Execution: Flying Above and Beyond

volaris

Annual report 2014

Puerto Vallarta

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Business Overview

During 2014, we continued **strengthening our ULCC business model,** successfully reaching the following results:

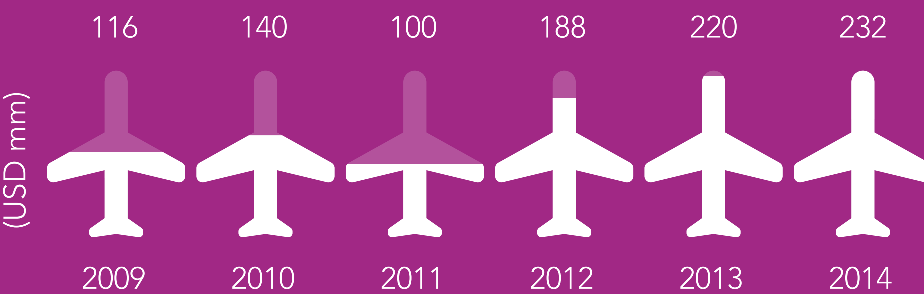
Las Vegas

- **Total ASMs for the year increased +8.5% y-o-y,** driven by international capacity increase of +17.2% responding to a stronger fare environment, while domestic capacity increased 5.8% reflecting capacity discipline
- Total operating revenues were **Ps.14,037 million,** an increase of 8.0% year-over- year
- Total operating revenue per available seat mile (TRASM) had a decrease of 0.5% year-over-year
- Non-ticket revenues, increased 45.0% year-over-year. And non-ticket revenue per passenger increased 32.2%, **reaching Ps.279 (US$19)**
- Total CASM for 2014 **US$7.9 cents** (-10.7% y-o-y)
- Adjusted EBITDAR for the full year was Ps.3,081 million, **a 9.8% increase year-over-year,** with a margin of 22.0%, (+0.4 p.p) for the year
- Net income for 2014, reached **Ps.605 million** (Ps.0.60 per share / US$0.41 per ADS) and net margin of 4.3% for the full year, **a net margin improvement of 2.3 percentage points**
- Cash of 16% of LTM revenues and net debt negative (or net cash position) of **Ps.1,017 million, well-funded for future growth**

Financial **Highlights**

Operating Revenues

Adjusted EBITDAR



Unaudited (In Mexican pesos, except otherwise indicated)	Year Ended December 31, 2014 (US Dollars)*	Year Ended December 31, 2014	Year Ended December 31, 2013	Variance (%)
Total operating revenues (millions)	954	14,037	13,002	8.0%
Total operating expenses (millions)	940	13,833	12,685	9.0%
EBIT (millions)	14	204	317	(35.7%)
EBIT margin	1.5%	1.5%	2.4%	(0.9) pp
Adjusted EBITDA (millions)	37	547	619	(11.7%)
Adjusted EBITDA margin	3.9%	3.9%	4.8%	(0.9) pp
Adjusted EBITDAR (millions)	209	3,081	2,806	9.8%
Adjusted EBITDAR margin	22.0%	22.0%	21.6%	0.4 pp
Net income (millions)	41	605	265	>100%
Net margin	4.3%	4.3%	2.0%	2.3 pp
Earnings per share				
Basic	0.04	0.60	0.31	92.7%
Diluted	0.04	0.60	0.31	92.7%
Earnings per ADS				
Basic	0.41	5.98	3.10	92.7%
Diluted	0.41	5.98	3.10	92.7%
Weighted average shares outstanding				
Basic	-	1,011,876,677	865,579,397	16.9%
Diluted	-	1,011,876,677	865,579,397	16.9%
Available seat miles (ASMs) (millions)	-	11,830	10,899	8.5%
Domestic	-	8,749	8,270	5.8%
International	-	3,081	2,629	17.2%
Revenue passenger miles (RPMs) (millions)	-	9,723	9,003	8.0%
Domestic	-	7,128	6,801	4.8%
International	-	2,595	2,202	17.8%
Load factor	-	82.2%	82.6%	(0.4) pp
Domestic	-	81.5%	82.2%	(0.7) pp
International	-	84.2%	83.8%	0.4 pp
Total operating revenue per ASM (TRASM) (cents)	8.1	118.7	119.3	(0.5%)
Passenger revenue per ASM (RASM) (cents)	6.5	95.5	102.0	(6.3%)
Passenger revenue per RPM (Yield) (cents)	7.9	116.3	123.5	(5.9%)
Average fare	78.3	1,152	1,243	(7.3%)
Non-ticket revenue per passenger	18.9	279	211	32.2%
Non-ticket revenue excluding cargo per passenger	17.4	256	170	50.3%
Operating expenses per ASM (CASM) (cents)	7.9	116.9	116.4	0.5%
Operating expenses per ASM (CASM) (US cents)	-	7.9	8.9**	(10.7%)
CASM ex fuel (cents)	4.9	71.6	69.7	2.7%
CASM ex fuel (US cents)	-	4.9	5.3**	(8.8%)
Booked passengers (thousands)	-	9,809	8,942	9.7%
Departures	-	74,659	68,716	8.6%
Block hours	-	196,467	183,211	7.2%
Fuel gallons consumed (millions)	-	138.5	129.1	7.3%
Average economic fuel cost per gallon	2.6	38.7	39.4	(1.7%)
Aircraft at end of period	-	50	44	13.6%
Average aircraft utilization (block hours)	-	12.4	12.5	(0.3)
Average exchange rate	-	13.30	12.77	4.2%

*Convenience translation to period-end U.S. dollars (Ps.14.7180).
**Convenience translation to period-end U.S. dollars (Ps.13.0765)

Message from our CEO

To our shareholders and investors

38 new point-to-point routes and five more international destinations

We are pleased to share our accomplishments for 2014. We delivered strong results, increasing our revenues and margins.

Nevertheless, we continue striving for excellence in all our operations to further advance in our core strengths. We remain focused on providing low fares in line with our product unbundling strategy while delivering the best Customer experience.

Accordingly, during 2014 we were able to maintain the lowest unit cost in the Americas, due to our Ultra-Low Cost Carrier business model and the continuous improvement of our product unbundling strategy. In order to enhance the travel experience of our Customers, we relaunched this strategy under the new "*Tarifa Limpia*" –Clean Base Fare – providing travelers with a wider range of diverse optional products and services for additional fees. Hence, our non-ticket revenues per passenger significantly increased, confirming the value of our strategy.

During the year, we also expanded and diversified our network. We launched 38 new point-to-point routes, and initiated operations to five more international destinations: Fort Lauderdale, Reno, Dallas, Portland and Houston. Furthermore, we expanded our penetration in key markets, opening more routes from Guadalajara to international destinations and from Monterrey to domestic ones.

Volaris' market share among Mexican carriers increased to 23%, reaffirming our Customers' preference for low fares combined with the best travel experience. Consequently, during 2014, we transported 9.8 million Customers, an increase of 9.7% compared to the previous year.

Regarding our fleet, we continue replacing A319s with A320s aircraft, which possess a higher seat density. During the year, we received eight aircraft with Sharklets (eco-efficient devices that decrease our operations' environmental impact). As of December 31, 2014, our fleet –the youngest in Mexico– was comprised of 50 aircraft, positioning Volaris as the leader regarding narrow body fleet among Mexican airlines.

Social Responsibility

We are aware of the challenges presented in our environment; therefore we know that now more than ever we must be ready to face them with a flexible and open attitude, able to respond to society's demands and always going one step further. Therefore we reinforce our commitment to maintain the highest safety and environmental responsibility standards and producing a positive impact in the communities where we operate.

We achieve these goals through our sustainability model called "Flying Together" consisting of various initiatives to support community development while reducing our environmental footprint.

In 2014 we carried out the corresponding audits for Quality and Environmental Management Systems ISO 9001 and 14001. Furthermore, we became a Top Member in the implementation of The Code (ECPAT); we are the first airline in Mexico and Latin America to receive this certification and the second worldwide.

This year brought tremendous success for Volaris. We delivered remarkable results and accomplished our goals. We will continue to analyze opportunities for expanding our routes, maintaining the youngest fleet, further upgrading our strategy and reaching more Customers, permanently delivering quality services to a wider audience. I am extremely confident that our business model, along with the unwavering support from our ambassadors, investors and Customers will provide our Company with the capabilities to succeed in every project we undertake.

Enrique Beltranena
Chief Executive Officer
April 2015

Who **we Are**

The **Leading Ultra-Low-Cost Airline** Serving Mexico and the US

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 (ULCC), with point-to-point operations, serving Mexico and the United States. With the "Volaris Ultra-Low-Cost Carrier Model" we offer low base fares to build our market, providing quality service and extensive customer choice.

Total of
130 routes

9.8 million
booked Customers,
9.7% increase

2,805
Ambassadors

74,659
departures, 8.6%
increase

Fort Lauderdale

Mission

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

Vision

Transcend by creating and living the best travel experiences.

Pillars

Safety, Customer Service, Sustained Profitability

Competitive Advantages

1. "*Tarifa Limpia*" Clean Base Fare

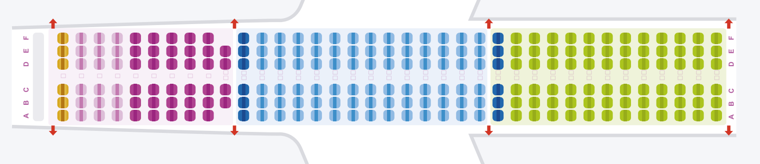
We have continued improving our unbundled strategy "*Tarifa Limpia*" –Clean Base Fare– offering a wide selection of additional services (ancillary products), increasing non ticket revenues.

2. Lowest Unit **Cost Structure**

Focus on fleet utilization and efficiency.

High Density Utilization

Volaris A320
174 seats per aircraft



Volaris	Load factor: (FY 2014)	Implied Customers per aircraft[2]
	82%	174

[2]Implied Clients per aircraft is calculated as available seats per aircraft multiplied by the load factor

High Density Utilization

Block hours per day (FY 2014) 12.4

(Block hours per day calculated as ((Total block hours for the period / Monthly average number of aircraft) / Number of days for the period)

Young, fuel efficient fleet

Average age (FY 2014) 4.3

Volaris has a best-in-class unit cost structure
Lowest unit cost in the Americas[1]

CASM and CASM ex-fuel (FY 2014,USD cents)[3]

Group	Carrier	CASM	CASM ex-fuel	Fuel
	Volaris	8.8	5.4	3.4
Latin American Carriers	Avianca[4]	17.4	11.9	5.5
	LatAm[4]	15.2	9.9	5.2
	Aeroméxico	13.8	9.2	4.6
	Gol[4]	13.6	8.0	5.5
	Interjet	13.1	8.6	4.5
	Copa	10.5	6.6	4.0
	VivaAerobus[4]	9.7	5.5	4.2
US LCCs	SouthWest	12.5	8.5	4.0
	Allegiant	11.0	6.6	4.3
	Spirit	9.6	5.9	3.8
US Network Carriers[2]	DCOMPS	14.9	10.4	4.5

Denotes fuel post for ASM

Notes:
(1) Based on CASM among the publicly-traded airlines.
(2) DCOMPS= Direct Competitors: Average CASM and CASM ex-fuel; US network carriers include: Delta, United, Alaska Airlines, American Airlines
(3) Non-USD data converted to USD at an average exchange rate corresponding for the period. $13,2973 Ps.
(4) Based on CASM among the publicly-traded airlines as of September YTD 2014
Source: Company data, Airlines public information

Monterrey

3. Bus Customers **shift to air travel**

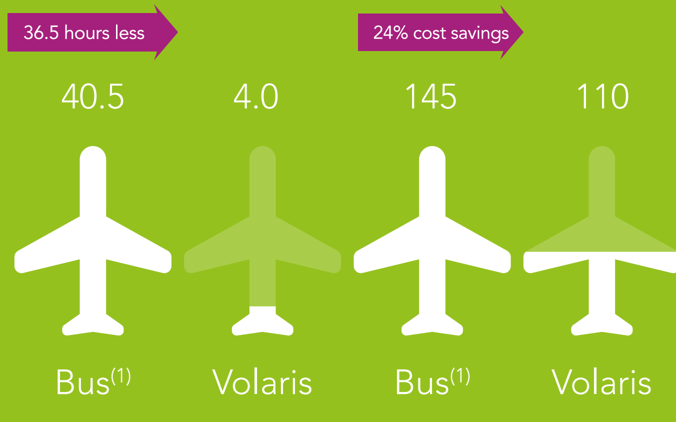
During 2014 we continued working on our bus switch strategy campaign, which resulted in a great success.

- Education and trial plans went viral
- Reached 20 million impacts in social media and became trending topic in Twitter: 8.4 million impacts

Air travel time and cost savings

Mexico City - Tijuana

Travel time (Hrs) | Fare (USD)[2,3]



(1)Executive and luxury class

San Francisco

4. Strong **balance sheet**

Cash of 16% of LTM revenues and net debt negative (or net cash position) of Ps.1,017 million, well- funded for future growth.

- Our IPO in September, 2013 provided us with sufficient liquidity and capital for growth over the next years
- We have pre-delivered fully financed payments to acquire aricraft and executed sale-leasebacks for all deliveries in 2015 and 2016
- We hold a good liquidity position to strengthen our balance sheet
- As of December 31, 2014 we have an unrestricted cash of Ps.2.3 billion

What we Do

Ultra-Low Cost Carrier Model

Since our beginning of operations in March 2006, we have increased our routes from five to more than 130 and our fleet from four to 50 aircraft due to our low fares, quality service and customer choice.

Since our launch, we have stimulated new demand in the Mexican market through an aggressive revenue management strategy that drives lower fares and higher load factors.

Our Network

We target Customers who are visiting friends and relatives, cost-conscious business people and leisure travelers in Mexico and select destinations in the United States.

We transported 9.8 million Customers in 2014, 10% increase year-over-year

This year we improved our network to be more diversified and have a more defensible and resilient structure, with a higher international capacity, increasing the natural hedge to exchange rate volatility. We have already more than 130 routes connecting 36 cities in Mexico and 17 in the United States, and more than 235 daily segments which connect cities in Mexico and the United States, with the youngest aircraft fleet in Mexico.

In 2014 we opened 38 new point-to-point routes, 26 domestic, and 12 international. Furthermore, we arrived to five new destinations in the United States: Fort Lauderdale, Reno, Dallas, Portland and Houston, to total 17 destinations in this country, providing an excellent travel alternative for Customers who wish to visit friends and family on both sides of the United States border, and providing more and better options for the Hispanic communities in these regions.

