evidence of impairment exists individually for receivables that are individually significant. If there is objective evidence that an impairment loss is expected, the amount of the loss is measured as the present value of estimated future cash flows (future expected credit losses that have not yet been incurred).

Based on this evaluation, allowances are taken into account for the expected losses of these receivables.

For the years ended December 31, 2016, 2015 and 2014, the Company recorded an impairment on accounts receivable of Ps.9,164, Ps.8,825 and Ps.9,964, 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, 2016, 2015 and 2014 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 doubtful accounts, 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, 2016, 2015 and 2014, there were no indicators of impairment and therefore no impairment charges were recorded in respect of the Company's value of intangible assets.

j) Guarantee deposits

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

Aircraft maintenance deposits paid to lessors

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

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

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

For the years ended December 31, 2016, 2015 and 2014, the Company expensed as supplemental rent Ps.143,923, Ps.73,258 and Ps.42,961, 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, 2016, the Company added 17 new net aircraft to its 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 the Company does 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. The Company recognizes this cost as a contingent rent during the lease term of the related aircraft, in the consolidated statement of operations. During the year ended December 31, 2016 the Company returned four aircraft to the lessors.

For the years ended December 31, 2016, 2015 and 2014, the Company expensed as contingent rent Ps.201,434, Ps.290,857 and Ps.110,736, 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, 2016 and 2015, the Company extended the lease term of two and three aircraft agreements, respectively. These extensions made available to the Company maintenance deposits that were recognized in prior periods in the consolidated statements of operations as contingent rent of Ps.92,528 and Ps.92,599 during 2016 and 2015, 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 lease incentive in the consolidated statements of financial position at the time of lease extension.

Because the lease extension benefits are considered lease incentives, the benefits are deferred in the caption other liabilities and are being recognized on a straight–line basis over the remaining revised lease terms. For the years ended December 31, 2016, 2015 and 2014, the Company amortized Ps.74,748, Ps.45,313 and Ps.26,938, 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 consists 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 eight weeks to accomplish and typically are required approximately every five to six years.

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

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

During the years ended December 31, 2016 and 2015, the Company capitalized major maintenance events as part of leasehold improvements to flight equipment for an amount of Ps.226,526 and Ps.295,807, respectively (Note 12).

For the years ended December 31, 2016, 2015 and 2014, the amortization of major maintenance leasehold improvement costs was Ps.404,659, Ps.352,932 and Ps.253,381, 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, 2016, 2015 and 2014, the Company capitalized borrowing costs which amounted to Ps.95,445, Ps.90,057 and Ps.42,572, respectively (Note 21). The rate used to determine the amount of borrowing cost was 2.88%, 2.80% and 2.82%, for the years ended December 31, 2016, 2015 and 2014, 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 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, 2016, 2015 and 2014, there were no indicators of impairment and therefore no impairment charges were recorded in respect of the Company's rotable spare parts, furniture and equipment.

m) Foreign currency transactions and exchange differences

The 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, 2016 the exchange rates of local currencies translated to functional currencies are as follows:

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

The financial statements of foreign subsidiaries prepared under IFRS and denominated in their respective functional currencies are translated into Mexican pesos as follows:

The exchange rates used to translate the above amounts to Mexican pesos at December 31, 2016 and 2015 were Ps.20.6640 and Ps.17.2065, respectively, per U.S. dollar.

Foreign currency differences arising on translation into functional currency are recognized in the consolidated statement of operations. Furthermore, foreign currency differences arising on translation into presentation currency are allocated in OCI. Exchange differences on translation of foreign entities for the year ended December 31, 2016 were Ps.4,756. 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, 2016 and 2015, the Company expensed as supplemental rent Ps.933,730 and Ps.91,698, respectively. For the year ended December 31, 2014, the Company did not record any return costs as supplemental rent.

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, 2016, 2015 and 2014, 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, 2016.

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 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, 2016, 2015 and 2014 the Company expensed Ps.40,829, Ps.50,558 and Ps.18,424, 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, *Employee Benefits*. A provision is recognized based on the estimated amount of the incentive payment. During the year ended December 31, 2016 and 2015, the Company recorded an expense and provision for an amount of Ps.53,738 and Ps.70,690, respectively, recorded under the caption salaries and benefits.

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

During 2014, this plan was restructured and it was renamed Long–term incentive plan ("LTIP"). This new plan consists of a share purchase plan (equity–settled) and a share appreciation rights "SARs" plan (cash settled).

vi) Share–based payments

a) LTIP

In April and October 2016, extensions to the LTIP (equity and cash settled) were approved at the Annual Ordinary Shareholder's Meeting. These extensions were approved on the same terms as the original LTIP plan.

– 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 the 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, 2016, 2015 and 2014, the Company expensed Ps.7,816, Ps.6,018 and Ps.1,058, 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, 2016, 2015 and 2014, the Company expensed Ps.31,743, Ps.44,699, Ps.1,652, respectively, related to the SARs included in the LTIP. These expenses 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 years ended December 31, 2015 and 2014, the Company expensed Ps.327 each year as cost of the MIP, related to the vested shares, the expenses were 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 year ended December 31, 2016, the Company expensed Ps.54,357, related to MIP II.

vii) Employee profit sharing

For the years ended December 2016, 2015 and 2014, the Mexican Income Tax Law ("MITL"), establishes that the base for computing current year employee profit sharing shall be the taxpayer's taxable income of the year for income tax purposes, including certain adjustments established in the Income Tax Law, at the rate of 10%. The cost of employee profit sharing earned for the current–year 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) Taxes and fees payable

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

r) Income taxes

Current income tax

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

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

Deferred tax

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

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

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

t) Financial instruments – Disclosures

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

u) Treasury shares

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

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

v) Operating segments

The Company is managed as a single business unit that provides air transportation and related services, 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) Retrospective changes in classification

During 2016, the Company modified the classification of prepaid income tax to reflect more appropriately and separately the assets for current tax, as required by the IAS 1 *Presentation of Financial Statements*. Comparative amounts in the consolidated statements of financial position were restated for consistency. The effects of this reclassification were recognized retrospectively in the consolidated statements of financial position as of December 31, 2015, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. As a result, Ps.15,028 was reclassified from 'recoverable taxes' to 'recoverable income tax', Ps.29,461 was reclassified from 'recoverable taxes' to 'income taxes payable'; and Ps.11,786 from non–current assets 'guarantee deposits' to current assets 'guarantee deposits' to reflect the appropriate presentation of short–term and long–term guarantee deposits, as follows:

		As previously reported 2015		Reclassifications		As reclassified 2015
Financial position:						
Current assets						
Recoverable taxes	Ps.	201,394	Ps.	(44,489)	Ps.	156,905
Recoverable income tax		–		15,028		15,028
Guarantee deposits		861,236		11,786		873,022
Non–current assets						
Guarantee deposits		4,704,389		(11,786)		4,692,603
Current liabilities						
Income taxes payable		337,997		29,461		308,536

y) 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, 2016. 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 2016, 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:

Annual improvements 2012–2014 cycle

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

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively. The adoption of this amendment to IAS 19 did not have any impact on the consolidated financial statements, since the discount rates of the Company's obligations for seniority premiums in Mexico are already determined using government bonds (*Certificados de la Tesorería de la Federación*, or "CETES" in Mexico).

