

OS AA01

Statement of details of parent law and other information for an overseas company

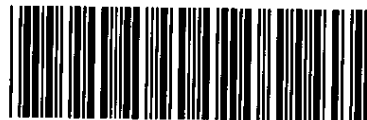


Companies House

☒ What this form is for
You may use this form to
accompany your accounts
disclosed under parent law.

☐ What this form is NOT for
You cannot use this form
for an alteration of manner of
with accounting requirements.

FRIDAY



A04 *A6FIDEVN* 22/09/2017 #459
COMPANIES HOUSE

Part 1 Corporate company name

Corporate name of overseas company ① Aerovias de Mexico S.A. de C.V. and Subsidiaries

UK establishment number B R 0 1 6 1 2 3

→ Filling in this form
Please complete in typescript or in
bold black capitals.
All fields are mandatory unless
specified or indicated by *
① This is the name of the company in
its home state

Part 2 Statement of details of parent law and other information for an overseas company

A1 Legislation

Please give the legislation under which the accounts have been prepared and, if applicable, the legislation under which the accounts have been audited.

① This means the relevant rules or legislation which regulates the preparation and, if applicable, the audit of accounts.

Legislation ② LEY GENERAL DE SOCIEDADES MERCANTILES/CIRCULAR UNICA

A2 Accounting principles

Accounts Have the accounts been prepared in accordance with a set of generally accepted accounting principles?
Please tick the appropriate box.

☐ No. Go to Section A3.
☒ Yes. Please enter the name of the organisation or other body which issued those principles below, and then go to Section A3.

② Please insert the name of the appropriate accounting organisation or body.

Name of organisation or body ③ MEXICAN INSTITUTE OF PUBLIC ACCOUNTANTS

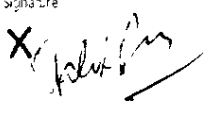
A3 Accounts

Accounts Have the accounts been audited? Please tick the appropriate box.

☐ No. Go to Section A5.
☒ Yes. Go to Section A4.

US AAU 1

Statement of details of parent law and other information for an overseas company

A4	Audited accounts	
Audited accounts	<p>Have the accounts been audited in accordance with a set of generally accepted auditing standards?</p> <p>Please tick the appropriate box</p> <p><input type="checkbox"/> No. Go to Part 3 'Signature'</p> <p><input checked="" type="checkbox"/> Yes. Please enter the name of the organisation or other body which issued those standards below, and then go to Part 3 'Signature'</p>	<p>① Please insert the name of the appropriate accounting organisation or body.</p>
Name of organisation or body ①	International Standards on Auditing	
A5	Unaudited accounts	
Unaudited accounts	<p>Is the company required to have its accounts audited?</p> <p>Please tick the appropriate box.</p> <p><input type="checkbox"/> No.</p> <p><input type="checkbox"/> Yes.</p>	
Part 3 Signature		
	I am signing this form on behalf of the overseas company	
Signature	<p>Signature</p> <p>X  X</p>	
	<p>This form may be signed by</p> <p>Director, Secretary, Permanent representative.</p>	



Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

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 Company name VECTAIS
 Address SHAKESPEARE HOUSE
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 Country
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 Telephone 0207 801 6280



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Please make sure you have remembered the following:

- ☐ The company name and, if appropriate, the registered number, match the information held on the public Register
- ☐ You have completed all sections of the form, if appropriate.
- ☐ You have signed the form



Important information

Please note that all this information will appear on the public record.



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You may return this form to any Companies House address:

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Aerovías de México, S. A. de C. V. and subsidiaries

Consolidated financial statements

December 31, 2016 and 2015

(With the Independent Auditors' Report)



2014

22/09/2017
COMPANIES HOUSE

#458

Aerovías de México, S. A. de C. V. and subsidiaries

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Independent Auditors' Report

(Translation from Spanish Language Original)

The Board of Directors and Stockholders
Aerovías de México, S. A. de C. V.:

Opinion

We have audited the consolidated financial statements of Aerovías de México, S. A. de C. V. and subsidiaries (the Company), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, the consolidated statements of profit or loss and other comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Aerovías de México, S. A. de C. V. and subsidiaries as at December 31, 2016 and 2015, and its consolidated results and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG CARDENAS DOSAL, S. C.



Salvador Prado Sánchez

Mexico City April 18, 2017

Aerovías de México, S. A. de C. V. and subsidiaries

Consolidated statements of financial position

As of December 31, 2016 and 2015

(In thousands of Mexican pesos)

	Note	2016	2015
Assets			
Current assets			
Cash and cash equivalents	9	\$ 8,951,768	4,810,993
Restricted cash	9	371,654	232,937
Financial assets	10	746,568	1,148,701
Derivative financial instruments	10	214,653	11,213
Trade and other receivables, net	13	5,093,018	3,528,723
Due from related parties	7	306,509	204,737
Prepayments and deposits	11	1,026,839	1,155,985
Inventories	12	1,428,759	1,237,218
Total current assets		18,139,768	12,330,507
Non-current assets			
Restricted cash	9	117,421	-
Property and equipment, net	14	35,304,837	23,543,879
Intangible assets	16	1,018,973	736,023
Derivative financial instruments	10	125,345	3,890
Prepayments and deposits	11	14,573,548	11,201,819
Investments in equity accounted investees	17	158,207	151,645
Trade and other receivables	13	62,920	53,038
Other non-current assets		327,089	795,631
Deferred tax assets	19	132,510	297,056
Total non-current assets		51,820,850	36,782,981
Total assets		\$ 69,960,618	49,113,488

The notes on pages 12 to 72 are an integral part of these consolidated financial statements

Aerovías de México, S. A. de C. V. and subsidiaries

Consolidated statements of financial position (Continued)

As of December 31, 2016 and 2015

(In thousands of Mexican pesos)

	Note	<u>2016</u>	<u>2015</u>
Liabilities			
Current liabilities:			
Loans and borrowings	20	\$ 6,937,852	4,400,475
Trade and other payables	23	12,171,544	8,309,872
Due to related parties	7	3,851,786	2,095,284
Provisions	22	1,210,591	360,799
Air traffic liability		6,969,326	5,350,300
Income taxes payable and employee's statutory profit sharing		<u>25,217</u>	<u>45,016</u>
Total current liabilities		<u>31,166,316</u>	<u>20,561,746</u>
 Non-current liabilities			
Loans and borrowings	20	23,741,240	16,028,842
Employee benefits	21	3,321,566	3,330,460
Provisions	22	214,929	322,370
Derivative financial instruments	10	<u>-</u>	<u>8,563</u>
Total non-current liabilities		<u>27,277,735</u>	<u>19,690,235</u>
Total liabilities		<u>58,444,051</u>	<u>40,251,981</u>
 Equity			
Capital stock	24	10,213,756	10,213,756
Deficit		(2,254,622)	(2,398,480)
Reserves		<u>3,506,471</u>	<u>1,009,888</u>
Total equity attributable to equity holders of the Company		11,465,605	8,825,164
 Non-controlling interest		<u>50,962</u>	<u>36,343</u>
Total equity		<u>11,516,567</u>	<u>8,861,507</u>
Total equity and liabilities		\$ <u>69,960,618</u>	<u>49,113,488</u>

The notes on pages 12 to 72 are an integral part of these consolidated financial statements

Aerovías de México, S. A. de C. V. and subsidiaries

Consolidated statements of profit or loss and other comprehensive income

For the years ended December 31, 2016 and 2015

(In thousands of Mexican pesos)

	Note	2016	2015
Revenues			
Passengers	\$	47,347,867	41,744,527
Air cargo		3,360,059	2,880,096
Other		<u>3,114,104</u>	<u>2,233,932</u>
Total revenue		<u>53,822,030</u>	<u>46,858,555</u>
Operating expenses			
Wages, salaries, and benefits	28	10,550,390	9,770,059
Aircraft fuel		11,182,809	10,753,178
Aircraft, communication and traffic services		7,563,050	6,332,841
Selling and administrative		4,029,102	3,397,920
Maintenance		4,241,699	3,297,493
Travel agent commissions		1,807,255	1,289,070
Passenger services		1,297,958	1,112,304
Corporate royalties	7	440,280	399,506
Aircraft leasing	15	7,134,197	5,761,498
Depreciation and amortization		3,036,536	2,512,638
Other (income) expenses, net	27	(50,283)	156,431
Share of gain on equity accounted investees	17	<u>(6,562)</u>	<u>(14,621)</u>
Total operating expenses		<u>51,226,431</u>	<u>44,768,317</u>
Total operating profit		<u>2,595,599</u>	<u>2,090,238</u>
Finance income (cost)			
Finance income	29	271,091	570,347
Finance cost	29	<u>(2,460,051)</u>	<u>(2,091,204)</u>
Total finance cost, net		<u>(2,188,960)</u>	<u>(1,520,857)</u>
Profit before income tax		406,639	569,381
Income tax expense	18	<u>246,870</u>	<u>326,234</u>
Profit for the year	\$	<u><u>159,769</u></u>	<u><u>243,147</u></u>

The notes on pages 12 to 72 are an integral part of these consolidated financial statements.

Aerovías de México, S. A. de C. V. and subsidiaries

Consolidated statements of profit or loss and other comprehensive income (continued)

For the years ended December 31, 2016 and 2015

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

	Note	2016	2015
Profit for the year	\$	<u>159,769</u>	<u>243,147</u>
Other comprehensive income (loss), net of income taxes			
Items that will never be reclassified to profit or loss			
Actuarial gains	21	83,076	89,122
Items that are or may be reclassified to profit or loss			
Cumulative translation adjustment		2,412,215	293,153
Effect due to change in non-controlling interest		<u>-</u>	<u>(150,965)</u>
		<u>2,412,215</u>	<u>142,188</u>
Other comprehensive income for the year, net of income taxes		<u>2,495,291</u>	<u>231,310</u>
Total comprehensive income for the year	\$	<u><u>2,655,060</u></u>	<u><u>474,457</u></u>
Profit attributable to:			
Owners of the Company	\$	143,858	219,387
Non-controlling interest		<u>15,911</u>	<u>23,760</u>
Profit for the year	\$	<u><u>159,769</u></u>	<u><u>243,147</u></u>
Total comprehensive income (loss) attributable to:			
Owners of the Company	\$	2,656,352	536,395
Non-controlling interest		<u>(1,292)</u>	<u>(61,938)</u>
Total comprehensive income for the year	\$	<u><u>2,655,060</u></u>	<u><u>474,457</u></u>
Earning per share			
Basic and diluted earnings per share (Mexican pesos)	25	<u>\$ 295,868</u>	<u>450,272</u>
Continuing operations			
Basic and diluted earnings per share (Mexican pesos)	\$	<u><u>295,868</u></u>	<u><u>450,272</u></u>

The notes on pages 12 to 72 are an integral part of these consolidated financial statements.