New Routes

Culiacán-Monterrey ■ Mérida-Monterrey ■ **Monterrey-Veracruz** ■ Cancun-Monterrey ■ **Chihuahua-Monterrey** ■ Monterrey-Ciudad Juárez ■ **Monterrey-Puerto Vallarta** ■ Guadalajara-Ontario ■ **Los Mochis-México** ■ México-Oaxaca ■ **México-VillaHermosa** ■ Denver-Guadalajara ■ **Chihuahua-Denver** ■ Monterrey-Villahermosa ■ **Monterrey-Querétaro** ■ México-Tamaulipas ■ **Monterrey-Puebla** ■ Hermosillo-Monterrey ■ **Guadalajara-Villahermosa** ■ Guadalajara-Portland ■ **Acapulco-México** ■ México-Veracruz ■ **Ciudad Obregón-Guadalajara** ■ Huatulco-México ■ **Morelia-Oakland** ■ Guanajuato- Oakland ■ **Mérida-Tijuana** ■ Guadalajara-Orlando ■ **México-Tapachula** ■ Guadalajara-Chicago ■ **Fort Lauderdale-México** ■ Monterrey-Tuxtla Gutiérrez ■ **Fort Lauderdale-Guadalajara** ■ Monterrey-Oaxaca ■ **Guadalajara-Reno** ■ Cancún-Las Vegas

Guadalajara

International ASMs had a 17.2% growth and Domestic 5.8% in 2014

In the domestic segment we re-adjusted our capacity expansion plans to meet the challenges of a very competitive market, and expanded our penetration in key markets, like Guadalajara to international and Monterrey domestic, while managing local capacity with discipline.

In Guadalajara, we are the largest international carrier, serving 17 international destinations and up to 126 weekly flights; and lead with a 35% Customer market share. We have carried over 13.9 million Customers since the airline started operating at this airport in 2006, from which 10.4 million have been domestic Customers and 3.5 million international.

In terms of seats and destinations we are leaders in Tijuana, offering 29 domestic destinations and 340 weekly flights. It is noteworthy that we opened our fifth base on Monterrey, having already reached 18 point-to-point routes, continuing to advance our point-to-point strategy.

Serving to 57 destinations throughout Mexico and the US

	2008	2014	CAGR
Unit cost (CASM ex-fuel; cents, USD)[1]	5.5	5.4	-0.4%
Passenger demand (RPMs, bn)	3.2	9.7	+20.5%
Aircraft (End of Period)	21	50	+15.6%
Customers (mm)[2]	3.5	9.8	+18.7%
Operating revenue (mm, USD)[1]	397	1,056	+17.7%
Adj. EBITDAR (mm. USD)[1]	67	232	+23.0%
Adj. ROIC (pretax)	11.0%	13.5%	+2.5pp

Notes:
[1] Converted to USD at an average annual exchange rate
[2] Corresponds to the number of booked Customers
[3] Based on number of Customers, domestic and international Customers
Source: Company data, SCT-DGAC

Colorado

Portland
Sacramento
Oakland
San Jose
Reno
Las Vegas
Fresno
Ontario
Los Angeles
San Diego
Tijuana
Mexicali
Phoenix
Denver
Chicago Midway/O'Hare
Dallas
Cd. Juarez
Hermosillo
Chihuahua
Ciudad Obregon
Los Mochis
Houston
San Antonio
Culiacan
Torreon
Mazatlan
Durango
Monterrey
La Paz
Los Cabos
Orlando
Fort Lauderdale
Tampico
Zacatecas
San Luis Potosi
Aguascalientes
Tepic
Leon
Guadalajara
Queretaro
Puerto Vallarta
Colima
Uruapan
Morelia
Cd. de Mexico
Toluca
Veracruz
Puebla
Acapulco
Merida
Cancun
Villahermosa
Oaxaca
Huatulco
Tuxtla Gutierrez
Tapachula

FY14 Dom. Pax Revenue 73%

FY14 Int. Pax Revenue 27%

Domestic Market Share[3]

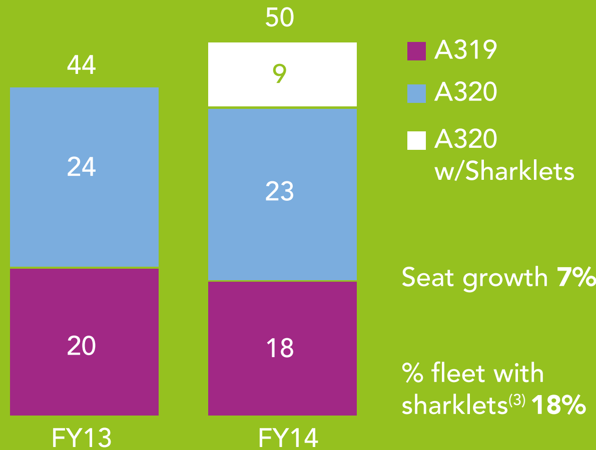
2008	2012	2013	2014
12.2%	20.7%	22.7%	23.0%

Our Fleet

We have the youngest fleet in Mexico, with an average age of 4.3 years. We continue with our high aircraft utilization of more than 12 hours a day. At the end of 2014, our fleet was comprised by 50 aircrafts, all of them operated by a professional well trained team.

During 2014 we received eight aircrafts with state of the art eco-efficient technology devices incorporated in the wingtips called Sharklets. Among other advantages, they decrease fuel consumption up to 4%, and CO_2 emissions for around 1,000 tons annually, minimizing environmental impact. We closed the year with the largest narrow body fleet among Mexican airlines.

Fleet under current contract[1]



Seat growth **7%**

% fleet with sharklets[3] **18%**

Notes:
[1]Net fleet after additions and returns
[2]Figure calculated as of February 2015
[3]Percentage of year-end fleet with sharklets
Source: Company data

We have received the ESR Award for Social Corporate Responsibility for five consecutive years and in 2014, the IAE International Aero Engines AG granted us the Pure Pure-V designation, for our V2500® engines in all A320CEO aircraft.

Backlog of 60 Aircraft to support growth to 2016[2]

We focus on fleet utilization and efficiency, which drives higher revenue and lower cost

18 A319's

32 A320's

174 seats per aircraft

How **we** Operate

Commercial **Strategy**

We are committed to continue providing our Customers with the lowest fares, plus the opportunity to pay additional fees for a range of optional products and services. During 2014 we improved our unbundled strategy and changed its name to "*Tarifa Limpia*" – Clean Base Fare– offering our Customers a wide selection of additional services (ancillary products) throughout our complete flying cycle, driving a high profitable growth.

Our innovative management techniques allow us to maximize revenue, and our smart buyers clearly understand our business model by purchasing ancillaries early in the travel process, depending on their needs.

With our Clean Base Fare, we offer our customers the possibility to choose the products and services they need while flying with us.

clean base fare + You choose **optionals** = Get out of **town prices** volaris

- **Hotel and Flight.** Request of flight plus hotel quotes
- **Choose your own seat.** Select the seat(s) preferred
- **Itinerary changes.** Possibility to change name, date or destination up to four hours before the flight
- **Menu *Entre Nubes*.** Food and beverage options on flight for the best price
- **Protect your trip.** Insurance service
- **Additional baggage.** Our fare includes one checked bag of maximum 55 lbs. and 62 total inches. Add up to four additional bags of 55 pounds each for an additional fee
- **Transport.** Our shuttle service gets customers closer to their final destination

Huatulco

Our commercial strategy delivered good results in 2014 for our Company:

TRASM improved as a result of several factors, but mostly because of a **solid structural growth in non-ticket revenues of 81%** in the fourth quarter year over year.

We achieved the highest Customer per departure number in the Mexican industry: **48% better than the industry average** in the fourth quarter.

We maintained our historically high aircraft utilization of more than 12 hours a day, and the fleet age of four years, by **replacing older A319s with higher seat density A320s.** We are the lowest unit cost airline in the Americas.

Another initiative we implemented in 2014, is our **new IOS mobile application,** which has contributed to making our operations more efficient and facilitate managing promotions and offering discounts to our customer base.

Renevue passenger miles (RPMs) (millions)

2012	2013	2014
7,668	9,003	9,723

8.0% increase

Available seat miles (ASMs) (millions)

2012	2013	2014
9,244	10,899	11,830

8.5% increase

Booked Customers (millions)

2012	2013	2014
7,408	8,942	9,809

9.7% increase

Risk Management

Comprehensive risk management at Volaris is based on our Ambassadors' commitment to respect daily our values and ethics principles –established in our Code of Ethics– as well as on the knowledge, understanding and compliance of the internal control system's components and elements.

Consequently, we achieved a better integration and participation in the risk management process, including the Board of Directors and Company leaders (Directors, Managers and Chief Officers).

We have adopted the international control framework "COSO Enterprise Risk Management" (ERM) as the main guideline for business risk management. This allows the identification and development of a systematic program for risk management, focusing its efforts on our leading strategies.

Reinforcement to 368 Ambassadors related to the FCPA regulation

Houston

We remain active with our fuel risk management program with a combination of financial instruments, including jet fuel swaps and purchase of call options.

In the fourth quarter we hedged 26% of fuel consumption at an average price of US$2.80 per gallon, and combined with the 74% unhedged consumption resulted in a blended average economic fuel cost of US$2.42 per gallon.

Furthermore, all our operations are aligned to the Foreign Corrupt Practices Act (FCPA) requirements to ensure the Company's transparency and avoid corruption.

We have an anticorruption compliance program, with positive effects on our Culture and which seeks to prevent inadequate behavior, besides minimizing the lack of observance.

Our Growth Opportunities

During the year, we expanded our market share, among Mexican carriers, **to 23% in both domestic and international markets.** In December alone, our domestic market share was 25% in terms of segment Customer, already the fourth of the Mexican market.

Substancial growth opportunity in the US-Mexico VFR/ leisure travel market

Portland 0.2mm
San Francisco 0.7mm
San Jose 0.4mm
Sacramento 0.3mm
Bakersfield 0.4mm
Fresno 0.5mm
Las Vegas 0.4mm
Los Angeles 4.6mm
San Diego 0.9mm
San Bernardino 1.7mm
Phoenix 1.2mm
Tucson 0.3mm
Denver 0.5mm
Albuquerque 0.5mm
El Paso 0.6mm
San Antonio 0.9mm
Dallas 1.5mm
Austin 0.4mm
Houston 1.5mm
Mission 0.6mm
San Benito 0.3mm
Chicago 1.5mm
Atlanta 0.3mm
Tampa 0.3mm
Orlando 0.1mm
Miami 0.1mm
Washington 0.1mm
Philadelphia 0.1mm
New York 0.5mm

Significant Mexican origin population[2] of 33.7 million in the US.

Denotes Volaris presence[1]

Denotes other cities with large Mexican origin populations[1,2]

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

Corporate **Governance**

At Volaris, we follow the best international practices in the market, as well as those suggested by institutions like the Mexican Stock Exchange.

Our by-laws stipulate that the Board of Directors be comprised of no more than 21 members according to the Shareholders Meeting resolution, in which at least 25% of the members and their corresponding alternates are required to be independent, pursuant to the Mexican Securities Market Law.

Our Board of Directors is comprised of 11 Propietary Members, four of which are independent.

The members of our Board are elected annually at our ordinary general meeting of shareholders. All of them hold their positions for one year and may be reelected or revoked at any time according to our by-laws.

Board of Directors

Name	Position	Alternate
Alfonso González Migoya	Independent Member and Chairman of the Board	
Carlos Miguel Mendoza Valencia	Member	
Harry F. Krensky	Member	Alberto Moreno Ruiz Esparza
Rodolfo Montemayor Garza	Member	Dean Donovan
Roberto José Kriete Ávila	Member	Rodrigo Salcedo Moore
Jorge Antonio Vargas Diez Barroso	Member	Marco Baldocchi Kriete
William A. Franke	Member	John R. Wilson
Brian H. Franke	Member	Andrew Broderick
John Slowik	Independent Member	José Carlos Silva Sánchez-Gavito
José Luis Fernández Fernández	Independent Member	José Carlos Silva Sánchez-Gavito
Joaquín Alberto Palomo Déneke	Independent Member	José Carlos Silva Sánchez-Gavito

Management Team

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

Fort Lauderdale

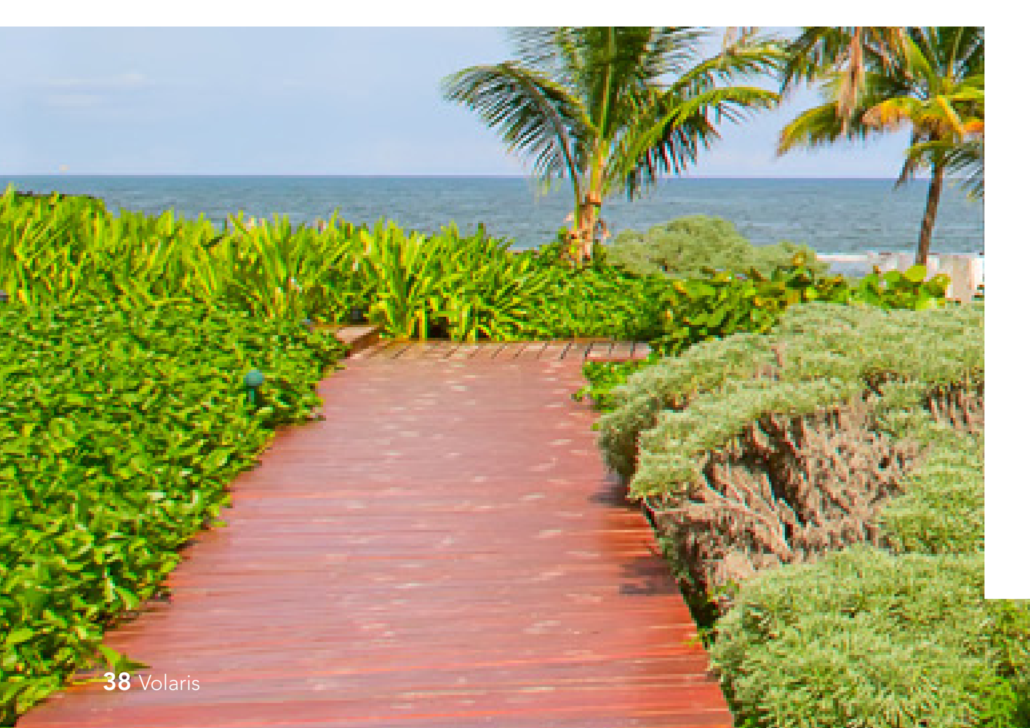
Committees

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

Audit and Corporate Governance Committee

- Review the results of the corruption prevention program based on Mexico and the United States of America's regulation, including the Foreign Corrupt Practices Act, as well as review all complaints from the Whistle Blowing Line.
- Develop activities regarding audits and corporate practices conferred by the Securities Market Law to support the Board of Directors.
- Hold recurring and continuous meetings with Volaris' management, as well as with external auditors.