Amendments to IAS 1 Disclosure Initiative

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of profit or loss and OCI.

The adoption of this amendment did not have any significant impact on the presentation and disclosures in these consolidated financial statements.

New and amended standards and interpretations not yet effective

Except for IFRS 9, 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.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five–step model that will apply to revenue arising from contracts with customers, which may require more judgement and estimates than with the revenue recognition process that are required under the existing IAS 18 *Revenue Recognition*. Under IFRS 15, revenue is accounted for an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or providing 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. The standard permits two adoption methods: retrospectively to each reporting period presented (full retrospective method), or retrospectively with the cumulative effect recognized at the date of initial application (the cumulative catch–up transition method). IFRS 15 is required to be adopted for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

The Company plans to adopt the new standard on the required effective date, and currently anticipates utilizing the full retrospective method, in order to provide for comparative results in all periods presented.

While the Company is still evaluating the impact of the new standard, it expects the new standard to impact the timing of recognition of certain air travel–related services and non air–travel related services which under current accounting are recognized when the service is provided. Under the new standard, such services will likely be recognized when the air travel service is provided.

IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS.

The presentation requirements represent a significant change from current practice and increase the volume of disclosures required in the Company's financial statements. Many of the disclosure requirements in IFRS 15 are completely new. In 2017, the Company will develop and start testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

Furthermore, the Company will monitor and assess any further developments issued by the IASB and the transition resource group. The Company continues to monitor and assess the potential impact of changes to IFRS 15 and related implementation guidance as they become available.

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 to complete an IFRS 16 assessment. 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.

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 *Statement of Cash Flows* were issued in January 2016 and are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non–cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after January 1, 2017, with early application permitted. Application of these amendments will result in additional disclosure provided by the Company.

IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to IAS 12

The amendments to IAS 12 *Income taxes* were issued in January 2016 and 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 that deductible temporary difference.

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.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after January 1, 2017, with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Company.

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 is assessing the potential effect of the amendments on its consolidated financial statements.

z) Convenience translation

U.S. dollar amounts at December 31, 2016 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.20.6640 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, 2016. Such translation should not be construed as a representation that the peso amounts have been or could be converted into U.S. dollars at this or any other rate. The referred information in U.S. dollars is solely for information purposes and does not represent the amounts are in accordance with IFRS or the equivalent in U.S. dollars in which the transactions were conducted or in which the amounts presented in Mexican pesos can be translated or realized.

2. Significant accounting judgments, estimates and assumptions

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

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

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

i) Aircraft maintenance deposits paid to lessors

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

ii) LTIP and 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, 2016, the Company's tax loss carry–forwards amounts to Ps.111,083 (Ps.194,512 at December 31, 2015). These losses relate to operations of the Company on a stand–alone basis, which in conformity with current 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, 2016, 2015 and 2014, the Company used Ps.195,116, Ps.1,618,850 and Ps.424,463, 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 doubtful accounts

An allowance for doubtful 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 derived from exogenous variables which are not under their control but whose effects might be potentially adverse: (i) market risk, (ii) credit risk, and (iii) liquidity risk. The Company's global risk management program is focused on uncertainty in the financial markets and tries to minimize the potential adverse effects on the net earnings and working capital requirements. The Company uses derivative financial instruments to hedge part of these risks. The Company does not 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 unit, 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. Pursuing this objective, the risk management policy allows the use of derivative financial instruments available on the over the counter ("OTC") markets with approved counterparties and within approved limits. Aircraft jet fuel consumed in the years ended December 31, 2016, 2015 and 2014 represented 28%, 30% and 39%, of the Company's operating expenses, respectively.

During the year ended December 31, 2016, the Company did not enter into US Gulf Coast Jet Fuel 54 swaps positions. During the years ended December 31, 2015 and 2014, the Company entered into US Gulf Coast Jet Fuel 54 swap contracts to hedge approximately 5% and 20% of its fuel consumption, respectively; they were accounted for as CFH that gave rise to a loss of Ps.128,330, and Ps.85,729, respectively. These instruments were formally designated and qualified for hedge accounting and accordingly, the effective portion is allocated within OCI while the effects of transforming into a fixed jet fuel prices by these hedges are presented as part of fuel costs when recognized in the consolidated statements of operations.

All of the Company's position in US Gulf Coast Jet Fuel 54 swaps position matured on June 30, 2015, and therefore there is no balance outstanding as of December 31, 2015.

During the years ended December 31, 2016 and 2015, the Company held a notional amount of 189,036 thousand gallons and 162,189 thousand gallons, respectively, in US Gulf Coast Jet Fuel 54 Asian call options designated to hedge a portion of the projected consumption for the years to come.

The Company decided to early adopt IFRS 9 (2013), beginning on October 1, 2014, which allows the Company to separate the intrinsic value and time value of an option contract and to designate as the hedging instrument only the change in the intrinsic value of the option. Because the external value (time value) of the Asian call options are related to a transaction related hedged item, it is required to be segregated and accounted for as a cost of hedging in OCI and accrued as a separate component of stockholders' equity until the related hedged item affects profit and loss.

The hedged item (jet fuel consumption) of the options held by the Company represents a non–financial asset (energy commodity), which is not in the Company's inventory. Instead, it is directly consumed by the Company's aircraft at different airport terminals. Therefore, although a non–financial asset is involved, its initial recognition does not generate a book adjustment in the Company's inventories. Rather, it is initially accounted for in the Company's OCI and a reclassification adjustment is made from OCI to profit and loss and recognized in the same period or periods during which the hedged item is expected to be allocated to profit and loss. Furthermore, the Company hedges its forecasted jet fuel consumption month after month, which is congruent with the maturity date of the monthly serial Asian call options. The adoption of IFRS 9 (2013) does not impact the interest rate swaps or jet fuel swaps as those instruments do not incorporate a portion of time value (attributable to external value), such as is the case with options.

As of December 31, 2016 and 2015, the fair value of the outstanding US Gulf Coast Jet Fuel Asian call options was Ps.867,809 and Ps.78,725, respectively, and is presented as part of the financial assets in the 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, 2016 recognized in other comprehensive income totals Ps.218,038 (the negative cost of hedging in 2015 totals Ps.365,028), and will be recycled to the fuel cost during 2017 and 2018, as these options expire on a monthly basis. During the years ended December 31, 2016 and 2015, the extrinsic value of these options recycled to the fuel cost was Ps.305,166 and Ps.112,675, respectively. During the year ended December 31, 2014, the Company did not recycle any extrinsic value of the options to the fuel cost.