For the years ended December 31, 2016 and 2015

(In thousands of Mexican pesos)

	Attributable to equity holders of the Company						
	Effects due to						
	Capital stock	Statutory reserve	change in non-controlling interest	Actuarial (losses) gains	Cumulative translation adjustment	Retained earnings (deficit)	Total
							Non-controlling interest
							Total equity
Balance at December 31, 2014	\$ 7,435,229	435,123	3,669	(206,108)	483,956	(2,617,867)	5,534,002
Spin-off effects	(100)	-	-	-	-	-	(100)
Capital stock increase	2,778,627	-	-	-	-	-	2,778,627
Total comprehensive income for the year:							
Profit for the year	-	-	-	-	-	219,387	219,387
Other comprehensive income (loss)	-	-	(150,965)	151,060	293,153	-	293,248
Balance at December 31, 2015	10,213,756	435,123	(147,296)	(55,048)	777,109	(2,398,480)	8,825,164
Total comprehensive income for the year:							
Profit for the year	-	-	-	-	-	143,858	143,858
Other comprehensive income (loss)	-	-	-	84,368	2,412,215	-	2,496,583
Balance at December 31, 2016	\$ 10,213,756	435,123	(147,296)	29,320	3,189,324	(2,254,622)	11,465,605
							50,962
							243,147
							(61,938)
							231,310
							8,861,507
							159,769
							(1,292)
							2,495,291
							11,516,567

The notes on pages 12 to 72 are an integral part of these consolidated financial statements

Aerovías de México, S. A. de C. V. and subsidiaries

Consolidated statements of cash flows

For the years ended December 31, 2016 and 2015

(In thousands of Mexican pesos)

	Note	<u>2016</u>	<u>2015</u>
Cash flows from operating activities			
Profit before income tax	\$	406,639	569,381
Adjustments for			
Depreciation and amortization	14 and 16	3,036,536	2,512,638
(Gain) loss on sale of property and equipment		(45,097)	160,284
Provisions, net		1,088,963	(734,391)
Employee benefits		111,912	122,019
Inventory adjustments to net realizable value		109,260	80,845
Allowance for doubtful accounts		54,461	10,955
Employees' statutory profit sharing		2,468	3,260
Share of gain on equity accounted investees		(6,562)	(14,621)
Unrealized exchange (gain) loss		437,449	(773,630)
Effects due to change in non-controlling interest		-	(150,965)
Subtotal		<u>5,196,029</u>	<u>1,785,775</u>
Trade and other receivables		(1,585,808)	(133,880)
Due from related parties		(164,751)	187,066
Inventories		(270,227)	(140,717)
Prepayments and deposits		129,146	(131,187)
Trade and other payables		3,704,750	(266,634)
Due to related parties		1,772,413	881,020
Employees' statutory profit sharing and income tax paid		(22,267)	310
Changes in employee benefits		(283)	(255)
Air traffic liability		410,656	2,507,580
Derivatives financial instruments		<u>(203,440)</u>	<u>9,681</u>
Net cash from operating activities		<u>8,966,218</u>	<u>4,698,759</u>
Cash flows from investing activities			
Acquisition of properties and equipment, net		(5,224,644)	(3,532,516)
Proceeds from sale of properties and equipment		138,622	20,604
Intangible assets		(381,203)	(111,454)
Other non-current assets		272,116	(601,779)
Prepayments and deposits		<u>(859,394)</u>	<u>(561,709)</u>
Net cash from investing activities		<u>(6,054,503)</u>	<u>(4,786,854)</u>
Cash flows from financing activities			
Proceeds from loans		8,225,588	4,569,717
Repayments of loans		(6,463,482)	(2,008,678)
Restricted cash		<u>(256,138)</u>	<u>(86,745)</u>
Net cash from financing activities		<u>1,505,968</u>	<u>2,474,294</u>
Increase in cash and cash equivalents		<u>4,417,683</u>	<u>2,386,199</u>
Effects of exchange rate fluctuations on cash and cash equivalents		<u>(276,908)</u>	<u>(499,486)</u>
Net increase in cash and cash equivalents		<u>4,140,775</u>	<u>1,886,713</u>
Cash and cash equivalents			
At beginning of year		<u>4,810,993</u>	<u>2,924,280</u>
At end of year	\$	<u><u>8,951,768</u></u>	<u><u>4,810,993</u></u>

The notes on pages 12 to 72 are an integral part of these consolidated financial statements

Aerovías de México, S. A. de C. V. and subsidiaries

Notes to the consolidated financial statements

December 31, 2016 and 2015

(In thousands of Mexican pesos)

(1) Reporting entity-

Aerovías de México, S. A. de C. V. ("Aeroméxico") is a corporation organized under the laws of the United Mexican States or Mexico, domiciled at Paseo de la Reforma 445, Colonia Cuauhtémoc, 06500 Mexico City, Mexico. The consolidated financial statements of the Company, as at and for the years ended December 31, 2016 and 2015, comprise Aeroméxico and its subsidiaries (together referred to as the "Company").

Aeroméxico is a subsidiary of Grupo Aeroméxico, S. A. B. de C. V. ("Grupo Aeroméxico") holding company which is listed on the Mexican Stock Exchange. The principal activity of the Company is to provide air transport services for passengers, goods and cargo, inside and outside of México, training and management services, ground handling services, franchise systems commercialization and management of investment in shares.

(2) Basis of preparation-

(a) Statement of compliance-

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The designation IFRS includes all standards issued by the IASB and related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

On April 18, 2017, the Company's Chief Executive Officer and Chief Financial Officer, Andrés Conesa Labastida and Ricardo Sánchez Baker, respectively, authorized the issuance of the accompanying consolidated financial statements and related notes thereto.

In accordance with the General Corporations Law and the Company's bylaws, the stockholders are empowered to modify the consolidated financial statements after issuance.

(b) Basis of measurement-

The consolidated financial statements have been prepared on the historical cost basis except for financial assets at fair value and certain items of property and equipment for which fair value or a model under a previous reporting standard has been used at the date of transition to IFRS.

Aerovías de México, S. A. de C. V. and subsidiaries

Notes to the consolidated financial statements

(In thousands of Mexican pesos)

The Company has used the Mexican pesos (“pesos” or “\$”) as the presentation currency for these consolidated financial statements, however the functional currency is the US Dollar (“dollar” or “US\$”). All financial information presented in pesos has been rounded to the nearest thousands, except when otherwise indicated.

The exchange rate of the peso against the dollar, as of December 31, 2016 and 2015, was \$20.64 and \$17.21, respectively.

Due to rounding, numbers presented throughout this document may not add up precisely to the totals we provide and percentages may not precisely reflect the absolute figures.

(c) Use of estimates and judgments-

In preparing these consolidated financial statements, Management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

We base our judgments, estimates, and assumptions on historical and forecast information, as well as regional and industry economic conditions in which we or our customers operate, changes to which could adversely affect our estimates. Although we believe we have made reasonable estimates about the ultimate resolution of the underlying uncertainties, no assurance can be given that the final outcome of these matters will be consistent with what is reflected in our assets, liabilities, revenues, and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Notes 3(e) and 14 – useful lives of property and equipment
Note 15 – lease classification
Note 19 – deferred tax assets and liabilities
Note 22 – leased aircraft return provisions

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

Note 3(l) i – air traffic liability
Note 22 – provisions
Note 30 – contingencies and commitments

Aerovías de México, S. A. de C. V. and subsidiaries

Notes to the consolidated financial statements

(In thousands of Mexican pesos)

(d) Scope of consolidation

The consolidated financial statements include Aerovías de México, S. A. de C. V. and all entities that are controlled directly or indirectly by Aeroméxico.

All Aeroméxico's entities prepare their financial statements as at December 31. All financial statements were prepared applying IFRS as issued by the IASB. Intercompany transactions and balances relating to consolidated entities have been eliminated.

During the year ended in December 31, 2016 there were no changes in the number of entities included in the consolidated financial statements (see Note 6), 15 entities in total at the beginning and end of the year.

(3) Significant accounting policies-

The Company has consistently applied the accounting policies set out below to all periods presented in these consolidated financial statements.

The accounting policies have been applied consistently by Aeroméxico's entities.

(a) Basis of consolidation-

i. Subsidiaries-

Subsidiaries are entities controlled by the Company (see Note 6). Aeroméxico controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company. All entities of the Company prepared their financial statements as of December 31.

ii. Loss of control

On the loss of control, the Company derecognizes the assets and liabilities of the subsidiary, any non-controlling interest and the other components of equity related to the subsidiary. Any surplus or deficit arising in the loss of control is recognized in profit or loss.

iii. Investments in equity accounted investees-

The Company's interests in equity accounted investees comprise interests in one associate (Aeromexpress, S. A. de C. V.).

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(In thousands of Mexican pesos)

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. The consolidated financial statements include the Company's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of Aeroméxico, from the date that significant influence commences until the date that significant influence ceases. When the Company's share of losses exceeds its interest in an at-equity accounted investee, the carrying amount of that interest, including any long-term investments is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Company has an obligation or has made payments on behalf of the investee.

iv. *Transactions eliminated on consolidation-*

Intra-company balances and transactions, and any unrealized income and expenses arising from intra-company transactions are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) *Foreign currency-*

i. *Foreign currency transactions-*

Transactions in foreign currencies are translated to the respective functional currencies of the Company's entities at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

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Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising in retranslation are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

ii. Translation in the presentation currency-

The Company presents its consolidated financial statements in thousands of Mexican pesos. Assets and liabilities are translated from the functional currency (US dollar) to the presentation currency at exchange rates at the reporting dates; income and expenses are translated at exchange rates at the dates of the transactions. Foreign currency differences derived from the translation process are recognized in other comprehensive income (cumulative translation adjustment).

(c) Financial instruments-

Non-derivative financial instruments-

Non-derivative financial instruments comprise investments in debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of up to three months or less.

Restricted cash comprises cash balances from the consolidated issuer trust used by the Company to securitize cash flows from credit card ticket sales through offices and travel agencies in México; which will be paid to the holders of the Senior Trust Bonds issued by the Trust.

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

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(In thousands of Mexican pesos)

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company classifies its non-derivate financial instruments in the following categories: financial assets at fair value through profit or loss, loans and receivables and financial liabilities.

i. Financial assets at fair value through profit or loss-

A financial asset is classified at fair value through profit or loss if it is classified as trading securities or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. The fair value is obtained from financial counterparties who act as appraisers.

ii. Loans and receivables-

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise mainly trade and other receivables.

iii. Non-derivative financial liabilities-

Financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

A Company's subsidiary ("Fideicomiso F/1748", "Fideicomiso" or "Trust") placed Senior Trust Bonds ("CEBURES") issued in the Mexican Stock Exchange, for the overall authorized program amounts to \$5,000 million, with an original maturity for five years. The CEBURES accrue variable interest at the rate of Interbank Equilibrium Interest Rate ("TIIE") + a range between 170 to 200 basis points.

The CEBURES are guaranteed by cash flows collected from credit card ticket sales through offices and travel agencies in México, transferred to the Trust.

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(In thousands of Mexican pesos)

The Company determined it has control over the Trust, since it is exposed, or has rights, to variable returns from its involvement with the Trust and has the ability to affect those returns through its power over the Trust; therefore, the Trust's debt and restricted cash are included in the Company's consolidated financial statements (see Notes 9 and 20).

The Company has the following non-derivative financial liabilities: loans and borrowings, and trade and other payables.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

iv. *Capital stock-*

Ordinary shares-

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognized as a deduction from equity, net of tax effects.

v. *Derivative financial instruments (DFI)-*

In order to manage the risk associated with fluctuation in aircraft fuel prices, the Company selectively uses derivative financial instruments such as Asian options on the price of Jet Fuel 54 ("JF54"). The fair value of the options is obtained using valuation models which depend on the behavior of the referred underlying reference price in an observed period.

At the beginning, the options are recorded in the consolidated statements of financial position as an asset or liability, accordingly to its fair value. As the Company only has long calls and call spread strategies with zero or net paid premium, it limits the maximum risk to the premium paid for the instruments, since these strategies will not generate any additional obligations. During their life, the options are measured at their fair value and its effects are recorded in profit or loss of the year as they are not formally assigned as hedging instruments in a qualified hedging relationship.

Additionally in relation to its exposure to long-term interest rates due to foreign financial debt at variable interest rates, the Company has, implemented some strategies to mitigate the adverse risk in future cash flows that could derive from volatility in reference interest rates, specifically TIIE. The DFI's purchased by the Company to address this risk are interest rate Cap options and Cap Spread strategies, with net premium paid. These options offer full immunization (Cap) or partial (Cap Spread) against rises in TIIE interest rate when it exceeds the rates determined by the Management.