Name	Position	Alternate
José Luis Fernández Fernández	Independent Chairman	José Carlos Silva Sanchez-Gavito
John Slowik	Independent Member	José Carlos Silva Sanchez-Gavito
Joaquín Alberto Palomo Deneke	Independent Member	José Carlos Silva Sanchez-Gavito



Compensation and Nominations Committee

- Advise on compensation schemes, including the annual increase for Ambassadors.
- Annual performance review for relevant directors.
- Establishing processes to plan succession in key positions.
- Review and recommend, for approval by the Board, of incentives plans and programs.

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

Code of Ethics

Our Code of Ethics sets forth our values, norms, behaviors and Culture. It has been adopted by all Directors, Executives and Ambassadors. In it we show our position in favor of non-discrimination, equal opportunities, customer service, free market competition and regulatory compliance as well as the statements of potential conflicts of interest, gifts and presents.

Additionally, we establish as a priority, health and safety at work, which helps us meet the highest safety regulations in our operations. We reaffirm this commitment with our Immunity Policy, by which all the Ambassadors have the right and responsibility to report any security risk without fear of disciplinary action.

Social Responsibility

We are committed to Social Responsibility and Sustainable Development through our participation, at all levels of our Company, in projects and initiatives aimed to create economic, social and environmental value in the communities where we operate and for our Ambassadors. For more information, please visit our Annual Sustainability Report published in Volaris' Investor Relation website.

We are a Socially Responsible Company;

as such we have a firm commitment to safeguard the environment, our Customers and Ambassadors.

Some of our key milestones for 2014 on Sustainability were:

- Socially Responsible Company (ESR) distinctive for the fifth consecutive year
- Gender Equity Model Certification (MEG) for the second consecutive year
- Top Member in the implementation of The Code (ECPAT)
- Certification in Quality and Environmental Management Systems, ISO 9001 and ISO 14001
- Fundraising of $304,000 jointly with Un Kilo de Ayuda
- Collection of $904,000 for the *Sierra Gorda* Ecological Reserve
- Transport of 101 organs and tissues in conjunction with CENATRA
- Donation of $216,828.50 to support those affected by Hurricane Odile

Management Discussion and Analysis

Operating Results

Operating Revenues

2013 compared to 2014

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

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

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

Operating Expenses, net

2013 compared to 2014

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

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

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

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

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

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

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

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

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

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

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

Operating Results
2013 compared to 2014

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

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

Financial Results
2013 compared to 2014

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

Total Financing Results. The variation in financing results was primarily due to our net exchange gain of Ps.448.7 million. This exchange gain resulted from the significant 12.6% depreciation of the peso against the U.S. dollar since we maintained a net asset position of U.S.$339.0 million in 2014. Our U.S. dollar net asset position mainly resulted from our aircraft maintenance deposits paid to the lessors.

Additionally, our finance cost decreased 74.3% during 2014, primarily due to we recorded a debt prepayment premium of Ps.65.2 million during 2013.

Income Tax Expense and Net Income
2013 compared to 2014

	For the years ended December 31,			
	2013	2014	Variation	
	(In thousands of pesos, except for %)			
Net income				
Income before income tax	282,842	643,904	361,062	>100%
Income tax expense	(17,550)	(38,720)	(21,170)	>100%
Attribution of net income (Loss)				
Equity holders of the parent	268,678	604,184	336,506	>100%
Non-controlling interest	(3,386)	–	3,386	N.A.
Net income	**265,292**	**605,184**	**339,892**	**>100%**

We recorded net income of Ps.605.2 million in 2014 compared to a net income of Ps.265.3 million in 2013.

At December 31, 2014 and 2013, we had tax loss carry-forwards amounting to Ps.1,736.9 million and Ps.2,071.2 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 by the entity. The effective tax rate during 2013 and 2014 was of 6.2% and 6.0%, respectively.

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

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

Consolidated Financial Statements

Years Ended December 31, 2014, 2013 and 2012
with Report of Independent Auditors

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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, 2014 and 2013, 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, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Controladora Vuela Compañía de Aviación, S.A.B. de C.V. and subsidiaries as of December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, 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, 2014, 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 28, 2015 expressed an unqualified opinion thereon.

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

Luis F. Ortega Sinencio

Mexico City, Mexico
April 29, 2015

Consolidated Statements of Financial Position

(In thousands of Mexican pesos)

	(Thousands of U.S.dollars*) 2014	At December 31, 2014	2013
Assets			
Current assets:			
Cash and cash equivalents (Note 6)	US$ 153,883	Ps. 2,264,857	Ps. 2,450,773
Accounts receivable:			
Related parties (Note 7)	–	–	885
Other accounts receivable, net (Note 8)	14,547	214,103	269,795
Recoverable taxes	15,930	234,457	331,479
Inventories (Note 9)	9,490	139,673	113,835
Prepaid expenses and other current assets (Note 10)	15,471	227,708	322,971
Financial instruments (Notes 3 and 5)	4,259	62,679	11,133
Guarantee deposits (Note 11)	37,043	545,192	499,089
Total current assets	250,623	3,688,669	3,999,960
Non-current assets:			
Rotable spare parts, furniture and equipment, net (Note 12)	151,061	2,223,312	1,341,323
Intangible assets, net (Note 13)	4,930	72,566	79,282
Financial instruments (Notes 3 and 5)	371	5,454	–
Deferred income tax (Note 19)	22,271	327,785	304,525
Guarantee deposits (Note 11)	240,588	3,540,969	2,603,481
Other assets	3,144	46,285	49,213
Total non-current assents	422,365	6,216,371	4,377,824
Total assets	**US$ 672,988**	**Ps. 9,905,040**	**Ps. 8,377,784**

	(Thousands of U.S.dollars*) 2014	At December 31, 2014	2013
Liabilities and equity			
Short-term liabilities:			
Unearned transportation revenue	US$ 96,544	Ps. 1,420,935	Ps. 1,393,469
Suppliers	34,353	505,604	533,555
Related parties (Note 7)	39	567	3,036
Accrued liabilities (Note 15a)	76,202	1,121,541	1,032,682
Taxes and fees payable (Note 1q)	46,002	677,094	598,976
Financial instruments (Note 3)	14,312	210,650	31,845
Financial debt (Note 5)	55,923	823,071	268,468
Other liabilities (Note15c)	605	8,905	9,498
Total short-term liabilities	323,980	4,768,367	3,871,529
Long-term liabilities:			
Financial instruments (Note 3)	2,885	42,468	74,306
Financial debt (Note 5)	28,863	424,799	293,824
Accrued liabilities (Note 15b)	9,788	144,061	137,584
Other liabilities (Note 15c)	1,426	20,986	11,381
Employee benefits (Note 16)	526	7,737	5,260
Deferred income taxes (Note 19)	1,824	26,842	21,530
Total long-term liabilities	45,312	666,893	543,885
Total liabilities	369,292	5,435,260	4,415,414
Equity (Note 18):			
Capital stock	202,036	2,973,559	2,973,559
Treasury shares	(7,799)	(114,789)	(107,730)
Contributions for future capital increases	–	1	1
Legal reserve	2,599	38,250	38,250
Additional paid-in capital	121,402	1,786,790	1,785,744
Accumulated losses	(3,790)	(55,783)	(660,967)
Accumulated other comprehensive losses	(10,752)	(158,248)	(66,487)
Total equity	303,696	4,469,780	3,962,370
Total liabilities and equity	**US$ 672,988**	**Ps. 9,905,040**	**Ps. 8,377,784**

* Convenience translation to U.S. dollars (Ps.14.7180) – Note 1y.

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)

	(Thousands of U.S. dollars*, except for earnings per share) 2014	For the years ended December 31, 2014	2013	2012
Operating revenues (Notes1d and 24):				
Passenger	US$ 767,993	Ps.11,303,327	Ps. 11,117,327	Ps.10,176,747
Non-ticket	185,719	2,733,415	1,885,144	1,509,668
	953,712	14,036,742	13,002,471	11,686,415
Other operating income (Note 20)	(1,502)	(22,107)	(111,277)	(68,800)
Fuel	364,442	5,363,864	5,085,829	4,730,089
Aircraft and engine rent expense (Note 14c)	172,206	2,534,522	2,187,339	1,885,696
Landing, take-off and navigation expenses	140,338	2,065,501	1,923,673	1,639,945
Salaries and benefits	107,115	1,576,517	1,563,239	1,302,971
Sales, marketing and distribution expenses	55,529	817,281	704,146	751,919
Maintenance expenses	45,156	664,608	572,114	498,836
Other operating expenses (Note 20)	33,288	489,938	458,500	356,517
Depreciation and amortization (Notes 12 and 13)	23,272	342,515	301,531	211,002
Operating income	13,868	204,103	317,377	378,240
Finance income (Note 21)	1,594	23,464	24,774	13,611
Finance cost (Note 21)	(2,197)	(32,335)	(125,737)	(89,731)
Exchange gain (loss), net	30,485	448,672	66,428	(95,322)
Income before income tax	43,750	643,904	282,842	206,798
Income tax expense (Note 19)	(2,631)	(38,720)	(17,550)	(3,481)
Net income	US$ 41,119	Ps. 605,184	Ps. 265,292	Ps. 203,317
Attribution of net income (loss):				
Equity holders of the parent	US$ 41,119	Ps. 605,184	Ps. 268,678	Ps. 215,239
Non-controlling interest	–	–	(3,386)	(11,922)
Net income	US$ 41,119	Ps. 605,184	Ps. 265,292	Ps. 203,317
Earnings per share basic:	US$ 0.041	Ps. 0.598	Ps. 0.310	Ps. 0.294**
Earnings per share diluted:	US$ 0.041	Ps. 0.598	Ps. 0.310	Ps. 0.294**

* Convenience translation to U.S. dollars (Ps.14.7180) – Note 1y.

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

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

Consolidated Statements of Comprehensive Income

(In thousands of Mexican pesos)

	(Thousands of U.S. dollars*) 2014	For the years ended December 31, 2014	2013	2012
Net income for the year	US$ 41,119	Ps. 605,184	Ps. 265,292	Ps. 203,317
Other comprehensive income (loss):				
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:				
Net (loss) gain on cash flow hedges (Note 22)	(8,799)	(129,506)	47,819	16,325
Income tax effect	2,640	38,852	(14,346)	(4,900)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:				
Remeasurement (loss) gain of employee benefits (Note 16)	(107)	(1,581)	11,026	(235)
Income tax effect	32	474	(3,076)	(101)
Other comprehensive (loss) income for the year, net of tax	US$ (6,234)	Ps. (91,761)	Ps. 41,423	Ps. 11,089
Total comprehensive income for the year, net of tax	US$ 34,885	Ps. 513,423	Ps. 306,715	Ps. 214,406
Attributable to:				
Equity holders of the parent	US$ 34,885	Ps. 513,423	Ps. 310,101	Ps. 216,449
Non-controlling interest	–	–	(3,386)	(2,043)
	US$ 34,885	Ps. 513,423	Ps. 306,715	Ps. 214,406

* Convenience translation to U.S. dollars (Ps.14.7180) – Note 1y.

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

Consolidated Statements of Changes in Equity

For the years ended December 31, 2014, 2013 and 2012
(In thousands of Mexican pesos)

	Capital stock	Treasury shares	Contributions for future capital increases	Legal reserve	Additional paid-in capital	Accumulated losses	Remeasurements of employee benefits	Cash flow hedges	Equity attributable to Equity Holders of the Parent	Non-controlling interest	Total equity
Balance as of January 1, 2012	Ps. 1,966,313	Ps. –	Ps. 1	Ps. 38,250	Ps. –	Ps. (1,144,884)	Ps. (7,983)	Ps. (101,137)	Ps. 750,560	Ps. 109,179	Ps. 859,739
Capital stock increase (Note 18 c)	498,632	–	–	–	–	–	–	–	498,632	–	498,632
Unpaid treasury shares (Note 17)	–	(133,723)	–	–	–	–	–	–	(133,723)	–	(133,723)
Unpaid capital and treasury shares (Note 18 c)	(88,847)	–	–	–	–	–	–	–	(88,847)	–	(88,847)
Acquisition of non-controlling interest (Note 18c)	–	–	–	–	(190,850)	–	–	–	(190,850)	(84,690)	(275,540)
Net income for the period	–	–	–	–	–	215,239	–	–	215,239	(11,922)	203,317
Other comprehensive (loss) income items	–	–	–	–	–	–	(342)	1,552	1,210	9,879	11,089
Total comprehensive income	–	–	–	–	–	215,239	(342)	1,552	216,449	(2,043)	214,406
Balance as of December 31, 2012	2,376,098	(133,723)	1	38,250	(190,850)	(929,645)	(8,325)	(99,585)	1,052,221	22,446	1,074,667
Net proceeds from initial public offering (Note 18b)	508,614	–	–	–	2,044,313	–	–	–	2,552,927	–	2,552,927
Capital stock increase (Note 1a)	88,847	–	–	–	–	–	–	–	88,847	–	88,847
Acquisition of non-controlling interest (Note 1a)	–	–	–	–	(69,787)	–	–	–	(69,787)	(19,060)	(88,847)
Exercise of stock options (Note 17)	–	25,993	–	–	–	–	–	–	25,993	–	25,993
Management incentive plan cost (Note 17)	–	–	–	–	2,068	–	–	–	2,068	–	2,068
Net income for the period	–	–	–	–	–	268,678	–	–	268,678	(3,386)	265,292
Other comprehensive income items	–	–	–	–	–	–	7,950	33,473	41,423	–	41,423
Total comprehensive income	–	–	–	–	–	268,678	7,950	33,473	310,101	(3,386)	306,715
Balance as of December 31, 2013	2,973,559	(107,730)	1	38,250	1,785,744	(660,967)	(375)	(66,112)	3,962,370	–	3,962,370
Treasury shares	–	(7,059)	–	–	–	–	–	–	(7,059)	–	(7,059)
Long term incentive plan cost (Note 17)	–	–	–	–	1,046	–	–	–	1,046	–	1,046
Net income for the period	–	–	–	–	–	605,184	–	–	605,184	–	605,184
Other comprehensive loss items	–	–	–	–	–	–	(1,107)	(90,654)	(91,761)	–	(91,761)
Total comprehensive income	–	–	–	–	–	605,184	(1,107)	(90,654)	513,423	–	513,423
Balance as of December 31, 2014	Ps. 2,973,559	Ps. (114,789)	Ps. 1	Ps. 38,250	Ps. 1,786,790	Ps. (55,783)	Ps. (1,482)	Ps. (156,766)	Ps. 4,469,780	Ps. –	Ps. 4,469,780
	US$ 202,036	US$ (7,799)	US$ –	US$ 2,599	US$ 121,402	US$ (3,790)	US$ (101)	US$ (10,651)	US$ 303,696	US$ –	US$ 303,696

* Convenience translation to U.S. dollars (Ps.14.7180) – Note 1y.