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, 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

Position as of December 31, 2015

Jet fuel Asian call option contracts maturities

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

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

b) Foreign currency risk

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

Most of the Company's revenue is generated in Mexican pesos, although 33% of its revenues came from operations in the United States of America and Central America for the year ended at December 31, 2016 (31% at December 31, 2015) and U.S. dollar denominated collections accounted for 38% and 36% of the Company's total collections in 2016 and 2015, 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, 2016 and 2015 is as set forth below:

	Thousands of U.S. dollars	
	2016	2015
Assets:		
Cash and cash equivalents	US$ 297,565	US$ 202,022
Other accounts receivable	11,619	5,286
Aircraft maintenance deposits paid to lessors	343,787	286,012
Deposits for rental of flight equipment	30,025	36,331
Derivative financial instruments	41,996	4,575
Total assets	724,992	534,226
Liabilities:		
Financial debt (Note 5)	76,789	92,466
Foreign suppliers	56,109	40,673
Taxes and fees payable	6,874	7,705
Derivative financial instruments	684	3,242
Total liabilities	140,456	144,086
Net foreign currency position	US$ 584,536	US$ 390,140

At April 26, 2017, date of issuance of these financial statements, the exchange rate was Ps.18.6521 per U.S. dollar.

	Thousands of U.S. dollars	
	2016	2015
Off–balance sheet transactions exposure:		
Aircraft and engine operating lease payments (Note 14)	US$ 1,727,644	US$ 1,216,799
Aircraft and engine commitments (Note 23)	315,326	353,528
Total foreign currency	US$ 2,042,970	US$ 1,570,327

During the year ended on December 31, 2016 and 2015, the Company did not enter into foreign exchange rate derivatives financial instruments.

c) Interest rate risk

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

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

At December 31, 2016 and 2015, the Company had outstanding hedging contracts in the form of interest rate swaps with notional amount of US$70,000 and fair value of Ps.14,144 and Ps.55,774, respectively, recorded in liabilities. For the years ended December 31, 2016, 2015 and 2014, the reported loss on the interest rate swaps was Ps.48,777, Ps.46,545 and Ps.39,610, respectively, which was recognized as part of rental expense in the consolidated statements of operations.

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

	Position at December, 31, 2016 effect on equity (thousands of U.S. dollars)
Increase (decrease) in curve	
+ 100 basis points	US$ 1.04
– 100 basis points	(1.05)

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, 2016		
	Within one year	One to five years	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

	December 31, 2015		
	Within one year	One to five years	Total
Interest–bearing borrowings:			
Pre–delivery payments facilities (Note 5)	Ps. 1,363,861	Ps. 219,817	Ps. 1,583,678
Derivative financial instruments:			
Interest rate swaps contracts	44,301	11,473	55,774
Total	Ps. 1,408,162	Ps. 231,290	Ps. 1,639,452

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, 2016, 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, 2016 and 2015. The Company is not subject to any externally imposed capital requirement, other than the legal reserve (Note 18).

4. Fair value measurements

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

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

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

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

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

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

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

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

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

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

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

	Carrying amount		Fair value	
	2016	2015	**2016**	2015
Assets				
Derivative financial instruments	Ps. 867,809	Ps. 78,725	Ps. 867,809	Ps. 78,725
Liabilities				
Financial debt	(1,988,181)	(1,583,678)	(1,331,931)	(1,587,889)
Derivative financial instruments	(14,144)	(55,774)	(14,144)	(55,774)
Total	Ps. (1,134,516)	Ps. (1,560,727)	Ps. (478,266)	Ps. (1,564,938)

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**	–	(1,331,931)	–	(1,331,931)
Net	Ps. –	Ps. (478,266)	Ps. –	Ps. (478,266)

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

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

	Fair value measurement			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Assets				
Derivatives financial instruments:				
Jet fuel Asian call options contracts*	Ps. –	Ps. 78,725	Ps. –	Ps. 78,725
Liabilities				
Derivatives financial instruments:				
Interest rate swap contracts**	–	(55,774)	–	(55,774)
Liabilities for which fair values are disclosed:				
Interest–bearing loans and borrowings**	–	(1,587,889)	–	(1,587,889)
Net	Ps. –	Ps. (1,564,938)	Ps. –	Ps. (1,564,938)

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

The following table summarizes the (loss) gain from derivatives financial instruments recognized in the consolidated statements of operations for the years ended December 31, 2016, 2015 and 2014:

Consolidated statements of operations

Instrument	Financial statements line	**2016**	2015	2014
Jet fuel swap contracts	Fuel	Ps. –	Ps. (128,330)	Ps. (85,729)
Jet fuel Asian call options contracts	Fuel	(305,166)	(112,675)	–
Interest rate swap contracts	Aircraft and engine rent expenses	(48,777)	(46,545)	(39,610)
Total		Ps. (353,943)	Ps. (287,550)	Ps. (125,339)

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, 2016, 2015 and 2014:

Consolidated statements of other comprehensive income (loss)

Instrument	Financial statements line	**2016**	2015	2014
Jet fuel swap contracts	OCI	Ps. –	Ps. –	Ps. (125,228)
Jet fuel Asian call options contracts	OCI	583,065	(221,592)	(26,934)
Interest rate swap contracts	OCI	41,629	27,723	22,656
Total		Ps. 624,694	Ps. (193,869)	Ps. (129,506)

5. Financial assets and liabilities

At December 31, 2016 and 2015, 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

		2016		2015
Derivative financial instruments designated as cash flow hedges (effective portion recognized within OCI)				
Jet fuel Asian call options	Ps.	867,809	Ps.	78,725
Total financial assets	Ps.	867,809	Ps.	78,725
Presented on the consolidated statements of financial position as follows:				
Current	Ps.	543,528	Ps.	10,123
Non–current	Ps.	324,281	Ps.	68,602

b) Financial debt

(i) At December 31, 2016 and 2015, the Company's short–term and long–term debt consists of the following:

		2016		2015
I. Revolving line of credit with Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander ("Santander") and Banco Nacional de Comercio Exterior, S.N.C. ("Bancomext"), in U.S. dollars, to finance pre–delivery payments, maturing on May 31, 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 1.99 to 2.25 points.	Ps.	1,271,891	Ps.	1,583,678
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 0.80 points.		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") for the amount of US$15,000, bearing annual interest rate at the one–month LIBOR plus 1.60 points.		309,960		–
IV. Accrued interest		6,102		7,341
		1,994,283		1,591,019
Less: Short–term maturities		1,051,237		1,371,202
Long–term	Ps.	943,046	Ps.	219,817

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, 2016:

		2017		2018		2019		2020		Total
Finance debt denominated in foreign currency:										
Santander/Bancomext	Ps.	333,702	Ps.	653,336	Ps.	131,686	Ps.	158,024	Ps.	1,276,748
Citibanamex		407,514		–		–		–		407,514
Bank of America		310,021		–		–		–		310,021
Total	Ps.	1,051,237	Ps.	653,336	Ps.	131,686	Ps.	158,024	Ps.	1,994,283

(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, 2016, the pre–delivery payments for eight A320 Classic Engine Option ("CEO") 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 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 A320 New Engine Option ("NEO") aircraft to be delivered between 2017 and 2018.

Additionally, on November 30, 2016, the Company signed an amendment to the loan agreement to finance pre–delivery payments of twenty–two additional A320NEO to be delivered between 2019 and 2020. In accordance with this amendment, the revolving line of credit with Santander and Bancomext to finance pre–delivery payments will expire on May 31, 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, 2016 and 2015, the Company was in compliance with the covenants under the above–mentioned loan agreement.