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To complement this financial debt coverage over long-term variable interest rates, the Company had also implemented some strategies consisting in evaluate the effect on future cash flows under current market conditions to determine the convenience of current interest rates or to exercise purchased financial instruments. The Company has purchased a DFI that allowed it to swap variable interest rates from certain long term debt based on TIIE for a fixed interest rate.

Before entering into these option agreements, Management must obtain Board of Directors' approval, which determines volumes to mitigate, as well as the reference price of them. The purpose of these operations is to mitigate risks related to fuel price and/or interest rate variances.

Derivatives are recognized initially at fair value. Changes in the fair value are recognized immediately in the income statement as the result of the valuation, which is determined at market value and when not quoted in an observable market is determined based on valuation models using observed data at the market.

(d) Inventories-

Inventories of spare parts, accessories, materials and supplies are measured at the lower of cost and net realizable value. The cost of inventories is based on average principle.

(e) Property and equipment-

i. Recognition and measurement-

Aircraft and other items of property and equipment (except for certain items which has been recorded at fair value or under a previous reporting standards as of the date of the transition to IFRS) are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use. The costs of leased aircraft in accordance to the lease specification, and borrowing costs are capitalized on the qualifying assets.

Rotable spare parts held by the Company are classified as property and equipment if they are expected to be used over more than one period.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

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Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within other income in profit or loss.

In the case the Company receives credits from manufacturers in connection with the acquisition of certain aircraft and engines, based on the individual terms and conditions of each agreement those credits are recorded as a reduction of the cost of the related aircraft and engines.

ii. Subsequent costs-

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

iii. Depreciation-

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value. Depreciation is calculated by the straight-line method, based on each asset's estimated useful life of the equipment determined by Management considering the work of third party appraisers, which is reviewed periodically and is recorded since such assets are available to operation. Assets leased under finance leases are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The annual depreciation rates and residual value of the principal asset classes are as follows:

	<u>Rates</u>	<u>% residual value</u>
Flight equipment under financial leases	3.3% and 8%	7-15
Rotable spare parts and accessories	5% to 20%	-
Construction	5% to 16.7%	5-16
Ground equipment	10% to 16%	-
Transportation equipment	25%	-
Furniture	10%	-
Machinery and equipment	10% to 33%	-
Computer equipment	30%	-
Major maintenance	12.5% to 66.7%	-

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Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

iv. Maintenance costs-

Major maintenance-

Major maintenance costs for owned and finance leased aircrafts and aircrafts under operating leases (i.e., overhaul repairs to major aircraft components such as engines and landing gears) are accounted for under the “built-in-overhaul” method. The Company recognizes the estimated cost for future major maintenance checks as non-current assets under a separate component of property and equipment (major maintenance). This cost is depreciated over the shorter of the period to the next major maintenance event or the remaining life of the asset or remaining lease term, and is reported in the consolidated statements of profit or loss and comprehensive income as part of operating expenses (depreciation and amortization). The costs for subsequent major maintenance checks are capitalized and depreciated over the shorter of the period to the next major maintenance event or the remaining life of the asset or remaining lease term. Cash outflows relating to major maintenance costs are reported in our consolidated statements of cash flows under the “acquisition of properties and equipment, net” line item as part of “cash flows from investing activities” and the related depreciation expense is reported as a non-cash adjustment to determine “net cash from operating activities”.

Line maintenance-

Disbursements made in connection with ongoing and routine maintenance efforts outside the scheduled major maintenance programs for owned and finance leased aircrafts and aircrafts under operating leases (i.e., routine inspections of the overall aircraft, including fuselage inspections, and the replacement of minor and smaller spare parts) are expensed as incurred (i.e., when maintenance activities are performed) and are reported in our consolidated statements of profit or loss and comprehensive income as part of the maintenance expense line item under operating expenses. Cash outflows for direct and/or line maintenance are reported in our consolidated statements of cash flows as part of “net cash from operating activities”.

If the Company is contractually committed to either return the aircraft in a certain condition or to compensate the lessor based on the actual condition of the aircraft at the end of the lease term, the Company recognizes during the lease term a provision for leased aircraft returns (Note 3(j)).

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(In thousands of Mexican pesos)

(f) Leased assets-

Finance leases

Leases for which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lesser of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Those leases, which, because of the terms of the agreements are considered as finance leases, are recorded at an amount equal to the present value of the rental payments stipulated in the agreements and the amount capitalized is depreciated over the term of each agreement.

Operating leases

Other leases are operating leases and the leased assets are not recognized on the Company's statements of financial position. Rentals payable by the Company under operating leases are recognized through profit or loss on a straight line basis over the lease term even if payments are not made on the same basis.

(g) Intangible assets-

Intangible assets are mainly comprised of software.

i. Other intangible assets-

Intangible assets with specific useful lives are systematically amortized based on the best estimation of their useful lives as per expected future economic benefits. This accounting policy applies to software.

ii. Amortization-

Amortization is calculated over the cost of the asset, less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date on which they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

Software	4 - 7 years
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(In thousands of Mexican pesos)

Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(h) Prepayments and deposits-

Non-current prepayments and deposits consist primarily of US Dollar deposits made to the lessor of flight equipment; and in accordance with their expiration dates are disclosed as current or non-current assets; and in some cases, earn interest payable to the Company at a rate equivalent to that of the US money market value.

Payments of maintenance deposits are capitalized as an asset upon disbursement. These deposits are considered as maintenance reserves, typically calculated based on flight hours. Such maintenance reserves are reclassified to property and equipment (major maintenance) upon the maintenance service is being performed and is expensed through depreciation based on the Company's maintenance policy.

Current prepayments consist mainly in prepaid leases, advertising and fuel prepayments. Prepayments are expensed when goods or services are received.

(i) Impairment-

i. Non-derivative financial assets (including receivables)-

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy or the disappearance of an active market for a security.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables and investment securities with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

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An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

ii. *Non-financial assets-*

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value, in either case, less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit).

The Company's corporate assets do not generate separate cash inflows. If there is any indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash-generating unit to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

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(j) Provisions-

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Provision for leased aircraft returns-

With respect to operating lease agreements, where the Company is required to return the aircraft with adherence to certain return conditions, a provision is made during the lease term. This provision is based on the present value of the expected future cost of meeting the return condition, having regard to the current fleet plan and long-term maintenance schedules. The present value of the return conditions is provided for at the inception of the lease and subject to yearly revisions.

(k) Employee benefits-

i. Defined benefit plans-

The Company has defined benefit plans for part of its employees. Additionally seniority premiums are provided to all employees under the Mexican Labor Law. The Law provides that seniority premiums are payable, based on salary and years of service, to employees who resign or are terminated after at least fifteen years of service. Under the Law, benefits are also payable to employees who are dismissed.

The Company's net obligation in respect of defined benefit pension and seniority plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on governmental bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method according to IAS 19 (see Note 21). When the calculation results in a benefit to the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company.

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(In thousands of Mexican pesos)

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

ii. Termination benefits-

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than twelve months after the reporting period, then they are discounted to their present value.

iii. Short-term benefits-

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(I) Revenue recognition-

i. Air traffic liability and revenue recognition for passenger flights-

Ticket sales are initially recorded as an air traffic liability and are recognized as passenger revenue, net of airport charges, when the service is rendered. The liability is also reduced by transportation services (previously sold through the Company) rendered by other airlines and refunds of unused tickets. Passenger revenue includes only airfare, while ancillary services are recognized in other revenues.

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The Company records the air traffic liability translating to its functional currency the tickets sold on its different foreign exchange rates at the dates of the transactions.

Revenue from unused tickets is estimated based on the terms and conditions of each ticket and on statistical experience about when is expected to be sold, mainly upon expiration, and it is included in other revenues.

ii. *Cargo revenue-*

Cargo revenue is recognized when the service is rendered.

iii. *Other revenues-*

Other revenues include revenue from unused tickets, ancillary services (i.e. excess baggage and other administrative passenger charges), charter services and other (i.e. training and ground handling services) and are recognized in the statement of profit or loss and other comprehensive income in the period the services are provided.

(m) *Finance income and costs-*

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss, and net foreign exchange gains that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions or dividends, changes in the fair value of financial assets at fair value through profit or loss, net foreign exchange losses, credit card commissions, impairment losses recognized on financial assets, and losses on derivative instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

(n) *Income tax (IT)-*

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable. IT payable for the year is determined in conformity with legal and tax requirements for companies in México, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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Deferred IT is accounted for under the asset and liability method. Deferred taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill acquired under a business combination. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(o) Employee statutory profit sharing (ESPS)-

ESPS payable for the year is determined in conformity with the tax provisions in effect. Under current tax law, companies are required to share 10% of their taxable profits with their employees.

(p) Earnings per share-

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(q) Business concentrations-

The Company's services are provided to a large number of customers without significant concentration with any particular customer.

The main supplier of fuel used by aircrafts in México is Aeropuertos y Servicios Auxiliares ("ASA"), a non-centralized organization of the Federal Government.

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(r) Segment reporting-

The Company reports information by segments as established in IFRS 8 "Operating segments". An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's Chief Operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Company has determined that it has one operating segment: air transportation. The Company divided this operating segment in the following geographical destinations: to (1) México, (2) North, Central and South America, and (3) Europe and Asia. The Company allocates revenues by geographic area based on passenger flight destination.

(4) New Standards and Interpretations not yet adopted-

A number of new standards, amendments to standards and interpretations are not yet effective as of December 31, 2016, and have not been applied in preparing these consolidated financial statements. With exception of IFRS 16, none of these is expected to have a significant effect on the consolidated financial statements of the Company. The Company has not considered earlier application of the not yet adopted standards.

- IFRS 9 "Financial Instruments". IFRS 9, published in July 2014, replaces the guidance in IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 has revised the classification and measurement of financial instruments guides, including a new model to calculate the expected impairment of financial assets credit losses, and new general requirements for hedge accounting. It also keeps the guidance concerning the recognition and low accountability of financial instruments in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. We have not yet completed the determination of the impact on our consolidated financial statements.
- IFRS 15 "Revenue from Contracts with Customers". IFRS 15 establishes a comprehensive framework for determining whether revenue is recognized, are recognized when and in what amount. Replaces the current guidelines for the recognition of revenue, including IAS 18 "Revenue", IAS 11 "Construction Contracts" and IFRIC 13 "Customer Loyalty Program". IFRS 15 is effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted. We have not yet completed the determination of the impact on our consolidated financial statements.

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- IFRS 16 "Leases" published on January 13, 2016, requires recognizing all leases in the financial statements starting on January 1, 2019. Those companies with operating leases would recognize more assets and in the other hand more debt. As a higher leasing Company's portfolio, the impact on its report's metrics would be impacted. We are evaluating the impact of the adoption of the IFRS 16 on our consolidated financial statements, which might be material on those financial statements.
- The amendments to IAS 12 "Recognition of deferred tax assets" clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The Company is assessing the impact on its consolidated financial statements.
- The amendments to IAS 7 "Statement of Cash Flow" require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The Company is assessing the impact on its consolidated financial statements.

There are no other standards and interpretations in issue but not yet adopted that the Management anticipate will have a material effect on the reported income or net assets of the Company.

(5) Determination of fair values-

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the methods described in the next paragraphs. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property-

The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

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(In thousands of Mexican pesos)

(b) Derivative securities-

The fair value of Over the Counter (“OTC”) derivatives is obtained from the banking counterparty and tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market inputs. Fair values reflect the credit risk of the instrument and include adjustments to take account of our own credit risk when appropriate.

(c) Non-derivative financial liabilities-

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(d) Debt securities-

The fair value of debt securities is determined by reference to their quoted closing mid-price at the reporting date plus an adjustment to reflect the bid price. If unquoted, the fair value is estimated using a discounted cash flow technique using expected future cash flows and a market related discount rate.