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

Consolidated Statements of Cash Flows

(In thousands of Mexican pesos)

	Thousands of U.S. dollars*	For the years ended December 31,		
	2014	2014	2013	2012
Operating activities				
Income before income tax	US$ 43,750	Ps. 643,904	Ps. 282,842	Ps. 206,798
Non-cash adjustment to reconcile income before tax to net cash flows from operating activities:				
Depreciation and amortization (Notes 12 and 13)	23,272	342,515	301,531	211,002
Provision for doubtful accounts (Note 8)	677	9,964	8,515	3,442
Finance income (Note 21)	(1,594)	(23,464)	(24,774)	(13,611)
Finance cost (Note 21)	2,197	32,335	125,737	89,731
Foreign exchange	(20,041)	(294,966)	(56,652)	(70,292)
Financial instruments (Note 3 and Note 4)	8,516	125,339	30,075	16,590
Net gain on disposal of intangible, rotable spare parts, furniture and equipment and gain of sale and leaseback of aircraft (Note 20)	(945)	(13,908)	(94,968)	(46,683)
Employee benefits (Note 16)	120	1,764	1,527	1,208
Aircraft and engine lease extension benefit and other benefits by services agreement (Note 1j and 15b)	(2,734)	(40,234)	(45,376)	(26,738)
Management incentive plan (Note 17)	71	1,046	2,068	–
Cash flows from operating activities before changes in working capital	53,289	784,295	530,525	371,447
Changes in operating assets and liabilities:				
Related parties	(108)	(1,584)	2,371	755
Other accounts receivable	2,825	41,570	(41,113)	(80,609)
Recoverable taxes	6,610	97,276	(181,562)	(70,919)
Inventories	(1,756)	(25,838)	(16,685)	(17,140)
Prepaid expenses	3,753	55,234	(86,007)	(80,767)
Other assets	199	2,928	4,832	(2,543)
Guarantee deposits	(47,192)	(694,566)	(619,663)	(311,255)
Suppliers	(1,136)	(16,717)	13,210	(15,119)
Accrued liabilities	9,167	134,915	226,171	146,375
Taxes payable	4,972	73,185	44,722	124,595
Unearned transportation revenue	1,866	27,466	134,799	433,280
Financial instruments	(11,202)	(164,877)	(32,585)	(16,719)
Other liabilities	552	8,144	49,837	13,797
	21,839	321,431	28,852	495,178
Interest received	1,597	23,490	24,774	8,084
Income tax paid	(757)	(11,138)	(14,869)	(5,814)
Net cash flows provided by operating activities	22,679	333,783	38,757	497,448

	Thousands of U.S. dollars*	For the years ended December 31,		
	2014	2014	2013	2012
Investing activities				
Acquisitions of rotable spare parts, furniture and equipment (Note12)	(106,953)	(1,574,137)	(1,119,442)	(830,305)
Acquisitions of intangible assets (Note 13)	(1,933)	(28,457)	(41,558)	(25,900)
Pre-delivery payments reimbursements	26,881	395,639	698,233	874,529
Proceeds from disposals of rotable spare parts, furniture and equipment (Note 12)	1,494	21,987	150,841	168,837
Net cash flows (used in) provided by investing activities	(80,511)	(1,184,968)	(311,926)	187,161
Financing activities				
Net proceeds from initial public offering (Note 18)	–	–	2,578,161	–
Transaction costs on issue of shares	–	–	(38,352)	–
Proceeds from exercised treasury shares (Note 17)	–	–	25,993	–
Treasury shares	(480)	(7,059)	–	–
Interest paid	(1,574)	(23,151)	(65,468)	(119,113)
Other finance interest (Note 21)	(762)	(11,216)	–	(8,262)
Debt prepayment premium (Note 5)	–	–	(65,206)	–
Payments of financial debt	(27,165)	(399,815)	(1,018,722)	(694,292)
Proceeds from financial debt	65,630	965,945	444,098	549,769
Net cash flows provided by (used in) financing activities	35,649	524,704	1,860,504	(271,898)
(Decrease) increase in cash and cash equivalents	(22,183)	(326,481)	1,587,335	412,711
Net foreign exchange differences on the cash balance	9,551	140,565	41,362	(31,703)
Cash and cash equivalents at beginning of year	166,515	2,450,773	822,076	441,068
Cash and cash equivalents at end of year	US$ 153,883	Ps. 2,264,857	Ps. 2,450,773	Ps. 822,076
Non-cash investing and financing transactions:				
Corporate restructure	US$ –	Ps. –	Ps. –	Ps. 276,062
Acquisition of non-controlling interest with parent shares	–	–	69,787	–

* Convenience translation to U.S. dollars (Ps.14.7180) – Note 1y.

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

(In thousands of Mexican pesos and thousands of U.S. dollars,
except when indicated otherwise)

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

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

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

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

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

Concesionaria made its first commercial flight as a low-cost airline on March 13, 2006. The Company operates under the trade name of "Volaris". 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 ("BMV"), and on September 18, 2013 it started trading under the ticker symbol "VLRS" and "VOLAR", respectively (Note 18b).

The accompanying financial statements and notes were authorized for their issuance by the Company's Chief Executive Officer Enrique Beltranena and Chief Financial Officer Fernando Suarez on March 18, 2015. Those consolidated financial statements and notes were then approved by the Company's Board of Directors and by the Shareholders on April 27, 2015. 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 29, 2014, and subsequent events were considered through that date (Note 25).

a) Relevant events

Acquisition of additional interest in Concesionaria

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

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

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

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

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

b) Basis of preparation

Statement of compliance

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries at December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014, and were prepared in accordance with International Financial Reporting Standards as issued by the *International Accounting Standards Board* ("IFRS"), using Mexican pesos as the functional and reporting currency.

Basis of measurement and presentation

The accompanying consolidated financial statements have been prepared under the historical-cost convention, except for derivative financial instruments that are measured at fair value and investments in marketable securities measured at fair value through profit and loss ("FVTPL").

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts reported in the accompanying consolidated financial statements and notes. Actual results could differ from those estimates.

c) Basis of consolidation

The accompanying consolidated financial statements comprise the financial statements of the Company and its subsidiaries. At December 31, 2014 and 2013, for accounting purposes the companies included in the consolidated financial statements are as follows:

Name	Principal Activities	Country	% Equity interest 2014	2013
Concesionaria	Air transportation services for passengers, cargo and mail throughout Mexico and abroad	Mexico	100.00%	100.00%
Comercializadora Volaris, S.A. de C.V.	Ground transportation services in Mexico	Mexico	100.00%	100.00%
Servicios Corporativos Volaris, S.A. de C.V. ("Servicios Corporativos")	Payroll	Mexico	100.00%	100.00%
Servicios Administrativos Volaris, S.A. de C.V. ("Servicios Administrativos")	Payroll	Mexico	100.00%	100.00%

Name	Principal Activities	Country	% Equity interest 2014	2013
Deutsche Bank México, S.A., Trust 1462*	Pre-delivery payments financing (Note 5)	Mexico	–	100.00%
Deutsche Bank México, S.A., Trust 1484*	Pre-delivery payments financing (Note 5)	Mexico	–	100.00%
Deutsche Bank México, S.A., Trust 1498*	Pre-delivery payments financing (Note 5)	Mexico	–	100.00%
Deutsche Bank México, S.A., Trust 1710	Pre-delivery payments financing (Note 5)	Mexico	100.00%	100.00%
Deutsche Bank México, S.A., Trust 1711	Pre-delivery payments financing (Note 5)	Mexico	100.00%	100.00%
Irrevocable Administrative Trust number F/307750 "Administrative Trust"	Share administration trust (Note 17)	Mexico	100.00%	100.00%
Irrevocable Administrative and Safeguard Trust, denominated F/1405 "DAIIMX/VOLARIS"	Share administration trust (Note 18)	Mexico	100.00%	100.00%
Irrevocable Administrative Trust number F/745291	Share administration trust (Note 17)	Mexico	100.00%	–

* During 2014, the Trust agreements were terminated as all aircraft under this structure were delivered to the Company.

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

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

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

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

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

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

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

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

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

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

d) Revenue recognition

Passenger revenues:

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

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

Non-ticket revenues:

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

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

e) Cash and cash equivalents

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

For the purpose of the consolidated statements of cash flows, cash and cash equivalent consist of cash and short-term 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 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 as such.

Also, the hedge accounting section of IFRS 9 (2013) requires for options that qualify and are formally designated as hedging instruments, to define the intrinsic value of the option 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 statement of operations when the hedged item is recognized in income.

i) Financial assets

Classification of financial assets

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

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

Initial recognition

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

Subsequent measurement

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

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

Derecognition

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

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

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

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

ii) Impairment of financial assets

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

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

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

Financial assets carried at amortized cost

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

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

For the years ended December 31, 2014, 2013 and 2012, the Company recorded an impairment on accounts receivable of Ps.9,964, Ps.8,515 and Ps.3,442, 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, 2014 and 2013 the Company has not designated any financial liability as at FVTPL.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statements of operations.

Offsetting of financial instruments

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

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

g) Other accounts receivable and provision for doubtful receivables

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

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

h) Inventories

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

i) Intangibles assets

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

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

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

For the years ended December 31, 2014, 2013 and 2012, there were no indicators of impairment and therefore no impairment charges were recorded in respect of the Company's value of intangible assets.

j) Guarantee deposits

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

Aircraft maintenance deposits paid to lessors

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

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

Maintenance deposits expected to be recovered from lessors are reflected as guarantee deposits in the accompanying consolidated statement of financial position. The portion of prepaid maintenance deposits that is deemed unlikely to be recovered, primarily relating to the rate differential between the maintenance deposits payments and the expected cost for the next related maintenance event that the deposits serve to collateralize, is recognized as supplemental rent 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, 2014, 2013 and 2012, the Company expensed as supplemental rent Ps.42,961, Ps.38,426 and Ps.27,216, respectively.

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

For the years ended December 31, 2014, 2013 and 2012, the Company expensed as contingent rent Ps.110,736 Ps.102,740 and Ps.99,390, respectively.

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

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

During the years ended December 31, 2014 and 2013, the Company extended the lease term of an aircraft agreement and two spare engine 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.47,353 and Ps.22,911 during 2014 and 2013, respectively. The maintenance event for which the maintenance deposits were previously expensed was scheduled to occur after the original lease term and as such the contingent rental payments were expensed as they were not substantially and contractually related to maintenance. However when the leases were amended the maintenance deposits amounts became probable of recovery due to the longer lease term and as such they are being recognized as an asset.

The effect of these lease extensions were recognized as a guarantee deposit and a deferred liability in the consolidated statements of financial position at the time of lease extension.

Because the lease extension benefits are considered lease incentives, the benefits are deferred in the caption other liabilities and are being amortized on a straight-line basis over the remaining revised lease terms. For the years ended December 31, 2014, 2013 and 2012, the Company amortized Ps.26,938, Ps.25,627 and Ps.23,254, respectively, of this amount which was recognized as a reduction of rent expenses in the consolidated statements of operations.

k) Aircraft and engine maintenance

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

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

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

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

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

Major maintenance is accounted for under the deferral method, whereby the cost of major maintenance and major overhaul and repair is capitalized (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, 2014 and 2013, the Company capitalized major maintenance events as part of leasehold improvements to flight equipment for an amount of Ps.585,696 and Ps.309,382, respectively (Note 12).

For the years ended December 31, 2014, 2013 and 2012, the amortization of major maintenance leasehold improvement costs was Ps.253,381, Ps.210,495 and Ps.126,302, respectively (Note 12). The amortization of deferred maintenance costs is recorded as part of depreciation and amortization in the consolidated statements of operations.

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

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

l) Rotable spare parts, furniture and equipment, net

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

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

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

During the years ended December 31, 2014, 2013 and 2012, the Company capitalized borrowing costs which amounted to Ps.42,572, Ps.25,197 and Ps.64,452, respectively. The rate used to determine the amount of borrowing cost was 2.82%, 2.93% and 3.12%, for the years ended December 31, 2014, 2013 and 2012, respectively.

Depreciation rates are as follows:

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

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

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

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

For the years ended December 31, 2014, 2013 and 2012, there were no indicators of impairment and therefore no impairment charges were recorded in respect of the Company's rotable spare parts, furniture and equipment.

m) Foreign currency transactions and exchange differences

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

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

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

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

n) Liabilities and provisions

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

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

The Company records aircraft lease return obligation reserve that is calculated based on the best estimate of the return obligation costs under each aircraft lease agreement. These return obligations are related to the costs to be incurred in the reconfiguration of aircraft (interior and exterior), painting, carpeting and other costs, which are estimated based on current cost adjusted for inflation. The return obligation is estimated at the inception of each leasing arrangement and recognized over the term of the lease (Note 15c).

o) Employee benefits

i) Personnel vacations

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

ii) Termination benefits

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

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

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

For the years ended December 31, 2014, 2013 and 2012, no termination benefits provision has been recognized.

iii) Seniority premiums

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

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

The latest actuarial computation was prepared as of December 31, 2014.