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

(iv) 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.3,703,052 were undrawn). At December 31, 2015, the Company had available credit lines totaling Ps.3,033,184, of which Ps.1,810,446 were related to financial debt and Ps.1,222,738 were related to letters of credit (Ps.680,413 were undrawn).

c) Other financial liabilities

		2016		2015
Derivative financial instruments designated as CFH (effective portion recognized within OCI):				
Interest rate swap contracts	Ps.	14,144	Ps.	55,774
Total financial liabilities	Ps.	14,144	Ps.	55,774
Presented on the consolidated statements of financial position as follows:				
Current	Ps.	14,144	Ps.	44,301
Non–current	Ps.	–	Ps.	11,473

6. Cash and cash equivalents

An analysis of this caption is as follows:

		2016		2015
Short–term investments	Ps.	4,433,559	Ps.	2,350,998
Cash in banks		2,632,878		2,796,437
Cash on hand		4,814		9,878
Total cash and cash equivalents	Ps.	7,071,251	Ps.	5,157,313

7. Related parties

a) An analysis of balances due from/to related parties at December 31, 2016 and 2015 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		2016		2015	Terms
Due to:							
One Link, S.A. de C.V. ("One Link")	Call center fees	El Salvador	Ps.	33,775	Ps.	9,863	30 days
Aeromantenimiento, S.A. ("Aeroman")	Aircraft and engine maintenance	El Salvador		30,627		4,453	30 days
SearchForce, Inc. ("SearchForce")	Internet services	Mexico		620		–	30 days
			Ps.	65,022	Ps.	14,316	

For the years ended December 31, 2016, 2015 and 2014, the Company did not recognize any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

b) During the years ended December 31, 2016, 2015 and 2014, the Company had the following transactions with related parties:

Related party transactions	Country of origin		2016		2015		2014
Revenues:							
Other commissions	Mexico	Ps.	–	Ps.	–	Ps.	3,663
Expenses:							
Maintenance	El Salvador		304,399		111,641		162,687
Fees	Mexico/El Salvador		173,197		57,809		1,038
Other	Mexico/El Salvador		8,105		2,516		617

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, 2016, 2015 and 2014 the Company expensed Ps.1,733, Ps.768 and Ps.900, 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. We entered into an aircraft repair and maintenance service agreement with Aeroman on March 6, 2007. This agreement provides that we have 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, 2016, 2015 and 2014, the balances due under our agreement with Aeroman were Ps.30,627, Ps.4,453 and Ps.559, respectively. The Company incurred expenses in aircraft and engine maintenance and technical support under this agreement of Ps.308,731, Ps.114,157 and Ps.163,263 for the years ended December 31, 2016, 2015 and 2014, 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, 2016 and 2015, the Company recognized an expense under this agreement of Ps.3,127 and Ps.152, 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. As of December 31, 2016 and 2015, the balance due under this agreement was Ps.33,775 and Ps.9,863, respectively and the Company recognized an expense under this agreement of Ps.168,337 and Ps.56,889 for the years ended December 31, 2016 and 2015, respectively.

g) SearchForce
SearchForce is a related party because William Dean Donovan, an alternate member of the board, is a director of the Company. 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.3,446 for the year ended December 31, 2016.

h) Directors and officers
During the years ended December 31, 2016, 2015 and 2014, all of the Company's senior managers received an aggregate compensation of short and long–term benefits of Ps.160,762, Ps.120,440 and Ps.64,387, respectively.

For the years ended December 31, 2016, 2015 and 2014 the cost of the share–based payments transactions (MIP and LTIP) were Ps.7,816, Ps.6,345 and Ps.1,385, respectively. Cash–settled payments transactions SARs were Ps.86,100, Ps.44,699 and Ps.1,652, respectively (Note 17).

During 2015, the Company adopted a new short–term benefit plan for certain personnel whereby cash bonuses are awarded for meeting certain Company's performance target. During the years ended December 31, 2016 and 2015, the Company recorded a provision in an amount of Ps.53,738 and Ps.70,690, respectively.

During the year ended December 31, 2016, 2015 and 2014, the chairman and the independent members of the Company's board of directors received an aggregate compensation of approximately Ps.7,751, Ps.5,480 and Ps.6,524, respectively, and the rest of the directors received a compensation of Ps.7,308, Ps.4,183 and Ps.4,669, respectively.

8. Other accounts receivable, net

An analysis of other accounts receivable at December 31, 2016 and 2015, is detailed below:

		2016		2015
Credit cards	Ps.	253,374	Ps.	153,989
Insurance recovering		55,815		13,124
Cargo clients		29,901		28,687
Other accounts receivable		26,236		17,710
Other points of sales		23,867		19,086
Travel agencies and insurance commissions		20,477		24,687
Marketing services receivable		11,070		2,241
Airport services		9,479		10,435
Affinity credit card		8,950		11,720
Employees		7,551		5,955
		446,720		287,634
Allowance for doubtful accounts		(19,317)		(24,612)
	Ps.	427,403	Ps.	263,022

Accounts receivable have the following aging:

Days		2016 Impaired		2016 Not impaired		Total 2016		2015 Impaired		2015 Not impaired		Total 2015
0–30	Ps.	15,723	Ps.	398,721	Ps.	414,444	Ps.	5,339	Ps.	251,183	Ps.	256,522
31–60		–		11,231		11,231		–		8,376		8,376
61–90		–		14,492		14,492		–		3,463		3,463
91–120		3,594		2,959		6,553		19,273		–		19,273
	Ps.	19,317	Ps.	427,403	Ps.	446,720	Ps.	24,612	Ps.	263,022	Ps.	287,634

The movement in the allowance for doubtful accounts from January 1, 2014 to December 31, 2016 is as follows:

Balance as of January 1, 2014	Ps.	(29,775)
Write–offs		11,953
Increase in allowance		(9,964)
Balance as of December 31, 2014		(27,786)
Write–offs		11,999
Increase in allowance		(8,825)
Balance as of December 31, 2015		(24,612)
Write–offs		14,459
Increase in allowance		(9,164)
Balance as of December 31, 2016	Ps.	(19,317)

9. Inventories

An analysis of inventories at December 31, 2016 and 2015 is as follows:

		2016		2015
Spare parts and accessories of flight equipment	Ps.	235,330	Ps.	157,304
Miscellaneous supplies		8,554		5,769
	Ps.	243,884	Ps.	163,073

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, 2016, 2015 and 2014, the amount of consumption of inventories, recorded as an operating expense as part of maintenance expense was Ps.186,719, Ps.143,992 and Ps.108,580, respectively.