(6) Subsidiaries and associates-

The significant consolidated subsidiaries are as follows:

<u>Subsidiary</u>	<u>Principal activity</u>	<u>Country of incorporation</u>	<u>Ownership interest %</u>	
			<u>2016</u>	<u>2015</u>
<i>Fully consolidated subsidiaries:</i>				
a Aerolitoral, S. A. de C. V. (“Aerolitoral”)	Air transportation services for passengers, goods and cargo	México	99.74	99.74
b Inmobiliaria Avenida Fuerza Aérea Mexicana 416, S. A. de C. V.	Real Estate	México	99.99	99.99
c Inmobiliaria Paseo de la Reforma 445, S. A. de C. V.	Real Estate	México	99.99	99.99
d Inmobiliaria Boulevard Aeropuerto 161, S. A. de C. V.	Real Estate	México	99.99	99.99
e Operadora de Franquicias y Productos Aéreos, S. A. de C. V. (“Operadora”)	Trading of franchise system	México	63.31	63.31

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	<u>Subsidiary</u>	<u>Principal activity</u>	<u>Country of incorporation</u>	<u>Ownership interest %</u>	
				<u>2016</u>	<u>2015</u>
f	Sistemas Integrados de Soporte Terrestre en México, S. A. de C. V.	Services	México	99.99	99.99
g	Aerosys, S. A. de C. V.	Management of investment in shares	México	50.01	50.01
h	Fundación Aeroméxico, A. C.	Obtaining support and assisting in several altruist causes	México	99.99	99.99
i	Centro de Capacitación Alas de América, S. A. de C. V.	Aircraft crew training	México	99.99	99.99
j	Administradora Especializada en Negocios, S. A. de C. V.	Ground handling services	México	99.99	99.99
k	Estrategias Especializadas en Negocios, S. A. de C. V.	Ground handling services	México	99.99	99.99
l	Aerovías Empresa de Cargo, S. A. de C. V.	Air cargo services	México	100.00	100.00
m	Fideicomiso Aeroméxico Servicios	Equipment lease	México	100.00	100.00
n	Fideicomiso F/1748	Administration	México	100.00	100.00
o	Empresa de Mantenimiento Aéreo, S. A. de C. V. (*)	Aircraft maintenance service	México	99.99	99.99

Investments in equity accounted investees:

Aeromexpress, S. A. de C. V.	Air cargo services	México	50.00	50.00
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(*) During 2015, the Company acquired the 100% of this subsidiary equity from its parent company Grupo Aeroméxico for a price of \$214,943. Due to this price there was a difference compared to the equity of the subsidiary for \$150,965, recognized as an “effect of non-controlling interest” within the stockholders equity, as this transaction comes from common control entities.

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(7) Related parties transactions-

Ultimate controlling party-

Grupo Aeroméxico is the parent and ultimate controlling party.

The key management personnel of the Company during the year and at year end 2016 were as follows:

Members of the Executive Committee:

Name (member since)	Memberships on other comparable governing bodies of enterprises
Andrés Conesa Labastida (2008)	Chief Executive Officer since 2005 and member of the Board of Directors. Member of the Board of directors of Aceites Superfinos, S. A. de C. V. and Genoma Lab International, S. A. B. de C. V.
Ricardo Sánchez Baker (2008)	Chief Financial Officer, Member of the Board of Directors of Aeroméxico Cargo, Aeroméxico Capacitation and PLM.
Sergio Allard Barroso (2014)	Chief of Talent and Industry Affairs. Member of the Board of Directors of Aerolitoral, Aeroméxico Servicios, Aeroméxico Cargo and Aeroméxico Capacitation.

Key management personnel compensation comprised:

For the years ended December 31, 2016 and 2015, the aggregate compensation paid by the Company to its directors and members of senior management, was approximately \$53,658 and \$43,618, respectively, which correspond to their base compensation.

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Related-party transactions and balances-

Transactions carried out with related parties during the years ended December 31, 2016 and 2015 were executed on terms equivalent to those that prevail in arm's length transactions are disclosed below:

i. Operations

	<u>2016</u>	<u>2015</u>
Income:		
Tickets reward (6)	\$ 1,191,378	804,169
Trademark maintenance (4)	395,920	339,996
Use of VIP lounges (6)	47,340	42,600
Interest income (3), (4) and (7)	10,158	17,456
Other services (6) and (7)	9,550	14,593
Administrative fee (5) and (6)	6,399	5,834
Personnel services (6) and (10)	4,663	9,124
Leasing (6)	<u>989</u>	<u>930</u>
	\$ 1,666,397	1,234,702
	=====	=====
Expenses:		
Purchase of kilometers (6)	\$ 1,379,080	1,203,767
Corporate royalties (4)	836,200	739,502
Administrative services (3) and (8)	98,877	40,050
Maintenance (7) (a)	69,377	73,159
Fees (5)	67,491	47,066
Interest expense (1), (4) (6) and (9)	58,107	50,556
Redemption costs (6)	<u>47,482</u>	<u>51,834</u>
	\$ 2,556,614	2,205,934
	=====	=====
Aeromexpress, S. A. de C. V. ("Aeromexpress")	(1)	
Empresa de Mantenimiento Aéreo, S. A. de C. V. ("EMA") (a)	(2)	
Fideicomiso SEAT F/036 ("Fideicomiso SEAT")	(3)	
Grupo Aeroméxico	(4)	
Servicios Corporativos Aeroméxico, S. A. de C. V. ("Servicios Corporativos")	(5)	
PLM Premier, S. A. P. I. de C. V. ("PLM")	(6)	
AM DL MRO JV, S. A. P. I. de C. V. ("MRO")	(7)	

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(In thousands of Mexican pesos)

Integración y Supervisión de Recursos Corporativos, S. A. de C. V. ("ISRC")	(8)
Premium Alliance Services, LLP ("Premium")	(9)
Loyalty Servicios Profesionales Mundiales, S. A. de C. V. ("Loyalty")	(10)

- (a) Additionally in 2015, Empresa de Mantenimiento Aéreo, S. A. de C. V. became a direct subsidiary of the Company, as mentioned in Note 6.

ii. Outstanding balances

Balances due from and due to related parties as of December 31, 2016 and 2015, are summarized as shown below:

	<u>2016</u>	<u>2015</u>
<u>Due from:</u>		
MRO	\$ 245,838	149,664
Fideicomiso SEAT	59,855	54,804
Aeroméxico Cargo, S. A. P. I. de C. V.	269	269
ISRC	511	-
Loyalty	<u>36</u>	<u>-</u>
Total due from related parties	\$ <u>306,509</u>	<u>204,737</u>
<u>Due to:</u>		
Grupo Aeroméxico	\$ 1,251,119	670,655
PLM (I)	1,613,875	647,582
Premium	619,385	427,775
Aeromexpress	279,255	268,219
Reempresac Comercial, S. A. de C. V.	41,281	41,281
Corporación Nadmin, S. A. de C. V.	15,075	15,075
Recursos Anarec, S. A. de C. V.	20,565	20,565
Servicios Corporativos	11,231	3,652
Loyalty	<u>-</u>	<u>480</u>
Total due to related parties	\$ <u>3,851,786</u>	<u>2,095,284</u>

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Balances due to and due from related parties relate to non-interest-bearing loans with no specific maturity and are by nature, at short-term.

(1) Within this balance, certain transactions stipulate an interest at market rates.

(8) Operating segments-

The Company has one reportable segment, air transportation. This is based on the Company's internal reporting structure to the Chief Operating Decision Maker which is the CEO of the Company. The main measure of profit and loss the segment is EBITDAR (defined as earnings before interest, taxes, depreciation, amortization and rental cost).

Geographical revenue segment information is as follows:

	<u>2016</u>	<u>2015</u>
Mexico	\$ 22,878,557	20,626,937
North, Central and South America	22,936,968	19,791,720
Europe and Asia	<u>8,006,505</u>	<u>6,439,899</u>
	\$ <u>53,822,030</u>	<u>46,858,556</u>

(9) Cash and cash equivalents-

	<u>2016</u>	<u>2015</u>
Bank balances	\$ 1,204,596	2,187,966
Call deposits	<u>7,747,172</u>	<u>2,623,027</u>
Cash and cash equivalents	\$ <u>8,951,768</u>	<u>4,810,993</u>

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is described in Note 26.

At December 31, 2016 and 2015, the Company has restricted cash amounting to \$489,075 and \$232,937, respectively, from the consolidated issuer trust to securitize cash flows from credit card ticket sales through offices and travel agencies in Mexico.

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(10) Financial assets and derivatives-

	<u>2016</u>	<u>2015</u>
Financial instruments	\$ 746,568	1,148,701
Current derivatives (assets)	214,653	11,213
Non-current derivatives (assets)	125,345	3,890
Non-current derivatives (liabilities)	-	(8,563)
	=====	=====

At December 31, 2016 and 2015, the Company held investments securities denominated in Mexican pesos (mostly), and US Dollars through money market instruments with initial maturity of more than 90 days, which have been classified as financial assets designated at fair value through profit or loss upon initial recognition.

Investments securities are diversified both in terms of issuers and counterparties, having debt instruments issued by the Federal Government, financial institutions and corporate securities with high credit rating.

At 31 December 2016 and 2015, the Company had interest rate swaps in force in which the Company pays fixed rate receiving a floating rate indexed to TIIE 28 days. Through these instruments the Company makes management of risk generated by the variability of flows to floating interest rate, as well as volatility in interest rates as a result of the issuance of the last Senior Trust Bonds.

The Fideicomiso F1748 has outstanding at December 2016 and 2015 *Cap Spread* type strategies which are used to limit losses or gains generated by the fluctuations in interest rates of the Senior Trust Bonds and consist by two options on interest rate, generating a ceiling and a floor on interest flows.

Derivatives financial information used by the Company and exposure to credit, currency and interest rate risks are disclosed in Note 26.

(11) Prepayments and deposits-

Current prepayments consist mainly of prepaid leases, advertising and fuel prepayments.

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Non – current prepayments and security deposits consist of the following:

	<u>2016</u>	<u>2015</u>
Advances for fleet renewal (1)	\$ 5,964,841	4,339,908
Deposits:		
For the lease of aircraft and engines	1,575,007	1,260,495
With financial institutions	358,887	644,388
With airport groups	378,427	324,083
Maintenance deposits	6,069,070	4,403,704
Other	<u>227,316</u>	<u>229,241</u>
	\$ <u>14,573,548</u>	<u>11,201,819</u>

- (1) The Company entered into agreements to continue the renewal of the fleet; for such purposes, it has made a number of advance payments to the manufacturer (see Note 30), which will be applied in accordance with the incorporation of the new aircraft to the fleet, which are partially financed.

(12) Inventories-

Inventories as of December 31, 2016 and 2015, are comprised as follows:

	<u>2016</u>	<u>2015</u>
Spare parts and accessories (1)	\$ 1,349,589	1,155,321
Miscellaneous supplies	<u>79,170</u>	<u>81,897</u>
	\$ <u>1,428,759</u>	<u>1,237,218</u>

Inventories are stated net of allowances for obsolescence. Total reductions for obsolescence at December 31, 2016 and 2015 were \$22,304 and \$40,263, respectively.

- (1) During 2016 and 2015, these inventories were guaranteeing a fuel supplying contract used in México.