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

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

iv) Incentives

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

During the years ended December 31, 2014, 2013 and 2012 the Company expensed Ps.18,424 and Ps.29,978 and Ps.34,336, respectively, as quarterly incentive bonuses, recorded in the caption salaries and benefits.

v) Long-term retention plan

During 2010, the Company 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 the Company's performance. 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 structured as a long term incentive plan, which consists in a share purchase plan (equity-settled) and a share appreciation rights plan (cash settled).

vi) Share-based payments

a) Long-term incentive plan

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

– Share appreciation rights (cash settled)
The Company granted share appreciation rights ("SARs") to key executives, which entitle them to a cash payment after a service period. The amount of the cash payment is determined based on the increase in the share price of the Company between the grant date and the time of exercise. The compensation cost is recognized in the consolidated statement of operations under the caption of salaries and benefits, over the requisite service period (Note 17).

b) Management incentive plan

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).

vi) Employee profit sharing

The new Mexican Income Tax Law ("MITL"), establishes that starting in 2014, the base for computing current year employee profit sharing shall be the taxpayer's taxable income of the year for income tax purposes, including certain adjustments established in the Income Tax Law, at the rate of 10%. For the years ended December 31, 2013 and 2012, employee profit sharing was computed at the rate of 10% of the individual Company's taxable income, except for depreciation of historical rather than restated values, foreign exchange gains and losses, which are not included until the asset is disposed of or the liability is due, and other effects of inflation are also excluded. The cost of employee profit sharing earned for the current-year is presented as an expense in the consolidated statements of operations (Note 16).

p) Leases

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

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

Sale and leaseback

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

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

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

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

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

q) Taxes and fees payable

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

r) Income taxes

Current income tax

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

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

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences.

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

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

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

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

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

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, 2014 and 2013, 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. The Company has two geographic areas identified as domestic (Mexico) and international (United States of America), and all its assets and liabilities are located in Mexico (Note 24).

w) Current versus non-current classification

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

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

x) Impact of new International Financial Reporting Standards

New and amended standards and interpretations

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2014.

The nature and the impact of each new standard and amendment are described below:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements* and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Company, since none of the entities in the Company qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Company, since none of the entities in the Company have any offsetting arrangements.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IFRS 9 (2013)

Worldwide derivatives-related regulation are enforcing market participants to migrate from private trading (known as over the counter or "OTC" deals) into exchange traded platforms (known as swap execution facilities or "SEFs") with centralized counterparties.

These accounting amendments provide relief from discontinuing existing hedge accounting relationship when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Company as the Company has not novated its derivatives to these new trading platforms during the current or prior periods.

IFRIC Interpretation 21 Levies

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

This interpretation has no impact on the Company as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC Interpretation 21 in prior years.

IFRS 9 (2013) Financial Instruments

The Company early adopted 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. As of October 1, 2014, all classes of financial assets and financial liabilities had the same carrying amounts in accordance with IAS 39 and IFRS 9 (2013). The measurements categories of each material class of financial assets and liabilities were the same in accordance with IAS 39 and IFRS 9 (2013). All hedge accounting relationships designated under the previous IAS 39 guidance have continued to be valid hedge accounting relationships in accordance with IFRS 9 (2013). Additional disclosures are presented in Note 3.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 *Fair Value Measurement*. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at January 1, 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Company.

Standards issued but not yet effective

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

IFRS 9 (2014) Financial Instruments

After having introduced three previous versions of IFRS 9 (2009, 2010 and 2013), in July 2014, the IASB issued the final version (2014) of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project (leaving the macro hedge section outside as an active project) which replaces IAS 39 *Financial Instruments: Recognition and Valuation Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 (2014) is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application in certain cases is required, but comparative information is not compulsory.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

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

Annual improvements 2010-2012 Cycle

These improvements are effective for annual periods beginning on or after July 1, 2014 and are not expected to have a material impact on the Company. They include:

– IFRS 2 Share-based Payment

  This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

(i) A performance condition must contain a service condition.
(ii) A performance target must be met while the counterparty is rendering service.
(iii) A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group.
(iv) A performance condition may be a market or non-market condition.
(v) If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

– IFRS 8 *Operating Segments*

The amendments are applied retrospectively and clarify that:

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

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

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

– IAS 24 *Related Party Disclosures*

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

Annual improvements 2011-2013 Cycle

These improvements are effective for annual periods beginning on or after July 1, 2014 and are not expected to have a material impact on the Company. They include:

– IFRS 13 *Fair Value Measurement*

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (2013).

– IFRS 15 *Revenue from Contracts with Customers*

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests*

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

These amendments are not expected to have a material impact on the Company.

Amendments to IAS 16 and IAS 38: *Clarification of Acceptable Methods of Depreciation and Amortization*

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

y) Convenience translation

U.S. dollar amounts at December 31, 2014 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.14.7180 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, 2014. 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 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) Long-term incentive plan and management incentive plan

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

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

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

Share appreciation rights (cash settled)

The cost of the SARs plan is measured initially at fair value at the grant date, further details of which are given in Note 17. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognized in salaries and benefits expense together with the grant date fair value.

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, 2014, the Company's tax loss carry-forwards amount to Ps.1,736,853 (Ps.2,071,195 at December 31, 2013). These losses relate to operations of the Company and of its subsidiaries on a stand-alone basis, which in conformity with current MITL may be carried forward against taxable income generated in the succeeding ten years and may not be used to offset taxable income elsewhere in the Company's consolidated group (Note 19).

During the years ended December 31, 2014, 2013 and 2012, the Company used Ps.424,463, Ps.204,403 and Ps.256,589, respectively, of the available tax loss carry-forwards (Note 19).

iv) Fair value of financial instruments

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

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

v) Impairment of long-lived assets

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

vi) Allowance for doubtful accounts

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

3. Financial instruments and risk management

Financial risk management

The Company's activities are exposed to different financial risks derived from exogenous variables which are not under their control but whose effects might be potentially adverse: (i) market risk, (ii) credit risk, and (iii) liquidity risk. The Company's global risk management program is focused on uncertainty in the financial markets and tries to minimize the potential adverse effects on the net earnings and working capital requirements. The Company uses

derivative financial instruments to hedge part of these risks. The Company does not engage derivatives for trading or speculative purposes.

The sources of these financial risks exposures are included in both "on balance sheet" exposures, such as recognized financial assets and liabilities, as well as in "off-balance sheet" contractual agreements and on highly expected forecasted transactions. These on and off-balance sheet exposures, depending on their profiles, do represent potential cash flow variability exposure, in terms of receiving less inflows or facing the need to meet outflows which are higher than expected, therefore increase the working capital requirements. Also, since adverse movements also erode the value of recognized financial assets and liabilities, as well some other off-balance sheet financial exposures such as operating leases, there is a need for value preservation, by transforming the profiles of these fair value exposures.

The Company has a Finance and Risk Management unit, which identifies and measures financial risk exposures, as well as design strategies to mitigate or transform the profile of certain risk exposures, which are taken up to the Corporate Governance level for approval.

Market risk

a) Jet fuel price risk

Since the contractual agreements with jet fuel suppliers do include reference to jet fuel index, the Company is exposed to fuel price risk and its fuel price risk on its forecasted consumption volumes. Its jet fuel risk management policy aims to provide the Company with protection against increases in fuel prices. In pursuing this objective, the risk management policy allows the use of derivative financial instruments available on the OTC markets with approved counterparties and within approved limits. Aircraft jet fuel consumed in the years ended December 31, 2014, 2013 and 2012 represented 39%, 40% and 42%, of the Company's operating expenses, respectively.

During the years ended December 31, 2014, 2013 and 2012, the Company entered into US Gulf Coast Jet Fuel 54 swap contracts to hedge approximately 20%, 11% and 4% of its fuel consumption, respectively; they are being accounted for as cash flow hedges that gave rise to a loss of Ps.85,729, and gains of Ps.6,694, and Ps.19,984, respectively. These instruments were formally designated and qualified for hedge accounting and accordingly, the effective portion is allocated within OCI while the effects of transforming into a fixed jet fuel prices by these hedges are presented as part of fuel costs when recognized in the consolidated statements of operations.

As of December 31, 2014 and 2013, the fair value of the outstanding US Gulf Coast Jet Fuel 54 swaps designated to hedge a percentage of the Company´s projected consumption, was (Ps.169,622) and Ps.11,133, respectively, and are presented as derivative financial instruments as current financial liabilities and current financial assets, respectively.

Additionally, during the year ended on December 31, 2014, the Company entered into US Gulf Coast Jet fuel 54 Asian call options designated to hedge 54,148 thousand gallons, which represent a portion of the 2015 and 2016 projected consumption. Since the Company elected to early adopt IFRS 9 (2013), which require the separation of the changes in fair value of these options attributable to the intrinsic value, from those changes due to extrinsic value, where the latter are considered as a cost of hedging associated to a transaction-related hedged item (a hedge of a portion of the future monthly purchases of jet fuel), therefore the Company will reclassify these amounts recognized within a separate component of equity to profit or loss as a reclassification adjustment in the same period in which the expected jet fuel consumed volume affects the jet fuel purchase line item in profit and loss, as from January 2015. As of December 31, 2014, the fair value of the outstanding US Gulf Coast Jet Fuel Asian call options was a gain of Ps.68,133, which was presented as part of the financial assets in the consolidated statement of financial position.

The amount of cost of hedging derived from the extrinsic value changes of these options as of December 31, 2014 recognized in other comprehensive income, totals Ps.26,934, and will be recycled to the fuel cost throughout 2015 and until 2016, as these options expire on a monthly basis.

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, 2014 Jet fuel swap contracts maturities		
Jet fuel risk	1Q15	2Q15	Total 2015
Notional volume in gallons (thousands)*	6,504	2,045	8,549
Future agreed rate per gallon (U.S. dollars)**	US$ 2.7009	US$ 2.4623	US$ 2.6439
Total in thousands of Mexican pesos ***	Ps. 258,546	Ps. 74,111	Ps. 332,667
Approximate percentage of hedge (of expected consumption value)	19%	5%	12%

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

	Position as of December 31, 2014 Jet fuel Asian call option contracts maturities			
Jet fuel risk	1Q15	2Q15 to 4Q15	2015 Total	1Q16
Notional volume in gallons (thousands)*	3,450	48,800	52,250	1,898
Strike price agreed rate per gallon (U.S. dollars)**	US$ 2.2050	US$ 2.1113	US$ 2.1174	US$ 1.9700
Approximate percentage of hedge (of expected consumption value)	10%	40%	33%	5%

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

The following table illustrates the sensitivity of US Gulf Coast Jet Fuel 54 Asian fuel swaps to a reasonably possible change in fuel prices, with all other variables held constant, on the caption of accumulated other comprehensive income. The calculations were made considering a parallel movement of 5% in the forward curve of the US Gulf Coast Jet 54 as of December 31, 2014:

	Sensitivity of position as of December 31, 2014 effect on equity (thousands of U.S. dollars)
US Gulf Coast Jet Fuel 54 forward level	
+5%	US$ 734
–5%	(734)

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 27% of its revenues came from operations in the United States of America for the year ended at December 31, 2014 (26% at December 31, 2013) and U.S. dollar denominated collections accounted for 31% of the Company's total collections in 2014 and 2013. However, certain of its expenditures, particularly those related to aircraft leasing and acquisition, are U.S. dollar denominated also and although jet fuel for those flights originated in Mexico are paid in Mexican pesos, the price formula is impacted by the Mexican Pesos /U.S. dollars exchange rate. The Company's foreign exchange on and off-balance sheet exposure as of December 31, 2014 and 2013 is as set forth below:

	Thousands of U.S. dollars			
		2014		2013
Assets:				
Cash and cash equivalents	US$	89,563	US$	152,459
Other accounts receivable		3,613		10,337
Aircraft maintenance deposits paid to lessors		233,875		199,385
Pre-delivery payments*		105,056		67,237
Deposits for rental of flight equipment		37,796		30,902
Collateral of derivative financial instruments		2,290		3,060
Derivative financial instruments		4,630		851
Total assets		476,823		464,231
Liabilities:				
Financial debt (Note 5)		84,786		43,001
Foreign suppliers		30,179		33,968
Taxes and fees payable		5,587		2,624
Derivative financial instruments		17,264		8,117
Total liabilities		137,816		87,710
Net foreign currency position	US$	339,007	US$	376,521

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

The exchange rates used to translate the above amounts to Mexican pesos at December 31, 2014 and 2013 were Ps.14.7180 pesos and Ps.13.0765 pesos, respectively, per U.S. dollar. At April 29, 2015, date of issuance of these financial statements, the exchange rate was Ps. 15.4892 per U.S. dollar.

	Thousands of U.S. dollars			
		2014		2013
Off-balance sheet transactions exposure:				
Aircraft operating leases (Note 14)	US$	1,131,064	US$	988,408
Aircraft and engine commitments (Note 23)		406,347		473,967
Total foreign currency	US$	1,537,411	US$	1,462,375

During the year ended on December 31, 2014 and 2013, 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 "cash flow hedge" and the effective portion of fair value variations are recorded in equity until the date the cash flow of the hedged lease payment is recognized in earnings.

At December 31, 2014 and 2013, 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.83,496 and Ps.106,151, respectively, recorded in liabilities. For the years ended December 31, 2014, 2013 and 2012, the reported loss on the interest rate swaps was Ps.39,610, Ps.36,769 and Ps.36,574, 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, 2014 effect on equity (millions of U.S. dollars)
Increase (decrease) in curve	
+100 basis points	1.41
-100 basis points	(1.48)

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

	December 31, 2013		
	Within one year	One to five years	Total
Interest-bearing borrowings:			
Pre-delivery payments facilities (Note 5)	Ps. 266,121	Ps. 293,824	Ps. 559,945
Derivative financial instruments:			
Jet fuel swaps contracts	(11,133)	–	(11,133)
Interest rate swaps contracts	31,845	74,306	106,151
Total	Ps. 286,833	Ps. 368,130	Ps. 654,963

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, 2014, 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 2015 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, 2014 and 2013. 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	
	2014	2013	**2014**	2013
Assets				
Derivative financial instruments	Ps. 68,133	Ps. 11,133	Ps. 68,133	Ps. 11,133
Liabilities				
Financial debt*	(1,243,192)	(559,945)	(1,247,713)	(562,739)
Derivative financial instruments	(253,118)	(106,151)	(253,118)	(106,151)
Total	Ps. (1,428,177)	Ps. (654,963)	Ps. (1,432,698)	Ps. (657,757)

* Floating rate borrowing.