10. Prepaid expenses and other current assets

An analysis of prepaid expenses and other current assets at December 31, 2016 and 2015 is as follows:

	2016	2015
Advances to suppliers	Ps. 705,105	Ps. 113,082
Prepaid aircraft rent	668,306	320,358
Sales commission to travel agencies	73,413	65,092
Prepaid insurance	47,663	40,195
Other prepaid expenses	33,555	14,961
Advances for constructions of aircraft and engines	31,437	28,541
Loss on sale and leaseback transactions to be amortized (Note 14)	3,047	3,047
	Ps. 1,562,526	Ps. 585,276

11. Guarantee deposits

An analysis of this caption at December 31, 2016 and 2015 is as follows:

	2016	2015
Current asset:		
Aircraft maintenance deposits paid to lessors (Note 1j)	Ps. 1,145,913	Ps. 852,530
Deposits for rental of flight equipment	14,155	11,786
Other guarantee deposits	7,141	8,706
	1,167,209	873,022
Non–current asset:		
Aircraft maintenance deposits paid to lessors (Note 1j)	5,951,831	4,068,732
Deposits for rental of flight equipment	589,804	613,346
Other guarantee deposits	18,243	10,525
	6,559,878	4,692,603
	Ps. 7,727,087	Ps. 5,565,625

12. Rotable spare parts, furniture and equipment, net

	Gross value		Accumulated depreciation		Net carrying value	
	At December 31, 2016	At December 31, 2015	**At December 31, 2016**	At December 31, 2015	**At December 31, 2016**	At December 31, 2015
Leasehold improvements to flight equipment	Ps. 1,709,868	Ps. 1,483,344	Ps. (1,386,844)	Ps. (982,187)	Ps. 323,024	Ps. 501,157
Pre–delivery payments	1,206,330	1,583,835	–	–	1,206,330	1,583,835
Aircraft parts and rotable spare parts	393,522	285,323	(137,712)	(105,376)	255,810	179,947
Aircraft spare engines	323,025	–	(1,337)	–	321,688	–
Construction and improvements in process	255,374	140,926	–	–	255,374	140,926
Standardization	176,975	155,021	(94,864)	(71,135)	82,111	83,886
Constructions and improvements	120,886	86,067	(85,873)	(67,865)	35,013	18,202
Computer equipment	24,172	27,075	(16,972)	(22,880)	7,200	4,195
Workshop tools	20,500	16,259	(15,915)	(11,444)	4,585	4,815
Electric power equipment	14,818	19,457	(7,890)	(10,424)	6,928	9,033
Communications equipment	9,261	8,641	(5,706)	(4,877)	3,555	3,764
Workshop machinery and equipment	7,240	7,108	(3,622)	(2,929)	3,618	4,179
Motorized transport equipment platform	5,703	5,576	(4,346)	(4,250)	1,357	1,326
Service carts on board	5,403	5,367	(4,645)	(3,914)	758	1,453
Office furniture and equipment	36,310	28,101	(18,653)	(15,169)	17,657	12,932
Total	Ps. 4,309,387	Ps. 3,852,100	Ps. (1,784,379)	Ps. (1,302,450)	Ps. 2,525,008	Ps. 2,549,650

	Aircraft parts and rotable spare parts	Aircraft spare engines	Constructions and improvements	Standardization	Computer equipment	Office furniture and equipment	Electric power equipment	Workshop Tools	Motorized transport equipment platform	Communications equipment	Workshop machinery and equipment	Service carts on board	Pre–delivery payments	Construction in process	Leasehold improvements to flight equipment	Total
Net book amount as of December 31, 2014	Ps. 151,943	Ps. –	Ps. 24,104	Ps. 47,622	Ps. 3,873	Ps. 15,742	Ps. 7,347	Ps. 2,072	Ps. 239	Ps. 4,073	Ps. 4,578	Ps. 2,669	Ps. 1,396,008	Ps. 4,760	Ps. 558,282	Ps. 2,223,312
Additions	53,723	–	–	57,838	173	12	3,966	4,374	1,382	366	332	–	835,496	154,727	295,807	1,408,196
Disposals and transfers	(787)	–	–	–	(1)	(682)	–	–	(10)	(13)	–	–	(669,718)	(7,257)	–	(678,468)
Borrowing costs, net*	–	–	–	–	–	–	–	–	–	–	–	–	22,049	–	–	22,049
Other movements	–	–	6,586	–	2,878	1,567	–	–	–	273	–	–	–	(11,304)	–	–
Depreciation	(24,932)	–	(12,488)	(21,574)	(2,728)	(3,707)	(2,280)	(1,631)	(285)	(935)	(731)	(1,216)	–	–	(352,932)	(425,439)
As of December 31, 2015	179,947	–	18,202	83,886	4,195	12,932	9,033	4,815	1,326	3,764	4,179	1,453	1,583,835	140,926	501,157	2,549,650
Cost	285,323	–	86,067	155,021	27,075	28,101	19,457	16,259	5,576	8,641	7,108	5,367	1,583,835	140,926	1,483,344	3,852,100
Accumulated depreciation	(105,376)	–	(67,865)	(71,135)	(22,880)	(15,169)	(10,424)	(11,444)	(4,250)	(4,877)	(2,929)	(3,914)	–	–	(982,187)	(1,302,450)
Net book amount as of December 31, 2015	Ps. 179,947	Ps. –	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**

* *During the years ended December 31, 2016 and 2015, the Company capitalized borrowing costs of Ps.95,445 and Ps.90,057, respectively. The amount of this line is net of disposals of capitalized borrowing costs related to sale and leaseback transactions of Ps.84,936 and Ps.68,008, respectively.*

a) Depreciation expense for the years ended December 31, 2016, 2015 and 2014, was Ps.496,253, Ps.425,439 and Ps.318,103, 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.

In October 2013, the Company agreed with Airbus to advance one aircraft, which was delivered during 2014.

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

During the years ended December 31, 2016 and 2015, the amounts paid for aircraft and spare engine pre–delivery payments were of Ps.1,345,081 (US$82.7 million), and Ps.835,496 (US$52.8 million), respectively.

On August 16, 2013, the Company entered into certain agreements with IAE and United Technologies Corporation Pratt & Whitney Division ("P&W"), which included the purchase of the engines for 14 A320CEO and 30 A320NEO respectively, to be delivered between 2014 and 2020. This agreement also includes 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.

The current purchase agreement with Airbus requires the Company to accept delivery of 30 Airbus A320 family aircraft during four years (from January 2017 to December 2020). The agreement provides for the addition of 30 A320NEO to its fleet as follows: two in 2017, six in 2018, 10 in 2019, and 12 in 2020.

c) On August 27, 2012, the Company entered into a total support agreement with Lufthansa Technik AG ("LHT") for a six year term. This agreement includes a total component support agreement (power–by–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 total support agreement with LHT, the Company received credit notes of Ps.46,461 (US$3.5 million), which are being amortized on a straight line basis, prospectively during the term of the agreement. As of December 31, 2016, 2015 and 2014, the Company amortized a corresponding benefit from these credit notes of Ps.9,292, Ps.9,292 and Ps.9,292, respectively, which is recognized as an offset to maintenance expenses in the consolidated statements of operations.