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(13) Trade and other receivables-

Accounts receivable as of December 31, 2016 and 2015, consist of the following:

	<u>2016</u>	<u>2015</u>
Airlines and travel agencies	\$ 435,767	364,243
Credit cards and customers (1)	3,713,466	2,140,199
Recoverable taxes	1,022,501	945,493
Other	<u>59,362</u>	<u>172,642</u>
	5,231,096	3,622,577
Less allowance for doubtful accounts	<u>(138,078)</u>	<u>(93,854)</u>
Net current accounts receivable	5,093,018	3,528,723
Long-term account receivable (2)	<u>62,920</u>	<u>53,038</u>
Total accounts receivable	\$ <u>5,155,938</u>	<u>3,581,761</u>

For the aging analysis of portfolio and other receivables see Note 26.

- (1) Collection from sales related to certain Mexican credit cards are guaranteeing the Senior Trust Bonds (CEBURES) issued by the Company and also the collection related to certain credit cards in the United States (see Note 20).
- (2) Includes an account receivable in US dollars, bearing interests at annual rate of 6% with a maturity date in 2018. Accrued interest is paid on a monthly basis. The Company's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 26.

(14) Property and equipment-

Property and equipment as of December 31, 2016 and 2015, comprise the following

Cost or deemed cost	Flight equipment under finance leases	Major maintenance	Rotable spare parts and accessories	Improvements on flight equipment	Machinery and equipment	Leasehold improvements	Furniture and computer equipment	Flight equipment	Construction	Ground and platform equipment	Transportation equipment	Other equipment	Work in process	Land	Total
Balance at January 1, 2016	\$ 18,529,502	5,613,722	1,569,964	747,870	800,989	1,365,953	408,566	258,701	720,056	111,703	88,662	315,535	697,437	228,722	31,457,382
Additions	5,912,328	4,227,844	216,950	205,784	80,889	172,929	9,031	-	-	14,260	2,383	6,037	24,139	20,249	10,892,723
Disposals	(372,564)	(896,893)	(217,781)	-	(6,202)	-	(1,950)	-	-	(665)	(2,864)	(764)	-	-	(1,499,725)
Effect of movements in exchange rate	3,262,920	406,535	101,632	83,952	4,443	156,734	17,128	-	10,180	935	3,482	16,983	163,417	331	4,228,672
Balance at December 31, 2016	\$ 27,332,186	9,351,206	1,670,765	1,037,606	880,119	1,695,616	432,735	258,701	730,236	126,233	91,563	337,791	884,993	249,302	45,079,052
Balance at January 1, 2015	\$ 13,380,535	3,582,431	1,447,400	439,799	709,456	1,229,536	351,809	258,701	704,706	104,226	80,621	249,440	573,250	228,485	23,340,395
Additions	2,892,179	1,968,261	139,036	225,593	88,325	35,083	47,928	-	3,700	8,456	5,907	48,488	28,401	-	5,489,357
Disposals	-	(267,547)	(106,707)	(3,596)	(246)	(17,601)	(9,686)	-	-	(1,707)	(477)	-	(99,023)	-	(506,592)
Effect of movements in exchange rate	2,256,788	330,577	90,235	88,074	3,484	118,933	18,515	-	11,650	728	2,611	17,607	194,811	237	3,134,222
Balance at December 31, 2015	\$ 18,529,502	5,613,722	1,569,964	747,870	800,989	1,365,953	408,566	258,701	720,056	111,703	88,662	315,535	697,437	228,722	31,457,382
Depreciation															
Balance at January 1, 2016	\$ 2,267,966	2,222,638	703,687	382,443	595,662	577,029	299,466	141,850	397,785	83,536	61,398	180,043	-	-	7,913,503
Depreciation for the year	995,581	1,348,385	95,651	164,848	33,677	147,933	27,520	11,046	15,578	6,438	6,286	36,369	-	-	2,887,282
Disposals	(354,082)	(530,274)	(117,775)	-	(542)	-	(1,988)	-	-	(2)	(1,472)	(435)	-	-	(1,026,570)
Balance at December 31, 2016	\$ 2,909,465	3,020,749	679,563	547,291	628,797	724,962	324,998	152,896	413,363	89,972	66,182	215,977	-	-	9,774,215
Balance at January 1, 2015	\$ 1,472,823	1,251,061	686,672	283,068	569,879	448,999	284,610	119,954	397,785	79,563	56,558	160,847	-	-	5,811,819
Depreciation for the year	795,143	1,204,592	27,992	102,971	26,029	144,122	24,541	21,896	-	5,589	5,317	19,196	-	-	2,427,388
Disposals	-	(233,015)	(60,977)	(3,596)	(246)	(16,092)	(9,685)	-	-	(1,616)	(477)	-	-	-	(325,704)
Balance at December 31, 2015	\$ 2,267,966	2,222,638	703,687	382,443	595,662	577,029	299,466	141,850	397,785	83,536	61,398	180,043	-	-	7,913,503
Carrying amount															
At December 31, 2016	\$ 24,422,721	6,330,457	991,202	490,315	251,322	970,654	407,737	105,205	316,573	36,261	25,381	121,814	884,993	249,302	35,304,837
At December 31, 2015	\$ 16,261,536	3,391,084	866,277	365,427	205,327	788,934	109,100	116,851	322,271	28,167	27,264	135,492	697,437	228,722	23,433,879

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- (1) Lease agreements for the land on which the maintenance facilities and other buildings are located establish that such facilities will be transferred to the Federal Government upon termination of the lease agreements without any consideration to the Company. The most important agreements expire on different dates.

Finance leases-

Finance leases in 2016 include two Boeing B787-9 which started in 2016 (none in 2015) with last maturing in 2028 under JOLCO (Japanese Operating Lease with Call Option) financing; two Boeing B787-8 airplane (same number in 2015), which started in 2014 and the last one will mature in 2027; thirteen Boeing B737 airplanes (twelve in 2015), which started in 2006 and the last one will mature in 2025, and ten Embraer EMB-190 airplanes in 2016 (same number in 2015) starting in 2011 and the last one maturing in 2024, and 7 Embraer ERJ145 (same number in 2015), starting in 2015 maturing in 2017.

Additionally, as of December 31, 2016 and 2015 the Company considered as finance leases one flight simulator and two engines, as part of its fixed assets.

The leased equipment secures lease obligations. At December 31 2016, the net carrying amount of leased equipment was \$24,422,721 (2015: \$16,261,536). During the year, the Company acquired leased assets of \$5,912,328 (2015: \$2,892,179). For our commitments with regards to future payments of finance leases see Note 20.

Property and equipment under construction-

As of December 31, 2016 and 2015 the estimated costs to conclude projects and work in progress amount to \$127,022 and \$67,186, respectively.

Impairment loss and subsequent reversal-

At December 31, 2016 and 2015, there are no losses from impairment in the value of these assets, evaluated in accordance with provisions of IAS 36, "Impairment of Assets".

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(15) Operating leases-

Future minimum lease payments translated at the exchange rate as of December 31, 2016, are as follows:

<u>Year</u>	<u>Operating leases</u>
2017	\$ 8,166,092
2018	7,293,142
2019	6,379,201
2020	5,339,760
2021	4,416,113
2022 and thereafter	<u>11,526,827</u>
	\$ <u>43,121,135</u>

These amounts are determined based on the contractual rent payments as of December 31, 2016.

Total rental expenses during the years ended December 31, 2016 and 2015, are as follows:

	<u>2016</u>	<u>2015</u>
Aircraft leasing	\$ 7,134,197	5,761,498
Real estate	<u>369,094</u>	<u>288,475</u>
	\$ <u>7,503,291</u>	<u>6,049,973</u>

Main operating leases are as follows:

- (a) In 2016, the Company leased 100 aircraft and 26 engines (97 aircraft and 16 engines in 2015) with different terms, with the last expiring in 2027. In some cases, at the end of the contract, there is a purchase option at market value and in others an option to extend the leasing term.

During 2016 and 2015, the Company renewed certain lease agreements, extending their original maturity dates, which are presented as a liability at the end of that year (see Note 30).

The aforementioned agreements are partially guaranteed by letters of credit or security cash deposits. In addition, the most significant obligations assumed under this modality are listed as follows:

- Maintain letters of credit up to 60 days after the expiration of the leases.
- Maintain all records, licenses and required authorizations by aviation authorities throughout the term of the lease agreement, by making the related payments.

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- Provide maintenance to the leased equipment in accordance with the respective maintenance program.
- Insure the equipment in accordance with the amounts and risks established in each agreement.
- Provide certain financial information to the lessor.
- Comply with technical conditions for returning the aircraft.

- (b) The Company entered into leasing contracts for airport facilities, a portion of which are in the process of being renewed.

(16) Intangible assets-

As of December 31, 2016 and 2015, this caption consists of software, and is comprised as shown below:

		<u>Cost</u>	<u>Amortization and impairment losses</u>	<u>Net</u>
Balance at January 1, 2016	\$	926,255	(190,232)	736,023
Additions		<u>432,204</u>	<u>(149,254)</u>	<u>282,950</u>
Balance at December 31, 2016	\$	<u>1,358,459</u>	<u>(339,486)</u>	<u>1,018,973</u>
Balance at January 1, 2015	\$	1,268,994	(712,635)	556,359
Additions		264,914	(85,250)	179,664
Disposals		<u>(607,653)</u>	<u>607,653</u>	<u>-</u>
Balance at December 31, 2015	\$	<u>926,255</u>	<u>(190,232)</u>	<u>736,023</u>

(17) Investment in equity accounted investees-

Investment in equity accounted investees as of December 31, 2016 and 2015 is comprised of the Company's interest in one associate, Aeromexpress (ceased operations in 2011).

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The following table analyses, in aggregate, the carrying amount of this associate:

	<u>%</u>	<u>2016</u>	<u>2015</u>
Carrying amount of interest in associate at beginning of the year	50.00	\$ 151,645	137,015
Share of gain		<u>6,562</u>	<u>14,630</u>
Balance end of year		\$ <u>158,207</u>	<u>151,645</u>

(18) Income tax (IT)-

The IT law imposes an IT rate of 30%.

The total income tax expense for the years ended December 31, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Current tax expense	\$ 118,482	75,846
Deferred tax expense	<u>128,388</u>	<u>250,388</u>
Total income tax expense	\$ <u>246,870</u>	<u>326,234</u>

(a) Reconciliation of effective tax rate:

	<u>2016</u>		<u>2015</u>	
	<u>%</u>	<u>\$</u>	<u>%</u>	<u>\$</u>
Profit of the year	-	159,769	-	243,147
Total income tax	61%	<u>246,870</u>	57%	<u>326,234</u>
Profit excluding income tax	-	406,639	-	569,381
Income tax using the Company's domestic tax rate	30%	121,992	30%	169,981
Non-deductible expenses	104%	422,952	58%	329,590
Others, mainly functional currency and inflation effects	(73%)	<u>(298,074)</u>	(31%)	<u>(173,337)</u>
	61%	<u>246,870</u>	57%	<u>326,234</u>

(19) Deferred tax assets and liabilities-

(a) Recognized deferred tax assets and liabilities-

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities, at December 31, 2016 and 2015, are presented in the next page.

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	<u>2016</u>	<u>2015</u>
<i>Deferred tax assets:</i>		
Allowance for doubtful accounts	\$ 31,403	27,330
Accruals (includes ATL and some finance leases)	3,815,001	617,460
Net operating loss carry forwards	3,125,386	2,233,808
Advances from customers	67,800	75,098
Employee benefits	921,851	841,128
Other reserves (mainly leased aircraft returns)	<u>327,805</u>	<u>1,168,194</u>
Deferred tax assets	<u>8,289,246</u>	<u>4,963,018</u>
<i>Deferred tax liabilities:</i>		
Inventories	448,628	371,103
Property and equipment	3,997,619	1,696,575
Prepaid expenses	228,137	300,487
Other (mainly amortizable expenses and deposits)	<u>3,482,352</u>	<u>2,297,797</u>
Deferred tax liabilities	<u>8,156,736</u>	<u>4,665,962</u>
Net deferred tax asset, recorded in the statements of financial position	\$ <u>132,510</u>	<u>297,056</u>

In assessing the recoverability of deferred tax assets, Management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies past in making this assessment.