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

	Fair value measurement			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Assets				
Derivatives financial instruments:				
Jet fuel Asian call options contracts*	Ps. –	Ps. 68,133	Ps. –	Ps. 68,133
Liabilities				
Derivatives financial instruments:				
Jet fuel swap contracts*	–	(169,622)	–	(169,622)
Interest rate swap contracts**	–	(83,496)	–	(83,496)
Liabilities for which fair values are disclosed:				
Interest-bearing loans and borrowings**	–	(1,247,713)	–	(1,247,713)
Net	Ps. –	Ps. (1,432,698)	Ps. –	Ps. (1,432,698)

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

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

	Fair value measurement			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Assets				
Derivatives financial instruments:				
Jet fuel swap contracts*	Ps. –	Ps. 11,133	Ps. –	Ps. 11,133
Liabilities				
Derivatives financial instruments:				
Interest rate swap contracts**	–	(106,151)	–	(106,151)
Liabilities for which fair values are disclosed:				
Interest-bearing loans and borrowings**	–	(562,739)	–	(562,739)
Net	Ps. –	Ps. (657,757)	Ps. –	Ps. (657,757)

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

There were no transfers between level 1 and level 2 during 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, 2014, 2013 and 2012:

Consolidated statements of operations

Instrument	Financial statements line	2014	2013	2012
Jet fuel swap contracts	Fuel	Ps. (85,729)	Ps. 6,694	Ps. 19,984
Interest rate swap contracts	Aircraft and engine rent expense	(39,610)	(36,769)	(36,574)
Total		Ps. (125,339)	Ps. (30,075)	Ps. (16,590)

The following table summarizes the net (loss) gain on cash flow hedges before taxes recognized in the consolidated statements of comprehensive income as of December 31, 2014, 2013 and 2012:

Consolidated statements of other comprehensive income

Instrument	Financial statements line	2014	2013	2012
Jet fuel swap contract	OCI	Ps. (125,228)	Ps. 6,257	Ps. 1,288
Jet fuel Asian call options	OCI	(26,934)	–	–
Interest rate swap contracts	OCI	22,656	41,562	15,037
Total		Ps. (129,506)	Ps. 47,819	Ps. 16,325

5. Financial assets and liabilities

At December 31, 2014 and 2013, 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

	2014	2013
Derivative financial instruments designated as cash flow hedges (effective portion recognized within OCI)		
Jet fuel Asian swap contracts	Ps. –	Ps. 11,133
Jet fuel Asian call options	68,133	–
Total derivative financial instruments at fair value	Ps. 68,133	Ps. 11,133
Total financial assets	Ps. 68,133	Ps. 11,133
Presented on the consolidated statements of financial position as follows:		
Current	Ps. 62,679	Ps. 11,133
Non-current	Ps. 5,454	Ps. –

b) **Financial debt**

(i) At December 31, 2014 and 2013, the Company's short-term and long-term debt consists of the following:

		2014		2013
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 December 1, 2016, bearing annual interest rate at the three-month LIBOR rate plus 2.50 percentage points from February 28, 2014 (2.65 percentage points before February 28, 2014)	Ps.	1,243,192	Ps.	559,945
II. Accrued interest		4,678		2,347
		1,247,870		562,292
Less: Short-term maturities		823,071		268,468
Long-term	Ps.	424,799	Ps.	293,824

(ii) In September 2013, the Company prepaid existing loans with Banco Inbursa S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa ("Inbursa") and Pasprot, S.A. de C.V. ("Pasprot") in a total amount of Ps.260,386. The Company paid a 25% debt prepayment premium of Ps.65,156 according to the prepayment conditions established in the respective loan agreements. Therefore, at December 31, 2013 the Company does not have any financial debt with Inbursa and Pasprot. The debt prepayment premium was recorded as finance cost in the consolidated statement of operations.

In September 2013, a loan agreement with International Finance Corporation ("IFC"), tranche C was prepaid in a total amount of US$10,000 (Ps.130,119) with an unwinding cost premium of Ps.50 due to the fact that the payment was not made on an interest payment date. Therefore, at December 31, 2013 the Company does not have any financial debt with IFC. The total amount of the unwinding cost premium was recorded as finance cost in the consolidated statement of operations.

(iii) The following table provides a summary of the Company's principal payments of debt obligations and accrued interest at December 31, 2014:

		2015		2016		Total
Finance debt denominated in foreign currency:						
Santander/Bancomext	Ps.	823,071	Ps.	424,799	Ps.	1,247,870
Total	Ps.	823,071	Ps.	424,799	Ps.	1,247,870

(iv) From 2011, the Company finances the pre-delivery payments for the acquisition of its aircraft through a financing facility. As of December 31 2012, the Company had a 100% pre-delivery payments financing with Santander and Bancomext for seven A320 aircraft to be delivered in 2013 and 2014. As of December 31, 2014, the seven aircraft were delivered to the Company.

On August 1, 2013, the Company signed an amendment to the loan agreement to finance the pre-delivery payments of 8 additional A320 Classic Engine Option ("CEO") aircraft to be delivered in 2015 and 2016.

On February 28, 2014 and November 27, 2014, the Company signed amendments to the loan agreement to finance pre-delivery payments of 2 and 4 additional A320 aircraft, respectively, to be delivered between 2014 and 2016. One of these aircraft was delivered in November 2014.

This loan agreement provides for certain covenants, including limits to the ability to, among others:

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

At December 31, 2014 and 2013, the Company was in compliance with the covenants under the above-mentioned loan agreements.

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 agreements.

(v) At December 31, 2014, the Company had available credit lines totaling Ps.2,007,571, of which Ps.1,420,287 were related to financial debt and Ps.587,284 were related to letters of credit (Ps.365,677 were undisbursed).

c) **Other financial liabilities**

		2014		2013
Derivative financial instruments designed as CFH (effective portion recognized within OCI):				
Interest rate swap contracts	Ps.	83,496	Ps.	106,151
Jet Fuel Asian swap contracts		169,622		–
Total financial liabilities	Ps.	253,118	Ps.	106,151
Total current liability	Ps.	210,650	Ps.	31,845
Total non-current liability	Ps.	42,468	Ps.	74,306

6. Cash and cash equivalents

An analysis of this caption is as follows:

		2014		2013
Cash on hand	Ps.	4,206	Ps.	3,840
Cash in banks		837,319		2,007,566
Short-term investments		1,423,332		439,367
Total cash and cash equivalents	Ps.	2,264,857	Ps.	2,450,773

7. Related parties

a) An analysis of balances due from/to related parties at December 31, 2014 and 2013 is provided below. All companies are considered affiliates, since the Company's primary shareholders or directors are also direct or indirect shareholders of the related parties:

	Type of transactions	Country of origin		2014		2013	Terms
Due from:							
ARSA Asesoría Integral Profesional, S.A. de C.V.*	Insurance passenger commissions	Mexico	Ps.	–	Ps.	885	30 days
			Ps.	–	Ps.	885	
Due to:							
Aeromantenimiento, S.A.	Aircraft and engine maintenance	El Salvador	Ps	559	Ps.	2,796	30 days
Human Capital International HCI, S.A. de C.V.	Professional fees	Mexico		8		240	30 days
			Ps.	567	Ps.	3,036	

* As of February 7, 2014 ARSA is no longer a related party.

For the years ended December 31, 2014, 2013 and 2012, 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, 2014, 2013 and 2012, the Company had the following transactions with related parties:

Related party transactions	Country of origin		2014		2013		2012
Revenues:							
Other commissions	Mexico	Ps.	3,663	Ps.	42,206	Ps.	44,205
Advertising	Mexico		–		–		2,500
Other	Mexico		–		5		–
Expenses:							
Maintenance	El Salvador		162,687		124,281		135,640
Fees	Mexico		1,038		–		–
Other	Mexico/El Salvador		617		1,845		857

c) Servprot

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

d) Directors and officers

During the years ended December 31, 2014, 2013 and 2012, all of the Company's senior managers received an aggregate compensation of short and long-term benefits of Ps.64,387, Ps.65,452 and Ps.63,003, respectively. Additionally, the cost of the long-term incentive plan for the year ended December 31, 2014 was Ps.3,037 (Note 17).

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

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

8. Other accounts receivable, net

An analysis of other accounts receivable at December 31, 2014 and 2013, is detailed below:

		2014		2013
Credit cards	Ps.	103,596	Ps.	126,307
Cargo clients		41,268		57,938
Travel agencies and insurance commissions		40,919		45,683
Other points of sales		18,910		22,077
Employees		6,601		5,663
Marketing services		6,350		12,736
Airport services		3,682		2,203
Credit notes from suppliers (Note 12)		–		9,956
Depositary services benefit		–		7,323
Other accounts receivable		20,563		9,684
Provision for doubtful accounts		(27,786)		(29,775)
	Ps.	214,103	Ps.	269,795

Accounts receivable have the following aging:

Days		2014 Impaired		2014 Not impaired		Total 2014		2013 Impaired		2013 Not impaired		Total 2013
00–30	Ps.	–	Ps.	190,117	Ps.	190,117	Ps.	12,497	Ps.	233,807	Ps.	246,304
31–60		–		9,615		9,615		–		25,316		25,316
61–90		–		14,371		14,371		–		10,672		10,672
91–120		27,786		–		27,786		17,278		–		17,278
	Ps.	27,786	Ps.	214,103	Ps.	241,889	Ps.	29,775	Ps.	269,795	Ps.	299,570

The movement in the allowance for doubtful accounts from January 1, 2012 to December 31, 2014 is as follows:

Balance as of January 1, 2012	Ps.	(21,297)
Write-offs		3,017
Increase in allowance		(3,442)
Balance as of December 31, 2012		(21,722)
Write-offs		462
Increase in allowance		(8,515)
Balance as of December 31, 2013		(29,775)
Write-offs		11,953
Increase in allowance		(9,964)
Balance as of December 31, 2014	Ps.	(27,786)

9. Inventories

An analysis of inventories at December 31, 2014 and 2013 is as follows:

		2014		2013
Spare parts and accessories of flight equipment	Ps.	133,375	Ps.	105,642
Meals, beverages and utensils		6,298		8,193
	Ps.	139,673	Ps.	113,835

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, 2014, 2013 and 2012, the amount of consumption of inventories, recorded as an operating expense as part of maintenance expense was Ps.108,580, Ps.139,519 and Ps.114,521, respectively.

10. Prepaid expenses and other current assets

An analysis of prepaid expenses and other current assets at December 31, 2014 and 2013 is as follows:

		2014		2013
Prepaid aircraft rent	Ps.	91,351	Ps.	67,884
Sales commission to travel agencies		46,017		43,589
Prepaid major maintenance		40,131		165,581
Advances for constructions of aircraft and engine		23,148		7,007
Advances to suppliers		17,869		10,985
Prepaid insurance		6,145		24,878
Loss on sale and leaseback transactions to be amortized (Note 14)		3,047		3,047
	Ps.	227,708	Ps.	322,971

11. Guarantee deposits

An analysis of this caption at December 31, 2014 and 2013 is as follows:

	2014	2013
Current asset:		
Aircraft maintenance deposits paid to lessors (Note 1j)	Ps. 505,744	Ps. 459,531
Other guarantee deposits	39,448	39,558
	545,192	499,089
Non-current asset:		
Aircraft maintenance deposits paid to lessors (Note 1j)	2,936,428	2,147,720
Deposits for rental of flight equipment	556,275	404,096
Collateral for derivative financial instruments (Note 1s)	33,710	40,017
Other guarantee deposits	14,556	11,648
	3,540,969	2,603,481
	Ps. 4,086,161	Ps. 3,102,570

12. Potable spare parts, furniture and equipment, net

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

	Gross value		Accumulated depreciation		Net carrying value	
	At December 31, **2014**	At December 31, 2013	At December 31, **2014**	At December 31, 2013	At December 31, **2014**	At December 31, 2013
Aircraft parts and rotable spare parts	Ps. 241,190	Ps. 181,676	Ps. (89,247)	Ps. (69,436)	Ps. 151,943	Ps. 112,240
Constructions and improvements	79,481	69,056	(55,377)	(40,810)	24,104	28,246
Standardization	97,181	71,371	(49,559)	(31,259)	47,622	40,112
Computer equipment	24,106	22,323	(20,233)	(17,439)	3,873	4,884
Office furniture and equipment	27,798	27,014	(12,056)	(8,398)	15,742	18,616
Electric power equipment	15,491	15,491	(8,144)	(6,281)	7,347	9,210
Motorized transport equipment platform	4,597	4,597	(4,358)	(4,267)	239	330
Communications equipment	8,054	7,545	(3,981)	(3,200)	4,073	4,345
Workshop machinery and equipment	6,775	6,776	(2,197)	(1,526)	4,578	5,250
Service carts on board	5,367	4,505	(2,698)	(1,810)	2,669	2,695
Pre-delivery payments	1,396,008	879,001	–	–	1,396,008	879,001
Workshop tools	11,883	10,395	(9,811)	(8,796)	2,072	1,599
Construction and improvements in process	4,760	8,828	–	–	4,760	8,828
Leasehold improvements to flight equipment	1,187,914	601,845	(629,632)	(375,878)	558,282	225,967
Total	Ps. 3,110,605	Ps. 1,910,423	Ps. (887,293)	Ps. (569,100)	Ps. 2,223,312	Ps. 1,341,323