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

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

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:

	Amortization Rate	Gross value 2016	Gross value 2015	Accumulated amortization 2016	Accumulated amortization 2015	Net carrying amount 2016	Net carrying amount 2015
		At December 31,					
Software	Useful life	Ps. 313,028	Ps. 253,325	Ps. (198,987)	Ps. (158,676)	Ps. 114,041	Ps. 94,649

Balance as fo January 1, 2015	Ps.	72,566
Additions		
Disposals		–
Amortization		(31,278)
Balance as of December 31, 2015	Ps.	94,649
Additions		60,792
Disposals		(1,277)
Amortization		(40,290)
Exchange differences		167
Balance as of December 31, 2016	Ps.	114,041

Software amortization expense for the years ended December 31, 2016, 2015 and 2014 was Ps.40,290, Ps.31,278 and Ps.24,412, 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, 2016, the Company leased 69 aircraft (56 as of December 31, 2015) and 11 spare engines under operating leases (six as of December 31, 2015) that have maximum terms through 2030. 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, 2016 and 2015, 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, **2016**	At December 31, 2015	At December 31, 2014
A319	132	6	6	6
A319	133	9	12	12
A320	233	39	32	28
A320	232	4	4	4
A320NEO	271N	1	–	–
A321	231	10	2	–
		69	56	50

Engine Type	Model	At December 31, **2016**	At December 31, 2015	At December 31, 2014
V2500	V2527M–A5	3	3	3
V2500	V2527E–A5	4	3	3
V2500	V2527–A5	4	–	–
		11	6	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, 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 and entered into certain agreements with different lessors to lease five aircraft spare engines which were received during the same period. Such leases were accounted as operating leases and were not subject to sale and leaseback transactions.

On September 19, 2016, the Company received its first A320NEO.

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.

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

As of December 31, 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 rent 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)	
2017	US$	227,087	Ps.	4,692,519	US$	5,004	Ps.	103,404
2018		229,726		4,747,061		2,958		61,133
2019		214,679		4,436,136		2,560		52,894
2020		210,652		4,352,922		1,878		38,807
2021 and thereafter		829,009		17,130,633		4,091		84,536
Total	US$	1,711,153	Ps.	35,359,271	US$	16,491	Ps.	340,774

(1) Using the exchange rate as of December 31, 2016 of Ps.20.6640.

Such amounts are determined based on the stipulated rent contained within the agreements without considering renewals and on the prevailing exchange rate and interest rates at December 31, 2016.

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

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

		Operating leases in U.S. dollars		Operating leases in Mexican pesos
2017	US$	6,498	Ps.	134,284
2018		795		16,419
2019		399		8,235
2020		328		6,784
Total	US$	8,020	Ps.	165,722

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

		2016		2015		2014
Aircraft and engine (Note 1p)	Ps.	5,590,058	Ps.	3,525,336	Ps.	2,534,522
Real estate:						
Airports facilities		40,591		39,993		36,113
Offices, maintenance warehouse and hangar (Note 20)		33,517		25,889		20,055
Total rental expenses on real estate		74,108		65,882		56,168
Total cost of operating leases	Ps.	5,664,166	Ps.	3,591,218	Ps.	2,590,690

During the years ended December 31, 2016, 2015 and 2014 the Company entered into aircraft and spare engines sale and leaseback transactions, resulting in a gain of Ps.484,827, Ps.181,736 and Ps.14,192, 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, 2016 and 2015, 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.14,460 and Ps.17,507, respectively, which is recorded in the caption of other assets in the consolidated statements of financial position.

For the years ended December 31, 2016, 2015 and 2014, the Company amortized a loss of Ps.3,047, Ps.3,047 and Ps.3,047, respectively, as additional aircraft rental expense.

15. Accrued liabilities

a) An analysis of accrued liabilities at December 31, 2016 and 2015 is as follows:

		2016		2015
Fuel and traffic accrued expenses	Ps.	922,607	Ps.	532,112
Maintenance deposits		179,288		139,214
Salaries and benefits		170,994		158,854
Maintenance and aircraft parts accrued expenses		130,897		61,861
Sales, marketing and distribution accrued expenses		102,880		123,745
Aircraft and engine lease extension benefit (Note 1j)		85,124		55,115
Accrued administrative expenses		80,981		41,212
Information and communication accrued expenses		32,950		46,383
Deferred revenue from VClub membership		32,771		44,948
Supplier services agreement		6,333		9,292
Depositary services benefit		2,068		2,068
Advances from travel agencies		1,536		86,927
Incentives from suppliers		–		47,788
Others		37,010		30,056
	Ps.	1,785,439	Ps.	1,379,575

b) Accrued liabilities long–term:

		2016		2015
Aircraft and engine lease extension benefit (Note 1j)	Ps.	127,831	Ps.	139,213
Supplier services agreement		4,350		5,806
Depositary services benefit		1,473		3,547
Others		36,154		8,765
	Ps.	169,808	Ps.	157,331

c) An analysis of other liabilities is as follows:

		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

		Balance as of January 1, 2015		Increase for the year		Payments		Unwinding discount*		Balance as of December 31, 2015
Aircraft lease return obligation	Ps.	23,358	Ps.	129,995	Ps.	1,067	Ps.	2,960	Ps.	149,326
Employee profit sharing (Note 16)		6,533		9,938		6,298		–		10,173
	Ps.	29,891	Ps.	139,933	Ps.	7,365	Ps.	2,960	Ps.	159,499
Short–term maturities									Ps.	110,368
Long–term									Ps.	49,131

* Discount rate adjustment

During the years ended December 31, 2016, 2015 and 2014 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, 2016, 2015 and 2014, are as follows:

		2016		2015		2014
Analysis of net period cost:						
Current service cost	Ps.	2,421	Ps.	2,012	Ps.	1,384
Interest cost on benefit obligation		701		537		380
Net period cost	Ps.	3,122	Ps.	2,549	Ps.	1,764

Changes in the defined benefit obligation are as follows:

		2016		2015		2014
Defined benefit obligation at January 1,	Ps.	10,056	Ps.	7,737	Ps.	5,260
Net period cost charged to profit or loss:						
Current service cost		2,421		2,012		1,384
Interest cost on benefit obligation		701		537		380
Remeasurement losses in other comprehensive income (loss):						
Actuarial changes arising from changes in assumptions		442		1,174		1,581
Payments made		(182)		(1,404)		(868)
Defined benefit obligation at December 31,	Ps.	13,438	Ps.	10,056	Ps.	7,737

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

	2016	2015	2014
Financial:			
Discount rate	7.78%	7.29%	7.15%
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 97
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, 2016 and 2015, respectively, are as follows:

		2016		2015
Employee profit–sharing (Note 15c)	Ps.	10,695	Ps.	10,173

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 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 was Ps.14,532 (Ps.9,466 net of withheld taxes) and Ps.11,599 (Ps.7,559 net of withheld taxes), respectively. Under these extensions, 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, 2016 and 2015, 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, 2014	594,081
Purchased during the year	22,920
Granted during the year	–
Exercised during the year	–
Outstanding as of December 31, 2015	617,001
Purchased during the year	513,002 *
Granted during the year	–
Exercised during the year	(425,536)
Forfeited during the year	(86,419)
Outstanding as of December 31, 2016	**618,048 ***

* These shares are presented as treasury shares in the consolidated statement of financial position as of December 31, 2016 and 2015.

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

Number of Series A shares	Vesting period
345,270	November 2016 – 2017
171,010	November 2017 – 2018
101,768	November 2018 – 2019
618,048	

In accordance with IFRS 2, the share purchase plans are classified as equity–settled transactions on the grant date. Equity–settled transactions are measured at fair value at the date the equity benefits are conditionally granted to key employees. The total cost of the plans is recognized in the consolidated statement of operations under the caption of salaries and benefits from the time it becomes probable the related performance condition will be met over the vesting period. This valuation is the result of multiplying the total number of Series A shares deposited in the Administrative Trust and the price per share, plus the balance in cash deposited in the Administrative Trust.