At December 31, 2016, operating tax loss carry forwards, expire as follows:

<u>Year</u>	<u>Inflation adjusted through December 31, 2016</u>
2018-2026	\$ <u>10,428,998</u>

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(b) Movement in temporary differences during the year-

	<u>January 1, 2016</u>	<u>Recognized in income</u>	<u>Recognized in equity</u>	<u>December 31, 2016</u>
Property and equipment	\$ (1,696,575)	(2,301,044)	-	(3,997,619)
Provisions	617,460	3,197,541	-	3,815,001
Inventories	(371,103)	(77,525)	-	(448,628)
Trade and other receivables	27,330	4,073	-	31,403
Other items (including tax loss carry forwards)	<u>1,719,944</u>	<u>(951,433)</u>	<u>(36,158)</u>	<u>732,353</u>
	\$ <u>297,056</u>	<u>(128,388)</u>	<u>(36,158)</u>	<u>132,510</u>
	<u>January 1, 2015</u>	<u>Recognized in income</u>	<u>Recognized in equity</u>	<u>December 31, 2015</u>
Property and equipment	\$ (936,187)	(760,388)	-	(1,696,575)
Provisions	1,092,054	(474,594)	-	617,460
Inventories	(305,773)	(65,330)	-	(371,103)
Trade and other receivables	34,988	(7,658)	-	27,330
Other items (including tax loss carry forwards)	<u>658,578</u>	<u>981,736</u>	<u>79,630</u>	<u>1,719,944</u>
	\$ <u>543,660</u>	<u>(326,234)</u>	<u>79,630</u>	<u>297,056</u>

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(20) Loans and borrowings-

The features of the loans and borrowings (including finance leases) comprising this caption and guarantees as at December 31, 2016 and 2015, are described below:

Thousands of \$	Currency	Nominal interest rate	Year of maturity	2016	2015
Senior Trust Bonds ("CEBURES") issued in Mexico, guaranteed by the collection of credit card sales in México (2) (3) (4)	\$	TIIE rate plus 170 to 200 basis points	2020	\$4,397,303	\$4,990,596
Loan guaranteed by collection of credit card sales in the United States	US\$	Libor rate plus 325 basis points	2021	6,192,000	-
Prepayments on aircraft purchase rights guaranteed by BANCOMEXT	US\$	Libor rate plus 225 basis points	2017	3,264,077	3,155,867
Loan	US\$	Fixed annual rate between 5.10% to 5.17%	2018	103,435	211,149
Loan	US\$	Fixed annual rate of 5.29%	2018	39,207	49,234
Loans guaranteed by the Ex-Im Bank in the United States of America	\$	TIIE rate plus 50 basis points	2018	360,239	574,202
Loans guaranteed by the Ex-Im Bank in the United States of America	US\$	Libor rate plus 160 basis points	2020	66,085	58,084
Loans guaranteed by the Ex-Im Bank in the United States of America	US\$	Libor rate plus 65 basis points	2018	131,018	-
Loan renewable, every 28 days	\$	Fixed annual rate of 5.95%	2016	-	200,000
Loan renewable every 28 days	\$	TIIE rate plus 350 basis points	2016	-	120,000
Loan renewable every 28 days	\$	TIIE rate plus 225 basis points	2016	-	125,000
Loan	\$	TIIE rate plus 220 basis points	2016	-	225,000
Loan	US\$	Libor rate plus 240 basis points	2016	-	120,470
Total Loans				14,553,364	9,829,602

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thousands of \$	Currency	Nominal interest rate	Year of maturity	2016	2015
<i>Financial leasing of flight and other equipments, guaranteed by the Ex-Im Bank in the United States of America (1)(2)</i>	\$	<i>Fixed rates between 8.04% to 8.45%</i>	2018	227,551	347,710
<i>Finance leases of flight equipment</i>	US\$	<i>Fixed rates between 3.93% to 4.16%</i>	2019	521,805	581,375
<i>Financial leasing of flight and other equipment, guaranteed by the BNDES (Banco Nacional de Desenvolvimento Economico e Social) (1)</i>	US\$	<i>Fixed annual rates ranging from 3.21% to 4.12% and / or annual variable rates at Libor plus 200 basis points</i>	2024	3,334,217	3,445,352
<i>Financial leasing of flight and other equipments guaranteed by the Ex-Im Bank in the United States of America (1)</i>	\$	<i>TIE plus 65 basis points (3)</i>	2024	1,057,777	1,268,201
<i>Financial leasing of flight and other equipments guaranteed by the Ex-Im Bank in the United States of America (1)</i>	US\$	<i>Annual fixed rate of 2.54%</i>	2025	1,839,320	1,687,803
<i>Financial leasing of flight and other equipments guaranteed by the Ex-Im Bank in the United States of America (1)</i>	US\$	<i>Annual fixed rate of 2.33%</i>	2027	3,161,872	3,159,498
<i>Financial leasing of flight and other equipments (JOLCO)</i>	US\$	<i>Annual fixed rate of 3.78%</i>	2028	2,963,904	-
<i>Financial leasing of flight and other equipments (JOLCO)</i>	US\$	<i>Annual fixed rate of 4.56%</i>	2026	2,963,904	-
<i>Finance leases of flight equipment</i>	US\$	<i>Annual fixed rate of 5.00%</i>	2017	55,378	109,776
Total Leasing				16,125,728	10,599,715
Total Debt				30,679,092	20,429,317
<i>Less current installments of financial debt</i>				(6,937,852)	(4,400,475)
Non – current debt				\$23,741,240	\$16,028,842

- (1) Some of the contracts establish certain commitments for the Company, including: to comply with affirmative and negative covenants; to provide certain financial information and reports of fleet variances; to comply with conditions and terms agreed upon with third parties, mainly as concerns payment of documented commitments; as well as restrictions for the Company for selling or transferring all or a significant portion of assets.
- (2) This loan establishes a financial covenant related to collections coverage ratio which represented the payment guarantee.

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- (3) At December 31, 2016 and 2015, the Company contracted interest rate *Swaps*, allowing to pay a fixed rate (see Note 26).

Likewise, there is an obligation in some contracts to notify of changes of shareholders and any adverse modification of the financial situation. Furthermore, some contracts foresee the possibility of an early termination and describe circumstances to obtain temporary waivers.

As of December 31, 2016, the Company is in compliance with its covenants.

All loans mature throughout 2017. As of December 31, 2016, future maturities of long-term debt, are as follows:

2018	\$	4,886,402
2019		4,018,110
2020		3,649,052
2021		2,816,970
2022 and thereafter		<u>8,370,706</u>
	\$	<u>23,741,240</u>

There are established conditions to finance the renewal of the Company fleet (see Note 30).

(21) Employee benefits-

The Company has defined pension and retirement plans covering some of its employees. The benefits of such plans are calculated based on salary levels, years of service, mortality and expected future salary increase. The Company periodically makes contributions, to trust funds based on actuarial calculations to finance part of the cost of these plans. The trust funds are mainly invested in fixed-income securities. Actuarial calculations for these plans result in accumulated benefit obligations in excess of the plan assets.

Seniority premiums are provided to all employees under the Mexican Labor Law. The Law provides that seniority premiums are payable, based on salary and years of service, to employees who resign or are terminated after at least fifteen years of service. Under the Law, benefits are also payable to employees who are dismissed. The Company has not funded its seniority premium obligation, which amounts to \$123,043 and \$121,493 as of December 31, 2016 and 2015, respectively, included in the total employee benefits balances as of the same dates.

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(a) Composition of plan assets-

		<u>2016</u>	<u>2015</u>
Equity securities	\$	599	584
Government bonds		<u>8,557</u>	<u>8,290</u>
	\$	<u>9,156</u>	<u>8,874</u>

(b) Movements in the present value of the defined benefit obligations-

		<u>2016</u>	<u>2015</u>
Defined benefit obligations at January 1,	\$	3,339,334	3,433,117
Benefits paid by the plan		(296,782)	(296,973)
Current service cost		194,408	214,292
Interest cost		214,003	204,446
Curtailment (gain) loss		<u>283</u>	<u>254</u>
		3,451,246	3,555,136
Actuarial gains recognized in other comprehensive income		<u>(120,524)</u>	<u>(215,802)</u>
Defined benefit obligations at December 31	\$	<u>3,330,722</u>	<u>3,339,334</u>

(c) Movement in the present value of plan assets-

		<u>2016</u>	<u>2015</u>
Fair value of plan assets at January 1	\$	8,874	8,620
Actual return on plan assets		<u>282</u>	<u>254</u>
Fair value of plan assets at December 31	\$	<u>9,156</u>	<u>8,874</u>

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(d) Actuarial gains and losses recognized in other comprehensive income-

		<u>2016</u>	<u>2015</u>
Cumulative amount at January 1	\$	(75,230)	(291,032)
Recognized during the year		<u>120,524</u>	<u>215,802</u>
Cumulative amount at December 31	\$	<u>45,294</u>	<u>(75,230)</u>

(e) Actuarial assumptions-

Significant assumptions used in determining the net period cost of the plans are as follows:

	<u>2016</u>	<u>2015</u>
Expected rate of return on plan assets	7.70%	6.80%
Discount rate	7.70%	6.80%
Rate of compensation increase	5.50%	4.50%
Remaining average labor life (over benefit obligations)	15 years	17 years

The assumed discount rates are derived from rates available on government bonds for which the timing and amounts of payments match the timing and the amounts of projected pension payments.

(f) Sensitivity analysis-

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant would have affected the defined benefit obligation by the amounts shown below as of December 31, 2016:

		<u>Increase</u>	<u>Decrease</u>
Discount rate (0.5% movement)	\$	<u>(107,976)</u>	<u>114,803</u>
Rate of compensation (0.5% movement)	\$	<u>113,172</u>	<u>(107,169)</u>

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(22) Provisions-

		<u>Leased aircrafts returns</u>	<u>Litigations</u>	<u>Total</u>
Balance at January 1, 2016 (1)	\$	644,744	38,425	683,169
Additions		700,120	58,500	758,620
Utilization		<u>(1,562)</u>	<u>(14,707)</u>	<u>(16,269)</u>
		1,343,302	82,218	1,425,520
Less non-current portion		<u>(214,929)</u>	<u>-</u>	<u>(214,929)</u>
Balance at December 31, 2016 (2)	\$	<u>1,128,373</u>	<u>82,218</u>	<u>1,210,591</u>
Balance at January 1, 2015 (1)	\$	1,374,178	43,382	1,417,560
Additions		276,079	38,000	314,079
Utilization		<u>(1,005,513)</u>	<u>(42,957)</u>	<u>(1,048,470)</u>
		644,744	38,425	683,169
Less non-current portion		<u>(322,370)</u>	<u>-</u>	<u>(322,370)</u>
Balance at December 31, 2015 (2)	\$	<u>322,374</u>	<u>38,425</u>	<u>360,799</u>

(1) Includes current and non-current portion.

(2) We expect the economic outflow of the current portion of our leased aircraft return provision over the next 12 months based on our fleet plan. On a yearly basis fleet plan is revised and new return terms might be negotiated with lessors which affect the classification of short and long term balance.

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(23) Trade and other payables-

	<u>2016</u>	<u>2015</u>
Suppliers	\$ 10,259,802	6,886,803
Deferred liabilities	-	1,205
Value added tax and other taxes	1,635,198	1,172,075
Salaries and benefits payable	274,201	247,835
Airlines	<u>2,343</u>	<u>1,954</u>
Total current liabilities	\$ <u>12,171,544</u>	<u>8,309,872</u>

(24) Stockholders' equity-

(a) Structure of capital stock-

At the Extraordinary Stockholders' Meeting held on July 1, 2015, the stockholders agreed to spin-off Aeroméxico, subsisting Aeroméxico and creating one new spun-off company, AM BD GP JV, S. A. P. I. de C. V. The total amount of the spin-off was \$100, which represented the capital stock of the new subsidiary of Grupo Aeroméxico, which represented an account receivable.