	Aircraft parts and rotable spare parts	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	Reserve for obsolescence	Pre-delivery payments	Construction and improvements in process	Leasehold improvements to flight equipment	Total
Net book amount as of December 31, 2012	Ps. 108,561	Ps. 20,357	Ps. 10,312	Ps. 6,084	Ps. 19,489	Ps. 8,341	Ps. 10,395	Ps. 540	Ps. 4,148	Ps. 2,311	Ps. 3,629	Ps. (619)	Ps. 861,052	Ps. 13,639	Ps. 127,080	Ps. 1,195,319
Additions	25,267	7,425	37,688	176	982	2,703	–	–	169	2,651	876	–	719,157	18,575	309,382	1,125,051
Disposals and transfers	(3,344)	–	–	–	(44)	–	–	(13)	–	–	–	–	(698,233)	(5,086)	–	(706,720)
Borrowing costs, net*	–	–	–	–	–	–	–	–	–	–	–	–	(2,975)	–	–	(2,975)
Other movements	–	13,657	–	1,353	1,711	–	(419)	–	755	824	(200)	619	–	(18,300)	–	–
Depreciation	(18,244)	(13,193)	(7,888)	(2,729)	(3,522)	(1,834)	(8,377)	(197)	(727)	(536)	(1,610)	–	–	–	(210,495)	(269,352)
As of December 31, 2013	112,240	28,246	40,112	4,884	18,616	9,210	1,599	330	4,345	5,250	2,695	–	879,001	8,828	225,967	1,341,323
Cost	181,676	69,056	71,371	22,323	27,014	15,491	10,395	4,597	7,545	6,776	4,505	–	879,001	8,828	601,845	1,910,423
Accumulated depreciation	(69,436)	(40,810)	(31,259)	(17,439)	(8,398)	(6,281)	(8,796)	(4,267)	(3,200)	(1,526)	(1,810)	–	–	–	(375,878)	(569,100)
Net book amount as of December 31, 2013	112,240	28,246	40,112	4,884	18,616	9,210	1,599	330	4,345	5,250	2,695	–	879,001	8,828	225,967	1,341,323
Additions	60,083	223	25,809	970	427	–	1,488	–	308	–	862	–	906,120	12,324	585,696	1,594,310
Disposals and transfers	(283)	–	–	–	–	–	–	–	–	–	–	–	(395,639)	(4,822)	–	(400,744)
Borrowing costs, net*	–	–	–	–	–	–	–	–	–	–	–	–	6,526	–	–	6,526
Other movements	–	10,203	–	812	355	–	–	–	200	–	–	–	–	(11,570)	–	–
Depreciation	(20,097)	(14,568)	(18,299)	(2,793)	(3,656)	(1,863)	(1,015)	(91)	(780)	(672)	(888)	–	–	–	(253,381)	(318,103)
As of December 31, 2014	151,943	24,104	47,622	3,873	15,742	7,347	2,072	239	4,073	4,578	2,669	–	1,396,008	4,760	558,282	2,223,312
Cost	241,190	79,481	97,181	24,106	27,798	15,491	11,883	4,597	8,054	6,775	5,367	–	1,396,008	4,760	1,187,914	3,110,605
Accumulated depreciation	(89,247)	(55,377)	(49,559)	(20,233)	(12,056)	(8,144)	(9,811)	(4,358)	(3,981)	(2,197)	(2,698)	–	–	–	(629,632)	(887,293)
Net book amount as of December 31, 2014	Ps. 151,943	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. –	Ps. 1,396,008	Ps. 4,760	Ps. 558,282	Ps. 2,223,312

* During the years ended December 31, 2014 and 2013, the Company capitalized borrowing cost of Ps.42,572 and Ps.25,197, respectively. This line also includes disposals of capitalized borrowing costs related to sale-and-leaseback transactions of Ps.36,046 and Ps.28,172, respectively.

b) Depreciation expense for the years ended December 31, 2014, 2013 and 2012, was Ps.318,103, Ps.269,352 and Ps.187,133, respectively. Depreciation charges for the year are recognized as a component of operating expenses in the consolidated statements of operations.

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

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

In 2011, the Company amended the agreement with Airbus for the purchase of 44 A320 family aircraft to be delivered from 2015 to 2020. The new order includes 14CEO aircraft and 30 New Engine Option ("NEO") aircraft. During the years ended December 31, 2014 and 2013, the amounts paid for aircraft pre-delivery payments were of Ps.906,120 (US$67.6 million) and Ps.719,157 (US$55.6 million), respectively.

On August 16, 2013, the Company entered into certain agreements, which included the purchase of the engine for 14 A320CEO and 30 A320NEO respectively, to be delivered between 2014 and 2020. One aircraft was incorporated into the Company´s fleet during the year ended December 31, 2014. The Company also entered into agreements that provide major maintenance services related to these engines, and the purchase of seven spare engines, one of them for the A320CEO fleet, and the remaining six, for the A320NEO fleet.

In November 2013, the Company amended the agreement with Airbus to advance one of the 14 A320CEO aircraft due for delivery in 2016, to November 2014.

d) On August 27, 2012, the Company entered into a total support agreement with Lufthansa Technik AG ("LHT") for a six year term. This agreement includes a total component support agreement (power-by-hour) and guarantees the availability of aircraft components for the Company´s fleet when they are required. The cost of the total component support agreement is recognized 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, 2014, 2013 and 2012, the Company amortized a corresponding benefit from these credit notes of Ps.9,292, Ps.9,292 and 3,485, respectively, which is recognized in the consolidated statements of operations.

As of December 31, 2014 and 2013 the Company applied Ps.21,151 and Ps.11,195 to outstanding LHT. As of December 31, 2013, the Company also recorded an account receivable of Ps.9,956 for the unused portion of the credit notes, which was used during the year ended December 31, 2014.

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

13. Intangible assets, net

The composition and movement of intangible assets is as follows:

	Amortization Rate	Gross value		Accumulated amortization At December 31,		Net carrying amount	
		2014	2013	**2014**	2013	**2014**	2013
Software	20%	Ps. 199,964	Ps. 182,268	Ps. (127,398)	Ps. (102,986)	Ps. 72,566	Ps. 79,282

Balance as of January 1, 2013	Ps. 60,235
Additions	60,676
Disposals	(9,450)
Amortization	(32,179)
Balance as of December 31, 2013	79,282
Additions	28,457
Disposals	(10,761)
Amortization	(24,412)
Balance as of December 31, 2014	Ps. 72,566

Software amortization expense for the years ended December 31, 2014, 2013 and 2012 was Ps.24,412, Ps.32,179 and Ps.23,869, 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, 2014, the Company leases 50 aircrafts (44 in 2013) and six spare engines under operating leases that have maximum terms through 2026. Rents are guaranteed by deposits in cash or letters of credit. The 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, 2014 and 2013, the Company was in compliance with the covenants under the above mentioned aircraft lease agreements.

Composition of the fleet, operating leases*:

Aircraft Type	Model	At December 31, **2014**	At December 31, 2013	At December 31, 2012
A319	132	6	7	11
A319	133	12	13	13
A320	233	28	20	13
A320	232	4	4	4
		50	44	41

* 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, 2014, the Company incorporated eight aircraft to its fleet (three of them based on the terms of the original Airbus purchase agreement and 5 from a lessors aircraft order book), and returned two aircraft to the lessors. These new aircraft agreements were accounted for as operating leases.

On February 13, 2014, the Company entered into 16 new aircraft lease agreements (10 A320NEO and 6 A321NEO), all from a lessor aircraft order book. The A320NEO will be incorporated into the Company's fleet during 2016, 2017 and 2018, and the A321NEO will be incorporated into the Company's fleet during 2017 and 2018.

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

During October 2014, the Company entered into 14 new aircraft lease agreement (all A320CEO). These aircraft are from the amendment Airbus purchase order. On November 2014 the Company received one of these aircraft, which was accounted for as operating lease. The remaining 13 aircraft will be incorporated into the Company's fleet during 2015 and 2016.

Additionally, during October 2014, the Company extended the lease term of one aircraft.

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

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

On June 5, 2013, the Company entered into four new aircraft lease agreements (A320 aircraft), which were accounted as operating leases; two of them were incorporated into the Company's fleet during the fourth quarter of 2013, and the two remaining aircraft were incorporated during the first half of 2014. On August 12, 2013, the Company entered into two new aircraft lease agreements (A320 aircraft), which were accounted as operating leases; these two aircraft were incorporated into the Company's fleet during 2014.

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

At December 31, 2014 and 2013, all of the Company's aircraft and spare engine lease agreements were accounted for as operating leases.

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

	Operating leases			
	in U.S. dollars		in Mexican pesos	
2015	US$	177,015	Ps.	2,605,309
2016		163,316		2,403,682
2017		137,627		2,025,598
2018		119,700		1,761,749
2019		107,624		1,584,004
2020 and thereafter		425,782		6,266,660
Total	US$	1,131,064	Ps.	16,647,002

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, 2014.

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

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

	Operating leases in U.S. dollars		Operating leases in Mexican pesos	
2015	US$	5,547	Ps.	81,636
2016		4,916		72,352
2017		4,218		62,074
2018		2,433		35,804
2019		2,434		35,830
2020 and thereafter		9,635		141,810
Total	US$	29,183	Ps.	429,506

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

		2014		2013		2012
Aircraft and engine (Note 1p)	Ps.	2,534,522	Ps.	2,187,339	Ps.	1,885,696
Real estate:						
Airports facilities		36,113		41,643		49,277
Offices, maintenance warehouse and hangar (Note 20)		20,055		22,431		20,227
Total rental expenses on real estate		56,168		64,074		69,504
Total cost of operating leases	Ps.	2,590,690	Ps.	2,251,413	Ps.	1,955,200

During the years ended December 31, 2014, 2013 and 2012 the Company entered into sale and leaseback transactions, resulting in a gain of Ps.14,192, Ps.106,607 and Ps.61,269, respectively, that were recorded under the caption other income in the consolidated statement of operations (Note 20).

During the year ended December 31, 2011, the Company entered into sale and leaseback transactions, which resulted in a loss of Ps.30,706. This loss was deferred on the consolidated statements of financial position and is being amortized over the contractual lease term. As of December 31, 2014 and 2013, the current portion of the loss on sale amounts to Ps.3,047 and Ps.3,047, respectively, which are recorded in the caption of prepaid expenses and other current assets (Note 10), and the non-current portion amounts to Ps.20,554 and Ps.23,601, respectively, which are recorded in the caption of other assets.

For the years ended December 31, 2014, 2013 and 2012, 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, 2014 and 2013 is as follows:

		2014		2013
Fuel and traffic accrued expenses	Ps.	548,851	Ps.	563,156
Maintenance deposits		109,083		85,535
Maintenance and aircraft parts accrued expenses		96,531		38,693
Salaries and benefits		89,234		74,518
Sale, marketing and distribution accrued expenses		101,790		79,889
Administrative expenses		54,847		30,992
Deferred revenue from VClub membership		29,939		14,925
Aircraft and engine lease extension benefit (Note 1j)		34,985		27,095
Information and communication accrued expenses		19,508		93,080
Supplier services agreement		9,292		9,292
Depositary services benefit		2,068		2,068
Others		25,413		13,439
	Ps.	1,121,541	Ps.	1,032,682

b) Accrued liabilities long-term:

		2014		2013
Aircraft and engine lease extension benefit (Note 1j)	Ps.	112,057	Ps.	99,531
Supplier services agreement		15,099		24,394
Depositary services benefit		5,614		7,682
Others		11,291		5,977
	Ps.	144,061	Ps.	137,584

c) An analysis of other liabilities is as follows:

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

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

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, 2014, 2013 and 2012, are as follows:

		2014		2013		2012
Analysis of net period cost:						
Current service cost	Ps.	1,384	Ps.	1,251	Ps.	1,006
Interest cost on benefit obligation		380		276		202
Net period cost	Ps.	1,764	Ps.	1,527	Ps.	1,208

Changes in the defined benefit obligation are as follows:

		2014		2013		2012
Defined benefit obligation at January 1,	Ps.	5,260	Ps.	4,111	Ps.	2,813
Net period cost charged to profit or loss:						
Current service cost		1,384		1,251		1,006
Interest cost on benefit obligation		380		276		202
Remeasurement (gains) losses in other comprehensive income (loss):						
Actuarial changes arising from changes in financial assumptions		1,581		332		436
Payments made		(868)		(710)		(346)
Defined benefit obligation at December 31	Ps.	7,737	Ps.	5,260	Ps.	4,111

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

	2014	2013	2012
Financial:			
Discount rate	7.15%	7.50%	7.00%
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 97	EMSSA 97	EMSSA 82–89
Disability (2)	IMSS–97	IMSS–97	IMSS–97

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

Accruals for short-term employee benefits at December 31, 2014 and 2013, respectively, are as follows:

		2014		2013
Employee profit-sharing	Ps.	6,533	Ps.	7,934

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

17. Share-based payments

a) Long-term retention plan

During 2010, the Company 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 the Company's performance. During the years ended December 31, 2013 and 2012 the Company expensed Ps.6,327 and Ps.6,453 respectively, as bonuses as part of the caption salaries and benefits.

On November 6, 2014, the shareholders of the Company and the shareholders of its subsidiary Servicios Corporativos, approved an amendment to the current long-term retention plan for the benefit of certain key executives; 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 executives. The new plan was structured as a share purchase plan (equity-settled transaction) and a SARs plan (cash settled).

b) Long–term incentive plan

– Share purchase plan (equity-settled)

Under the share purchase plan (equity- settled), certain key executives 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 executives, to the Administrative Trust for the acquisition of Series A shares of the Company through an intermediary authorized by the Mexican Stock Exchange based on the Administration Trust´s Technical Committee instructions;

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

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

(v) The key executives' 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 executives 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. The Administrative Trust held available cash by an amount of Ps.440, which will be use to acquire the remaining shares.

As of December 31, 2014, the number of shares held by the Administrative Trust associated with the Company's share purchase payment plans is as follows:

	Number of Series A shares
Outstanding as of November 11, 2014	594,081
Granted during the year	–
Exercised as during the year	–
Outstanding as of December 31, 2014	594,081 *

* These shares have been presented as treasury shares in the consolidated statement of financial position.

At December 31, 2014 the vesting period of the shares granted under the Company´s share purchase plan are as follows:

Number of Series A shares	Vesting period
198,027	November 2014 – 2015
198,027	November 2015 – 2016
198,027	November 2016 – 2017
594,081	

In accordance with IFRS 2, this share purchase plan has been classified as an equity-settled transaction. Equity-settled transactions are measured at fair value at the date the equity benefits are conditionally granted to key executives. The total cost of the plan determined by the Company was Ps.10,831 to be recognized from the time it becomes probable the performance condition will be met over the vesting period. This valuation is the result of multiplying the total number of Series A shares deposited in the Administrative Trust and the price per share, plus the balance in cash deposited in the Administrative Trust.

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

All shares held in the Administrative Trust are considered outstanding for diluted earnings per share purposes.

– SARs (cash settled)

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

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

The valuation was the result of the sum of the product of the number of stock appreciation rights (assigned for each year, dated at November 6, 2014) by the price (at the valuation date) of such appreciation rights of the Series A shares, of the three years.

The amount of the cash payment is determined based on the increase in the share price of the Company between grant date and the time of exercise.

Number of SARs	Exercise date
1,959,065	November 2014 - 2015
1,312,953	November 2015 - 2016
1,043,246	November 2016 - 2017
4,315,264	

c) Management incentive plan

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

On December 24, 2012, the Management Trust was created and the share sale agreements were executed. On December 27, 2012, the trust borrowed Ps.133,723 from the Company and immediately after; the trust paid the Company the same amount borrowed as purchase price for the shares. The share sale agreements provide that the officers may pay for the shares at the same price upon the occurrence of either an initial public offering of the Company's capital stock or a change of control and as long as they remain employees until the options are exercised, with a maximum term of ten years. Upon payment of the shares by the officers to the Management Trust, it has to pay such amount back to the Company as repayment of the loan, for which the Company charges no interest.