For the years ended December 31, 2016, 2015 and 2014, the compensation expense recorded in the consolidated statement of operations amounted to Ps.7,816, Ps.6,018 and Ps.1,058, respectively.

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

During the years ended December 31, 2016 and 2015, some key employees left the Company; therefore, the vesting conditions were not fulfilled. In accordance with the plan, Servicios Corporativos is entitled to receive the proceeds of the sale of such shares. During the year ended December 31, 2015, 86,419 shares were forfeited.

– 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 2,044,604 and 1,793,459, which amounts to Ps.14,532 and Ps.11,599, for the years ended December 31, 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 year 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, 2016 and 2015 was Ps.15,744 and Ps.14,511, 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, 2016, 2015 and 2014, the Company recorded Ps.31,743, Ps.44,699 and Ps.1,652, respectively, in the consolidated statement of operations.

The fair value of these SARs is estimated at the grant date and at each reporting date using the Black–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
2,301,000	November 2016 – 2017
1,055,996	November 2017 – 2018
482,475	November 2018 – 2019
3,839,471	

During the year ended December 31, 2016, the Company made a cash payment to key employees related to the SARs plan in the amount of Ps.31,261. This amount was determined based on the increase in the share price of the Company between the grant date and the exercisable date (November 2016).

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

c) MIP

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

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

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

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

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

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

In 2016, the key employees exercised 3,299,999 Series A shares. In 2015, as part of the secondary follow–on equity offering, the key employees exercised 4,414,860 Series A shares. As a result, the key employees paid Ps.17,536 and Ps.23,461, for the years ended December 31, 2016 and 2015, 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, 2014	20,272,716	Ps.	5.31		107,730
Granted during the year	–		–		–
Forfeited during the year	–		–		–
Exercised during the year	(4,414,860)		5.31		(23,461)
Outstanding as of December 31, 2015	15,857,856	Ps.	5.31	Ps.	84,269
Granted during the year	–		–		–
Forfeited during the year	–		–		–
Exercised during the year	(3,299,999)		5.31		(17,536)
Outstanding as of December 31, 2016	12,557,857	Ps.	5.31	Ps.	66,733

At December 31, 2016 and 2015, 12,557,857 and 15,857,856 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, 2016 was Ps.54,357. The compensation cost is recognized in the consolidated statement of operations under the caption of salaries and benefits over the service period. During the year ended December 31, 2016, the Company recorded Ps.54,357 in the consolidated statement of operations. The vesting schedule is summarized in the table below.

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

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

		2016		2015		2014
Expense arising from cash–settled share–based payments transactions	Ps.	86,100	Ps.	44,699	Ps.	1,652
Expense arising from equity–settled share–based payments transactions		7,816		6,345		1,385
Total expense arising from share–based payments transactions	Ps.	93,916	Ps.	51,044	Ps.	3,037

18. Equity

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

As of December 31, 2015, the total number of authorized shares was 1,011,876,677; represented by common registered shares, issued and with no par value, fully subscribed and paid, comprised as follows:

	Shares		
	Fixed Class I	Variable Class II	Total shares
Series A shares	3,224	877,852,982	877,856,206
Series B shares	20,956	133,999,515	134,020,471
	24,180	1,011,852,497	1,011,876,677
Treasury shares (Note 17)	–	(16,474,857)	(16,474,857)
	24,180	995,377,640	995,401,820

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 Banamex 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, 2016, 2015 and 2014, the Company did not declare any dividends.

a) Secondary follow–on equity offering

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

b) Earnings per share

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

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

The following table shows the calculations of the basic and diluted earnings per share for the years ended December 31, 2016, 2015 and 2014.

	At December 31,		
	2016	2015	2014
Net income for the period	Ps. 3,519,489	Ps. 2,463,870	Ps. 605,184
Weighted average number of shares outstanding (in thousands):			
Basic	1,011,877	1,011,877	1,011,877
Diluted	1,011,877	1,011,877	1,011,877
EPS:			
Basic	3.478	2.435	0.598
Diluted	3.478	2.435	0.598

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.

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

As of December 31, 2016 and 2015, the Company's legal reserve has not reached the 20% of its capital stock.

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

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

19. Income tax

a) In accordance with 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 2016 and thereafter is 30%.

(ii) As of 2014, 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 new criteria and limits for applying some deductions, such as: the deduction of payments which, in turn, are exempt income for workers, contributions for creating or increasing provisions for pension funds, contributions to the Mexican Institute of Social Security payable by the worker that are paid by the employer, as well as the possible non–deduction of payments made to related parties in the event of failing to meet certain requirements.

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

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

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

b) For the years ended December 31, 2016, 2015 and 2014, the Company reported on a consolidated basis tax income of Ps.2,702,355, Ps.2,751,813 and Ps.472,630, 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. Carry-forward tax losses are restated based on inflation.

c) An analysis of consolidated income tax expense for the years ended December 31, 2016, 2015 and 2014 is as follows:

Consolidated statements of operations

	2016	2015	2014
Current year income tax expense	Ps. (706,244)	Ps. (337,997)	Ps. (17,345)
Deferred income tax expense	(750,938)*	(700,351)	(21,375)
Total income tax expense	Ps. (1,457,182)	Ps. (1,038,348)	Ps. (38,720)

* Includes translation effect by Ps.1,242

Consolidated statements of OCI

		2016		2015		2014
Deferred tax related to items recognized in OCI during the year						
Net (loss) gain on cash flow hedges	Ps.	(187,408)	Ps.	58,161	Ps.	38,852
Remeasurement gain of employee benefits		132		352		474
Deferred tax charged to OCI	Ps.	(187,276)	Ps.	58,513	Ps.	39,326

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

	2016	2015	2014
Statutory income tax rate	30.00%	30.00%	30.00%
Nondeductible expenses	0.28%	0.66%	0.64%
Unrecorded deferred taxes on tax losses	0.09%	–	–
Tax rate change	0.04%	–	–
Benefits recognized for tax losses	–	–	(22.92%)
Inflation of tax losses	(0.01%)	(0.02%)	(3.39%)
Amendment tax return effects and other tax adjustments	(0.11%)	(0.42%)	1.77%
Inflation on furniture, intangible and equipment	(0.38%)	(0.34%)	(0.20%)
Annual inflation adjustment	(0.63%)	(0.23%)	0.11%
	29.28%	29.65%	6.01%

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. The Company recognized Ps.17,224 of recoverable deferred taxes due to the carryforward tax loss in Costa Rica.