At the Stockholders' Meeting held on December 31, 2015, it was agreed to increase the variable portion of capital stock in \$2,778,627, without new shares issued. This increase was made through the capitalization of different accounts payable in favor of Grupo Aeroméxico.

The Company's capital stock at December 31, 2016 and 2015 is represented by 540 ordinary shares, nominative, with no par value representing the subscribed and paid capital stock of Aeroméxico.

The minimum fixed portion of capital stock of Aeroméxico, is represented by 15 series "A" shares, and the variable portion is represented by 525 shares of the same series.

According to the corporate bylaws of Aeroméxico, capital stock may be subscribed by Mexican shareholders or other nationalities, provided the foreign investment percentages required by the applicable legislation are complied.

(b) Restrictions on stockholders' equity-

Five percent of net income for the year must be appropriated to the statutory reserve, until it reaches one-fifth of capital stock. As of December 31, 2016, the statutory reserve amounts to \$435,123, and has not reached the required amount.

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Stockholder's contributions restated as provided for by the tax law, may be refunded to stockholders tax-free, to the extent that such contributions equal or exceed stockholders' equity.

Retained earnings and other stockholders' equity accounts on which no income taxes have been paid, are subject to income taxes in the event of distribution, at the rate of 30%, payable by the Company; consequently, the stockholders may only receive 70% of such amounts.

No dividends may be paid while the Company has a deficit.

(25) Earnings per share-

We present basic and diluted earnings per share. Basic earnings per share is determined by dividing profit after tax attributable to equity holders of Aeroméxico by the weighted average number of ordinary shares outstanding during the respective year. Diluted EPS reflect the potential dilution assuming the conversion of all dilutive potential ordinary shares. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options is based on market prices for the period during which the options were outstanding.

The calculation of basic earnings per share at December 31, 2016 was based on the result of the year of \$159,769 (2015: \$243,147), and a weighted average number of ordinary shares outstanding of 540. The Company has no dilutive potential ordinary shares.

(26) Financial instruments and risk management-

(a) Overview-

The Company is exposed to different financial risks that are common in the industry and that could have an impact in the financial results. These financial risks are grouped as follows:

- a) Credit risk
- b) Liquidity risk
- c) Market Risk
 - Jet-fuel price fluctuations
 - Interest rate fluctuations
 - Exchange rate fluctuations

The Company's risk management program reviews periodically the exposures to the above identified risks and tries to minimize the potential adverse effects on the net margin thorough different initiatives, including a selective usage of financial derivatives instruments. The Company uses different methods to assess and manage different types of risks to which it is exposed, including sensitivity analysis and statistical analysis.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

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The Company contracts financial derivative instruments in Over the Counter (“OTC”) markets to keep the exposure at levels acceptable to the Company’s risk appetite. All financial derivative instruments in the Company’s portfolio are held for hedging purposes, although some of them and due to changes in the economic variables have not met the strict requirements to be considered as hedging instruments. The Company does not hold or issue derivative financial instruments for trading purposes.

Risk management framework-

The Company’s risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company’s activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company’s Audit and Finance Committees oversee how management monitors compliance with the Group’s risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

The Company Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. The Finance Committee reviews periodically the execution of the risk management policies approved by the Board related to market risks (interest rate, foreign exchange and jet fuel fluctuations), and to credit and liquidity risks.

(b) Credit risk-

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company’s receivables from customers and investment securities.

i. Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	<u>Carrying amount</u>	
	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 8,951,768	4,810,993
Other financial instruments, including derivatives	1,086,566	1,163,805
Trade and other receivables	<u>5,093,018</u>	<u>3,528,723</u>
	\$ <u>15,131,352</u>	<u>9,503,521</u>

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In order to mitigate the credit risk arising from deposits in banks and investments in financial instruments, the Company only conducts business with financial instruments that have certain investment grade rating. The Company also mitigates this risk by diversifying its investments in several counterparties in accordance with Board approval policy.

The table in the following page shows the outstanding investment portfolio grouped by types of counterparties as of December 31, 2016.

Other financial instruments, including derivatives

<u>Counterparty</u>	<u>Fair Value</u>
Derivatives	\$ 415,409
Mexican Banks	250,000
Private Companies	237,765
Governmental instruments	203,893
Foreign banks	<u>54,910</u>
	\$ <u>1,161,977</u>

Trade and other receivables-

The Company's services are provided to a large number of customers without significant concentration with any one of them.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The Company as many other airlines, performs its selling activities through the International Air Transport Association ("IATA") mechanisms that regulate the financial transactions between airlines and travel agents. Also high volume of selling transactions is made through credit cards where receivables are due from financial institutions.

In addition to the above mentioned clients, the Company also has some direct sales to large corporations and governmental agencies.

The maximum exposure to credit risk for trade receivables at December 31, 2016 and 2015 by type of customer is shown in Note 13, including recoverable taxes over which the Company has so far not experienced impairment losses.

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Impairment losses-

The aging of trade receivables and the related impairment at the reporting date was:

	<u>2016</u>		<u>2015</u>	
	<u>Gross</u>	<u>Impairment</u>	<u>Gross</u>	<u>Impairment</u>
Not past due	\$ 3,158,397	-	1,721,756	-
Past due between 0-30 days	665,808	-	384,540	-
Past due between 31-120 days	208,160	21,210	330,963	26,671
Past due for more than one year	<u>116,868</u>	<u>116,868</u>	<u>67,183</u>	<u>67,183</u>
	<u>\$ 4,149,233</u>	<u>138,078</u>	<u>2,504,442</u>	<u>93,854</u>

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	<u>2016</u>	<u>2015</u>
Balance at January 1	\$ 93,854	116,550
Impairment increase (reversal) recognized, net	<u>44,224</u>	<u>(22,696)</u>
Balance at December 31	<u>\$ 138,078</u>	<u>93,854</u>

No collaterals are held or other credit enhancements for the impaired loans.

(c) Liquidity risk-

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

We operate a global business with international operations that are subject to economic and political events beyond our control.

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The Company monitors its cash flow requirements on constant basis. The Company ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations (see Note 20).

Exposure to liquidity risks-

The following are the remaining contractual maturities of financial liabilities at the balance sheet date. Amounts are presented gross and not discounted and include estimated interest payments.

<u>December 31, 2016</u>	<u>Carrying Amount</u>	<u>Contractual cash flows</u>	<u>6 or less months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-3 years</u>	<u>3-5 years</u>
CEBURES	\$ (4,397,303)	(5,092,933)	(773,886)	(765,798)	(2,029,324)	(899,799)	(624,126)
	=====	=====	=====	=====	=====	=====	=====

<u>December 31, 2015</u>	<u>Carrying Amount</u>	<u>Contractual cash flows</u>	<u>6 or less months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-3 years</u>	<u>3-5 years</u>
CEBURES	\$ (4,990,596)	(5,836,909)	(140,601)	(745,461)	(1,460,368)	(1,982,919)	(1,507,560)
	=====	=====	=====	=====	=====	=====	=====

(d) **Market risk-**

The Company is exposed to different financial risks that could have an impact in the financial results.

i. Currency risk-

Foreign exchange risk is originated when the Company performs transactions and maintains monetary assets and liabilities in currencies that are different from the functional currency of the Company. Most of the Company's exposure is associated to fluctuations in the Mexican Peso. In 2016 and 2015, approximately 61% and 64% of the Company's expenses and 51% and 56% of its revenues are denominated in currencies different from the peso, respectively. The Company believes that this composition of revenues and costs between US Dollars and Mexican pesos mitigates substantially its foreign exchange risk.

The Company uses different strategies to mitigate further its currency risk, including the use of direct borrowing in pesos to finance aircraft purchases, for example with US Ex-Im Bank guarantees directly into pesos.

The following significant exchange rates for US\$ were applied during the year:

	<u>Average rate</u>		<u>Reporting date spot rate</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Mexican Peso	18.70	15.86	20.64	17.21
	=====	=====	=====	=====

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(In thousands of Mexican pesos)

Sensitivity analysis-

A strengthening of the US Dollar, as indicated below, against the Mexican peso at December 31, 2016 and 2015 would have decreased profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

		<u>Effect</u>
December 31, 2016		
US dollar (10% strengthening)	\$	33,948
		=====
December 31, 2015		
US dollar (5% strengthening)	\$	(133,789)
		=====

ii. Jet-fuel price fluctuation-

The main market risk associated with the industry is the variation in fuel prices. The Company mitigates this risk through derivative instrument contracts, usually options and combination of options. In addition, depending on market conditions, the Company applies fare increases or fuel surcharges to airplane tickets in order to partially mitigate the impact of higher fuel prices.

Fluctuations in jet-fuel prices largely depend on local or worldwide economic and political conditions. Among those conditions are the global supply and demand for oil, decisions taken by Organization of Petroleum Exporting Countries ("OPEC"), global refining capacity, stock levels of crude oil, and weather and geopolitical factors.

Company uses mainly call and call spread options on crude oil and Heating Oil to hedge exposure to movements in the price of aviation fuel. In our opinion, these instruments allow us to obtain hedge protection against sudden and significant increases in jet fuel prices, while simultaneously ensuring that the Company is not competitively disadvantaged in the event of a substantial decrease in the price of aviation fuel. Hedging is conducted in accordance with Grupo Aeroméxico's "Jet-Fuel Hedging Policy", which is approved by the Board. Currently, the policy states that a target of minimum 40% and up to 60% of the estimated fuel consumption out to 12 – 18 months may be hedged, with any hedging outside these parameters requiring approval by the Finance Committee. The Finance Committee in its periodical meetings supervises the strict adherence to the Policy established by the Board and monitors the performance of the hedging portfolio.

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As of December-end 2016, the Company had an outstanding hedging portfolio with the following type of derivative financial instruments:

Call spread strategies over Jet-Fuel 54 (“JF54”). A call spread is a combination of long calls at a certain strike price and short calls with the same maturity and underlying but at a different strike price.

The price range determined by these operations is \$1.75 US/Gal to \$2.35 US/Gal.

As the Company’s intention at using derivative financial instruments is to reduce its risk exposure to the different risk factors, all of the options and call spreads used have a net paid premium, which means that the maximum loss that the Company could suffer is limited to the premium paid, facing no additional obligations.

Our annual consumption of Jet-fuel and the corresponding derivatives used during the year are shown in the following table:

Amounts in thousands of Gallons

	<u>2016</u>	<u>2015</u>
Annual Consumption (Gal <i>JF54</i>)	399,940	380,660
Derivatives on JF54 (Gal <i>JF54</i>)	249,558	194,568
Amount Hedged (%)	62.4%	51.1%

A reduction in the Jet-fuel price positively affects the Company through a reduction in costs, while an increase has an adverse effect on the Company’s performance.

During 2016 and 2015, the Company had a consumption of 399.9 and 380.7 million gallons of Jet-Fuel which bought at an average price of US\$1.47 and US\$1.75/Gal respectively. These prices include transportation and supply surcharges.

During 2016, the Company hedged 62% of its annual Jet-Fuel consumption with financial derivative instruments mostly over *JF54*, although they were not accounted under any permissible hedge accounting methodology; hence the derivatives are treated as instruments at fair value through profit and loss.

The fair value amount of the current derivative portfolio at December 31, 2016 amounted to US\$10.4 million (\$214.7 million) and came from the following derivative instruments (grouped by counterparty and type of derivative).