The management incentive plan has been classified as "equity-settled", by which, the grant date, fair value is fixed and is not adjusted by subsequent changes in the fair value of capital instruments. Equity-settled transactions are measured at fair value at the date the equity benefits are conditionally granted to employees. The total cost of the management incentive plan determined by the Company was Ps.2,722 to be recognized from the time it becomes probable the performance condition will be met over the vesting period.

During the years ended December 31, 2014 and 2013, the Company recorded Ps.327 and Ps.2,068, respectively, as cost of the management incentive plan related to the vested shares, in the consolidated statements of operations. This cost was determined by using the improved Binomial valuation model from Hull and White, on the date in which the plan had already been approved by the shareholders and a shared understanding of the terms and conditions of the plan was reached with the employees (December 24, 2012, defined as the grant date), with the following assumptions:

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

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

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

On September 18, 2013 (IPO date), the key executives participating in the management incentive plan 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.

Movements in shares options

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

	Number of shares options		Exercise price in Mexican pesos		Total in thousands of Mexican pesos
Outstanding as of December 31, 2012	25,164,126*	Ps.	5.31	Ps.	133,723
Granted during the year	–		–		–
Forfeited during the year	–		–		–
Exercised during the year	(4,891,410)		5.31		(25,993)
Outstanding as of December 31, 2013	20,272,716		5.31		107,730
Granted during the year					
Forfeited during the year	–		–		–
Exercised during the year	–		–		–
Outstanding as of December 31, 2014	20,272,716	Ps.	5.31	Ps.	107,730

* Unvested shares as of December 31, 2012

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

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

		2014		2013		2012
Expense arising from equity-settled share-based payments transactions	Ps.	1,385	Ps.	2,068	Ps.	–
Expense arising from cash-settled share-based payments transactions		1,652		–		–
Total expense arising from share-based payments transactions	Ps.	3,037	Ps.	2,068	Ps.	–

18. Equity

As of December 31, 2014, the total number of authorized shares was 1,011,876,677; represented by common registered shares, issued and with no par value, fully subscribed and paid, comprised as follows:

	Shares		
	Fixed Class I	Variable Class II	Total shares
Series A shares	3,224	877,852,982	877,856,206
Series B shares	20,956	133,999,515	134,020,471
	24,180	1,011,852,497	1,011,876,677
Treasury shares (Note 17)		(20,866,797)	(20,866,797)
	24,180	990,985,700	991,009,880

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

During the year ended December 31, 2014 and 2013, the Company did not declare any dividends.

a) Stock split and share conversion

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

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

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

As a result of the share conversion, as of December 31, 2014 and 2013, the Company now has only two classes of outstanding shares, Series A shares reserved for Mexican holders and Series B shares for non-Mexican holders.

b) IPO

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

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

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

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

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

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

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

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

c) Corporate restructuring in 2012

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

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

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

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

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

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

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

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

d) Acquisition of non-controlling interest in 2012

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

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

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

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

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

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

e) Earnings per share

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

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

The following table shows the calculations of the basic and diluted earnings per share for the years ended December 31, 2014, 2013 and 2012.

	At December 31,		
	2014	2013	2012
Net income for the period attributable to equity holders of the parent	Ps. 605,184	Ps. 268,678	Ps. 215,239
Weighted average number of shares outstanding (in thousands):			
Basic	1,011,877	865,579	732,441
Diluted	1,011,877 **	865,579 **	732,441 *
EPS:			
Basic	0.598	0.310	0.294
Diluted	0.598	0.310	0.294

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

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

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.

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

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

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

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

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

19. Income tax

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

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

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

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

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

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

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

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

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

For the year ended December 31, 2012, FRBT was payable only to the extent it exceeded income tax for the same period. As a result of the repeal of the FRBT Law, starting in fiscal years beginning on or after January 1, 2014, taxpayers must cancel the FRBT credit balances they had reported through 2013 resulting from negative FRBT bases to be amortized (i.e., when deductions exceeded revenues) and FRBT credits resulting from the deduction of certain assets, such as inventories and fixed assets.

c) For the years ended December 31, 2014, 2013 and 2012, the Company reported on a combined basis a tax income of Ps.472,630, Ps.51,665 and Ps.308,633, respectively, which was offset by tax losses from prior years.

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

d) An analysis of combined income tax expense for the years ended December 31, 2014, 2013 and 2012 is as follows:

Consolidated statements of operations

		2014		2013		2012
Current year income tax expense	Ps.	(17,345)	Ps.	(8,710)	Ps.	(15,614)
Deferred income tax (expense) benefit		(21,375)		(8,840)		12,133
Total income tax expense	Ps.	(38,720)	Ps.	(17,550)	Ps.	(3,481)

Consolidated statements of OCI

		2014		2013		2012
Deferred tax related to items recognized in OCI during the year						
Net (loss) gain on cash flow hedges	Ps.	38,849	Ps.	(14,346)	Ps.	(4,900)
Remeasurement (loss) gain of employee benefits		474		(3,076)		(101)
Deferred tax charged to OCI	Ps.	39,323	Ps.	(17,422)	Ps.	(5,001)

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

	2014	2013	2012
Statutory income tax rate	30.00%	30.00%	30.00%
Annual inflation adjustment	0.11%	0.45%	7.04%
Nondeductible expenses	0.64%	3.85%	2.03%
Inflation of furniture and equipment	(0.20%)	(0.37%)	(0.64%)
Unrecorded deferred taxes on available tax losses carryforward	–	14.00%	–
Benefits recognized for tax losses	(22.92%)	(39.21%)	(33.01%)
Inflation of tax losses	(3.39%)	(6.34%)	(10.36%)
Adjustment to beginning balance	1.84%	3.56%	10.29%
Other tax adjustments	(0.07%)	0.21%	(6.17%)
Tax rate change	–	0.05%	2.50%
	6.01%	6.20%	1.68%

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

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

		2014				2013		
		Consolidated statement of financial position		Consolidated statement of operations		Consolidated statement of financial position		Consolidated statement of operations
Deferred income tax assets:								
Unearned transportation revenue	Ps.	42,627	Ps.	1,055	Ps.	41,572	Ps.	3,812
Allowance for doubtful accounts		9,194		229		8,965		2,326
Provisions		201,209		61,422		139,787		38,273
Employee benefits		2,319		267		1,578		3,503
Employee profit sharing		1,328		(420)		1,748		(421)
Financial instruments		68,241		(342)		32,349		453
Extension lease agreement and others		57,726		9,633		48,093		(3,603)
Tax losses available for offsetting against future taxable income		518,072		47,284		470,789		43,460
Other accruals		29,034		14,968		14,066		10,323
		929,750		134,096		758,947		98,126

	2014		2013	
	Consolidated statement of financial position	Consolidated statement of operations	Consolidated statement of financial position	Consolidated statement of operations
Deferred income tax liabilities:				
Inventories	Ps. 41,897	Ps. 7,745	Ps. 34,151	Ps. 5,006
Financial instruments	–	–	2,618	(18)
Rotable spare parts, furniture and equipment, net	229,543	120,487	109,056	43,199
Intangible assets	21,770	9,853	11,917	(3,329)
Prepaid expenses and other assets	63,714	(31,176)	94,890	21,224
Supplemental rent	258,859	49,009	209,850	42,386
Other prepayment	13,024	(447)	13,470	(1,502)
	628,807	155,471	475,952	106,966
	Ps. 300,943	Ps. (21,375)	Ps. 282,995	Ps. (8,840)

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

A reconciliation of deferred tax asset is as follows:

	2014	2013	2012
Opening balance as of January 1,	Ps. 282,995	Ps. 309,257	Ps. 302,125
Deferred income tax (expense) benefit during the current year recorded on profits	(21,375)	(8,840)	12,133
Tax income benefit (expense) during the current year recorded in accumulated other comprehensive income (loss)	39,323	(17,422)	(5,001)
Closing balance as of December 31,	Ps. 300,943	Ps. 282,995	Ps. 309,257

At December 31, 2014 and 2013, the table shown above includes deferred income tax asset recognized by Concesionaria (2013) and Controladora (2014) 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, 2014 and 2013 a deferred tax asset for tax losses of Ps.518,072 and Ps.470,789, respectively.

During 2013, the Company recognized a deferred tax asset for the carryforward of available tax losses of Concesionaria for an amount of Ps.369,631 (Ps. 110,889 tax effect), 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.

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 (Ps. 147,575 tax effect), based on the positive evidence of the Company to generate taxable temporary differences related to the same taxation authority which will result in taxable amounts against which the available tax losses can be utilized before they expire. Positive evidence includes the Company's desire to expand its operations out of Mexico, resulting in the need to find an organizational structure that is more efficient, in hopes of increasing the Company's growing resulting in tax planning opportunities available to create taxable profit in the future.

An analysis of the available tax losses carry-forward of the Company at December 31, 2014 is as follows:

Year of loss	Historical loss	Restated tax loss	Utilized	Total remaining amount	Year of expiration
2005	Ps. 115,170	Ps. 142,044	Ps. 142,044	Ps. –	2015
2006	297,422	387,262	384,575	2,688	2016
2007	333,206	442,183	438,870	3,313	2017
2008	317,209	412,484	56,965	355,519	2018
2009	344,154	425,688	5,622	420,066	2019
2010	95,334	113,625	2,463	111,162	2020
2011	559,623	645,657	6,756	638,901	2021
2013	181,756	194,003	6,653	187,350	2023
2014	17,341	17,854	–	17,854	2024
	Ps. 2,261,215	Ps. 2,780,800	Ps. 1,043,948	Ps. 1,736,853	

A breakdown of available tax loss carry-forward of Controladora and its subsidiaries at December 31, 2014 is as follows:

	Historical loss	Restated tax loss	Utilized	Total remaining amount
Concesionaria	Ps. 1,687,494	Ps. 2,125,375	Ps. 991,580	Ps. 1,133,796
Controladora	552,592	632,542	29,485	603,057
Comercializadora	20,149	21,869	21,869	–
Servicios Administrativos	980	1,014	1,014	–
	Ps. 2,261,215	Ps. 2,780,800	Ps. 1,043,948	Ps. 1,736,853

h) At December 31, 2014 the Company had the following tax balances:

Restated contributed capital account ("CUCA")	Ps.	3,315,687
Net tax profit account ("CUFIN")		38,801

20. Other operating income and expenses

An analysis of other operating income is as follows:

		2014		2013		2012
Gain on sale and leaseback (Note 14c)	Ps.	14,192	Ps.	106,607	Ps.	61,269
Others		7,915		4,670		7,531
	Ps.	22,107	Ps.	111,277	Ps.	68,800

An analysis of other operating expenses is as follows:

		2014		2013		2012
Administrative and operational support expenses	Ps.	261,286	Ps.	147,746	Ps.	116,257
Technology and communications		110,245		96,924		72,962
Insurance		55,248		59,313		66,903
Passenger services		32,388		57,956		53,395
Rents of offices, maintenance warehouse and hangar (Note 14 c)		20,055		22,431		20,227
Penalty of anticipated IT contract cancellation		–		21,821		–
Disposal of intangible, rotable spare parts, furniture and equipment		284		11,805		14,586
Equity transaction costs (Note 18)		–		9,424		–
Penalty of anticipated lease contract cancellation		–		7,601		–
Other IT expenses		620		7,443		–
Others		9,812		16,036		12,187
	Ps.	489,938	Ps.	458,500	Ps.	356,517

21. Finance income and cost

An analysis of finance income is as follows:

		2014		2013		2012
Interest on cash and equivalents	Ps.	23,242	Ps.	23,044	Ps.	8,084
Others		222		1,730		5,527
	Ps.	23,464	Ps.	24,774	Ps.	13,611

An analysis of finance cost is as follows:

		2014		2013		2012
Interest on debts and borrowings [1]	Ps.	–	Ps.	38,796	Ps.	53,999
Debt prepayment premium (Note 5)				65,206		–
Other finance costs		11,216		–		8,262
Cost of letter credit notes		18,189		17,164		13,868
Debt financial costs		–		–		10,059
Others		2,930		4,571		3,543
	Ps.	32,335	Ps.	125,737	Ps.	89,731

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

		2014		2013		2012
Interest on debts and borrowings	Ps.	42,572	Ps.	63,993	Ps.	118,451
Capitalized interest		(42,572)		(25,197)		(64,452)
Net interest on debts and borrowing in the consolidated statements of operations	Ps.	–	Ps.	38,796	Ps.	53,999

22. Components of other comprehensive income (loss)

		2014		2013		2012
Derivative financial instruments:						
Gain of the not-yet matured interest rate swap contracts	Ps.	22,656	Ps.	41,562	Ps.	15,037
Gain (loss) of the not-yet matured fuel swap contracts		(125,228)		6,257		1,288
Extrinsic vale changes on jet fuel Asian call options		(26,934)		–		–
	Ps.	(129,506)	Ps.	47,819	Ps.	16,325

23. Commitments and contingencies

Aircraft related commitments and financing arrangements

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

	Commitment expenditures in U.S. dollars		Commitment expenditures equivalent in Mexican pesos	
2015	US$	45,395	Ps.	668,120
2016		41,547		611,492
2017		82,275		1,210,922
2018		119,883		1,764,442
2019		91,556		1,347,516
2020 and thereafter		25,691		378,128
	US$	406,347	Ps.	5,980,620

Litigation

a) The Company, as well as the CEO, CFO, three current directors and the former chairman, are among the defendants in a putative class action commenced on February 24, 2015 in the federal 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 initial public offering. The complaint, which also names as defendants the underwriters of the IPO, generally alleges that the registration statement and prospectus for the ADSs contained misstatements and omissions with respect to competitive outlook for certain markets and the recognition of non-ticket revenue in violation of the federal securities laws, and seeks unspecified damages and rescission. A lead plaintiff for the action has not yet been appointed by the court. The Company believes that the outcome of the proceedings to which it is currently a party will not, individually or in the aggregate, have a material adverse effect on the consolidated financial statements.

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

24. Operating segments

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

		2014		2013		2012
Operating revenues:						
Domestic (Mexico)	Ps.	10,218,973	Ps.	9,619,983	Ps.	8,834,864
United States of America		3,817,769		3,382,488		2,851,551
Total operating revenues	Ps.	14,036,742	Ps.	13,002,471	Ps.	11,686,415

25. Subsequent events

Subsequent to December 31, 2014 and through April 29, 2015:

The Company incorporated two new aircraft to its fleet (one A320CEO and one A-321CEO). The Company´s fleet reached 52 aircraft as of April 29, 2015.

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