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

	2016				2015			
	Consolidated statement of financial position		Consolidated statement of operations		Consolidated statement of financial position		Consolidated statement of operations	
Deferred income tax assets:								
Intangible	Ps.	481,626	Ps.	(16,637)	Ps.	498,263	Ps.	498,263
Provisions and other accruals		343,294		56,727		286,567		56,324
Extension lease agreement		101,724		25,405		76,319		18,593
Unearned transportation revenue		65,755		7,039		58,716		16,089
Tax losses available for offsetting against future taxable income		33,324		(25,030)		58,354		(459,718)
Allowance for doubtful accounts		6,891		(2,179)		9,070		(124)
Employee benefits		4,031		886		3,013		343
Employee profit sharing		3,206		158		3,048		1,720
Financial instruments		–		–		126,240		(163)
		1,039,851		46,369		1,119,590		131,327
Deferred income tax liabilities:								
Deductible supplemental rent		1,339,610		363,783		975,827		716,968
Prepaid expenses and other assets		435,738		280,660		155,078		91,364
Rotable spare parts, furniture and equipment, net		368,027		103,926		264,101		34,558
Inventories		72,883		23,979		48,904		7,007
Financial instruments		61,168		–		–		–
Other prepayment		40,292		23,717		16,575		3,551
Intangible assets		–		–		–		(21,770)
		2,317,718		796,065		1,460,485		831,678
	Ps.	(1,277,867)	Ps.	(749,696)	Ps.	(340,895)	Ps.	(700,351)

		2016		2015		2014
Reflected in the consolidated statement of financial position as follows:						
Deferred tax assets	Ps.	559,083	Ps.	544,598	Ps.	327,785
Deferred tax liabilities		(1,836,950)		(885,493)		(26,842)
Deferred tax (liability) asset, net	Ps.	(1,277,867)	Ps.	(340,895)	Ps.	300,943

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

		2016		2015		2014
Opening balance as of January 1,	Ps.	(340,895)	Ps.	300,943	Ps.	282,995
Deferred income tax (expense) benefit during the current year recorded on profits		(749,696)		(700,351)		(21,375)
Tax income benefit (expense) during the current year recorded in accumulated other comprehensive income (loss)		(187,276)		58,513		39,323
Closing balance as of December 31,	Ps.	(1,277,867)	Ps.	(340,895)	Ps.	300,943

At December 31, 2016 and 2015, the table shown above includes deferred income tax asset recognized by Concesionaria (2014) and Controladora (2015) for tax losses carry–forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

According to IAS 12, *Income Taxes*, a deferred tax asset should be recognized for the carryforward of available tax losses to the extent that it is probable that future taxable income will be available against which the available tax losses can be utilized. In this regards the Company has recognized at December 31, 2016, 2015 and 2014 a deferred tax asset for tax losses of Ps.33,324, Ps.58,354 and Ps.518,072, respectively.

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

An analysis of the available tax losses carry–forward of the Company at December 31, 2016 is as follows:

Year of loss		Historical Loss		Restated tax loss		Utilized		Total remaining amount	Year of expiration
2013	Ps.	181,756	Ps.	198,228	Ps.	198,228	Ps.	–	2023
2014		17,341		18,290		18,290		–	2024
2016		52,221		53,669		–		53,669	2026
2016		57,414		57,414		–		57,414	2019
	Ps.	308,732	Ps.	327,601	Ps.	216,518	Ps.	111,083	

A breakdown of available tax loss carry–forward of Controladora and its subsidiaries at December 31, 2016 is as follows:

		Historical Loss		Restated tax loss		Utilized		Total remaining amount
Controladora	Ps.	192,683	Ps.	209,867	Ps.	209,867	Ps.	–
Comercializadora		58,635		60,320		6,651		53,669
Volaris Costa Rica		57,414		57,414		–		57,414
	Ps.	308,732	Ps.	327,601	Ps.	216,518	Ps.	111,083

f) At December 31, 2016 the Company had the following tax balances:

		2016
Restated contributed capital account (*Cuenta de capital de aportación* or "CUCA")	Ps.	3,500,091
CUFIN*		2,390,955

* The calculation comprises all the subsidiaries of the Company.

20. Other operating income and expenses

An analysis of other operating income is as follows:

		2016		2015		2014
Gain on sale and leaseback (Note 14c)	Ps.	484,827	Ps.	181,736	Ps.	14,192
Others		11,915		11,419		7,915
	Ps.	496,742	Ps.	193,155	Ps.	22,107

An analysis of other operating expenses is as follows:

		2016		2015		2014
Administrative and operational support expenses	Ps.	541,826	Ps.	383,805	Ps.	261,286
Technology and communications		266,898		173,078		110,245
Insurance		56,414		54,609		55,248
Passenger services		45,439		23,195		32,388
Rents of offices, maintenance warehouse and hangar (Note 14c)		33,517		25,889		20,055
Disposal of intangible, rotable spare parts, furniture and equipment		436		632		284
Equity transaction costs (Note 18)		–		22,955		–
Other IT expenses		–		–		620
Others		7,922		13,623		9,812
	Ps.	952,452	Ps.	697,786	Ps.	489,938

21. Finance income and cost

An analysis of finance income is as follows:

		2016		2015		2014
Interest on cash and equivalents	Ps.	78,793	Ps.	47,029	Ps.	23,242
Interest on recovery of guarantee deposits		23,792		–		–
Others		6		5		222
	Ps.	102,591	Ps.	47,034	Ps.	23,464

An analysis of finance cost is as follows:

		2016		2015		2014
Cost of letter credit notes	Ps.	28,067	Ps.	18,279	Ps.	18,189
Bank fees and others		5,804		3,424		2,930
Interest on debts and borrowings*		1,245		–		–
Other finance costs		–		–		11,216
	Ps.	35,116	Ps.	21,703	Ps.	32,335

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

		2016		2015		2014
Interest on debts and borrowings	Ps.	96,690	Ps.	90,057	Ps.	42,572
Capitalized interest (Note 12)		(95,445)		(90,057)		(42,572)
Net interest on debts and borrowing in the consolidated statements of operations	Ps.	1,245	Ps.	–	Ps.	–

22. Components of other comprehensive income (loss)

		2016		2015		2014
Derivative financial instruments:						
Reclassification during the year to profit or loss	Ps.	353,943	Ps.	287,550	Ps.	125,339
Extrinsic value of changes on jet fuel Asian call options		277,899		(450,768)		(26,934)
Loss of the not–yet matured fuel swap contracts		–		(11,828)		(210,957)
Loss of the not–yet matured interest rate swap contracts		(7,148)		(18,823)		(16,954)
	Ps.	624,694	Ps.	(193,869)	Ps.	(129,506)

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)
2017	US$	78,195	Ps.	1,615,828
2018		119,883		2,477,269
2019		91,556		1,891,906
2020		25,692		530,890
	US$	315,326	Ps.	6,515,893

(1) Using the exchange rate as of December 31, 2016 of Ps.20.6640.

All aircraft acquired by the Company through the Airbus purchase agreement at December 31, 2016 and 2015 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:

		2016		2015		2014
Operating revenues:						
Domestic (Mexico)	Ps.	15,720,807	Ps.	12,579,806	Ps.	10,218,973
International:						
United States of America and Central America		7,791,644		5,599,898		3,817,769
Total operating revenues	Ps.	23,512,451	Ps.	18,179,704	Ps.	14,036,742

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, 2016 and through April 26, 2017:

a) On February 22, 2017 the Company increased its short–term working capital facility with Citibanamex by an amount of Ps.207,100.
b) On March 22, 2017 the Company paid its short-term working capital facility with Bank of America by US$15,000 in accordance with the terms of the agreement.

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