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(In thousands of Mexican pesos)

Asian options on JF54:

Counterparty	Notional	Strike from (long call)/ to (short call)	Expiration date
<u>Call spread</u>			
Barclays	56.4 MGal	1.75 USD/Gal 2.84 USD/Gal	31/12/2017
Citibank	30.0 MGal	1.77 USD/Gal 2.33 USD/Gal	31/12/2017
JP Morgan	44.0 MGal	1.75 USD/Gal 2.36 USD/Gal	30/09/2017
Merrill Lynch	15.0 MGal	1.80 USD/Gal 2.30 USD/Gal	30/06/2017
Morgan Stanley	30.0 MGal	1.79 USD/Gal 2.29 USD/Gal	30/09/2017

Sensitivity analysis-

If the Jet-fuel price or underlying asset price it would have changed 50c or 75c USD/Gal upward or downward, the Company would have paid / (saved) the following amounts:

<u>Changes in JF</u>	0.5 (+)	0.5 (-)	0.75 (+)	0.75 (-)
Direct Purchase of JF54	199,950	(199,950)	299,925	(299,925)

Amounts in thousands USD

<u>Changes in underlying asset</u>	0.5 (+)	0.5 (-)	0.75 (+)	0.75 (-)
Derivatives	123,970	(123,970)	185,950	(185,950)

Amounts in thousands USD

If Jet-fuel price increases, the Company would receive more Pay Off from their derivatives that would compensate part of the cost associated with the fuel increment. If Jet-fuel price decreases, then the Company can save resources because its natural position is short in Jet-fuel.

In the year 2016 the Company recorded in the consolidated statement of profit or loss and other comprehensive income US\$10.4 million as valuation effects from derivatives; in 2015 the impact was US\$11.90 million.

ii. Interest rate risk-

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The fluctuation in interest rates depends heavily on the state of the global economy. An improvement in long-term economic prospects tends to move long-term rates upward while a drop tends to be associated with periods of slow economic growth.

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(In thousands of Mexican pesos)

The Company mitigates interest risk by managing the proportion of floating and fixed rate debt. As of December 31, 2016 and 2015, 49% and 46%, respectively of the Company's financial debt is under fixed-rate contracts.

The Company is exposed to changes in the LIBOR (USD denominated assets and liabilities) and TIE (MXN denominated assets and liabilities) interest rates.

At December 31, 2016 and 2015 the Company has interest rate *Swaps* on force in which the Company pays fixed rate receiving a floating rate indexed to TIE 28 days. Through these instruments the Company makes the risk management generated by the variability of flows to floating interest rate.

Also within the Fideicomiso F1748 whose settlor is the Company has outstanding at December 31, 2016 and 2015 *Cap Spread* type strategies, which are used to limit losses or gains generated by the variability in interest rates of the CEBURES, and are formed by two options on interest rate, generating a ceiling and a floor for interest flows.

The fair value amount of the portfolio of interest rate derivatives at December 31, 2016 amounted to \$200.7 million came from the following derivatives:

Interest rate *Swaps*

<u>Counterparty</u>		<u>Notional (\$)</u>	<u>Rate</u>	<u>Maturity date</u>
HSBC	\$	1,155 million	5.50%	23/10/2024
Banamex	\$	2,000 million	5.15%	17/09/2020

Cap Spreads

Banamex	\$	3,000 million	6.50% and 10.00%	17/12/2018
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The following table represents the position at risk for the Company as of December 31, 2016 (without including derivative financial instruments):

Aerovías de México, S. A. de C. V. and subsidiaries

Notes to the consolidated financial statements

(In thousands of Mexican pesos)

	<u>Assets</u>	<u>Liabilities</u>
Short Term		
Investments		
Investment US\$	\$ 5,622,163	-
Repo transactions	2,327,097	-
(Maturities over 3 months)		
Debt instruments	544,480	-
Structured notes	-	-
Debt		
US\$ loans		
Libor + Spread	-	3,646,689
Financial lease	-	867,757
Fixed rate	-	587,139
Loans		
TIIE + Spread	-	342,393
Fixed rate	-	1,255,380
Financial lease	-	238,494
	<u>\$ 8,493,740</u>	<u>6,937,852</u>
	=====	=====
Long Term		
Debt		
US\$ loans		
Fixed rate	\$ -	4,800,217
Financial lease	-	8,352,723
Libor + Spread	-	6,301,153
MX loans		
TIIE + Spread	-	17,845
Fixed rate	-	3,200,000
Financial lease	-	1,069,302
	<u>\$ -</u>	<u>23,741,240</u>
	=====	=====

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(In thousands of Mexican pesos)

The following table represents the risk position for the Company as of December 31, 2016 and 2015 corresponding to the derivative rate financial instruments (amounts in thousands of Mexican pesos):

Derivative Financial Instruments	<u>2016</u>	<u>2015</u>
Fixed rate instruments		
Interest rate Swaps	(3,155)	(3,268)
Interest rate Options	<u>(3,000)</u>	<u>(3,000)</u>
	<u>(6,155)</u>	<u>(6,268)</u>
Variable rate instruments		
Interest rate Swaps	3,155	3,268
Interest rate Options	<u>3,000</u>	<u>3,000</u>
	<u>6,155</u>	<u>6,268</u>

Sensitivity Analysis-

Debt-

The following cash flow sensitivity analysis considers the position exposed to variable interest rates.

Banco de México's target interest rate increased by 250 BP in 2016, going from 3.25 to 5.75%. Along the same lines, the FED increased the rate of reference in 25 BP. In addition to the above-mentioned changes, if interest rates respective changes in annual average in the magnitude shown, the impact on results would have been as follows:

	<u>2016</u>		<u>2015</u>	
	<u>+25 BP</u>	<u>-25 BP</u>	<u>+25 BP</u>	<u>-25 BP</u>
Loans in USD Libor + Spread	\$ (18,014)	18,014	3,710	(1,331)
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
	<u>+250 BP</u>	<u>-250 BP</u>	<u>+100 BP</u>	<u>-100 BP</u>
Loans in MX TIE + Spread	\$ (145,302)	145,302	129,570	(134,650)
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

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The Company does not account fixed rate liabilities at fair value through profit and loss and they are not related to any fair value hedging relationships, thus no fair value sensitivity analysis is performed.

Investments-

The Company also has exposure to movements in interest rates arising from its portfolio of interest rate sensitive assets. This risk is mitigated through the investment policy approved by the Finance Committee, where limits to long-term and fixed rate assets are stipulated.

If the respective interest rate would have changed in the magnitude shown, the impact in profit and loss during 2016 should have been as shown in the following table:

	<u>+ 250 BP</u>	<u>- 250 BP</u>
Investments	\$ 51,765 =====	(51,765) =====

Sensitivity for the investment portfolio denominated in USD was determined to be unrepresentative since the maturity of the portfolio is less than one month.

Derivative financial instruments-

The following sensitivity analysis is over the fair value of instruments that Company has and which are used to manage interest rate risk, and which are recognized at fair value directly in profit and loss for the period.

		<u>Sensitivity</u>	
	<u>Carrying amount</u>	<u>+ 100 BP</u>	<u>- 100 BP</u>
Interest rate Swaps	\$ 185,277	58,653	(64,839)
Interest rate Options	\$ 15,479 =====	13,607 =====	(8,482) =====

(f) Fair value hierarchy-

Financial instruments carried at fair value should be presented by valuation method. Three different levels have been defined giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

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(In thousands of Mexican pesos)

The different levels are defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Inputs are not based on observable market data (unobservable inputs).

(g) Fair value versus carrying amounts-

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position are as follows:

	<u>2016</u>		<u>2015</u>		Quoted prices in active market for identical assets level 1	Significant other observable input level 2
	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>		
Loans in USD (Libor-Spread)	\$ 9,658,272	9,653,180	3,419,727	3,334,421	-	9,658,272
Loans in MX (TIIE-Spread)	4,339,167	4,757,542	6,084,592	6,034,799	-	4,339,167
Loans in USD (Fixed Rate)	146,317	142,642	261,207	260,382	-	146,317
Loans in MX (Fixed Rate)	-	-	212,585	200,000	-	-
Financial leasing of flight equipment in MX	1,235,302	1,285,328	1,632,357	1,615,731	-	1,235,302
Financial leasing of flight equipment in USD	14,165,214	14,840,400	9,264,857	8,983,985	-	14,165,214
Derivatives	415,409	339,998	14,483	6,541	-	415,409
Investments	6,633,212	6,633,212	3,772,812	3,772,812	-	6,633,212
	=====	=====	=====	=====	=====	=====

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(In thousands of Mexican pesos)

(27) Other income (expenses)-

		<u>2016</u>	<u>2015</u>
<i>Other income:</i>			
Net gain from sale of property and equipment / obsolete material	\$	83,039	-
Other		<u>86,681</u>	<u>19,031</u>
		<u>169,720</u>	<u>19,031</u>
<i>Other expenses:</i>			
Labor contingencies	\$	58,500	38,000
Net loss from sale of property and equipment / obsolete material		-	15,428
Multidisciplinary intercompany services		-	56,018
Other		<u>60,937</u>	<u>66,016</u>
		<u>119,437</u>	<u>175,462</u>
Other income (expenses), net	\$	<u>50,283</u>	<u>(156,431)</u>

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(28) Wages, salaries and benefits-

	<u>2016</u>	<u>2015</u>
Wages and salaries	\$ 9,316,429	8,574,428
Compulsory social security contributions	1,039,553	981,341
Expenses related to defined benefit plans	<u>194,408</u>	<u>214,292</u>
	<u><u>\$ 10,550,390</u></u>	<u><u>9,770,061</u></u>

(29) Finance income and finance costs-

	<u>2016</u>	<u>2015</u>
Interest income on bank deposits and other investments	\$ 150,119	112,262
Derivative financial gain	120,972	-
Net foreign exchange gain	<u>-</u>	<u>458,085</u>
Finance income	<u>271,091</u>	<u>570,347</u>
Interest expense on financial liabilities	885,037	643,091
Credit card commissions	1,039,808	895,586
Interest on employee obligation	214,003	204,446
Net foreign exchange loss	173,938	-
Derivative financial costs	-	218,740
Other financial costs	<u>147,265</u>	<u>129,341</u>
Finance cost	<u>2,460,051</u>	<u>2,091,204</u>
Net finance cost recognized in profit or loss	\$ <u>(2,188,960)</u>	<u>(1,520,857)</u>
Finance income recognized in other comprehensive income	\$ <u>2,412,215</u>	<u>293,153</u>

(30) Contingencies and commitments-

Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount thereof can be reasonably estimated. When a reasonable estimation cannot be made, qualitative disclosure is provided in the notes to the consolidated financial statements. Contingent revenues, earnings or assets are not recognized until realization is assured.

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(In thousands of Mexican pesos)

As of December 31, 2016, the Company has the following significant contingencies and commitments:

Contingencies:

- a. There are labor lawsuits in process for approximately \$259 million. This amount represents the plaintiffs' expectation, without considering backdated salaries that might be accrued in the event that the court sentences do not favor the Company. The Company has reserved an amount of \$82.2 million, which is considered sufficient to cover possible outflows.
- b. Additionally, the Company has lawsuits and claims (filed by the Company and against it) arising during the normal course of its operations. The Company with the support of its legal advisors considers that the final result of these matters will not have a significant adverse effect on its financial position and results.

Commitments:

- a. The financial commitments related to operating leases and financial debt, are disclosed in Notes 15 and 20.
- b. The Company has entered into agreements for services (in addition to those expressly disclosed in this Note), materials and accessories, of which the most important are those related to fuel. The amounts are limited to those specified in the purchase orders. In addition the Company also has various service contracts with regards to maintenance service for its fleet.
- c. In view of the fact that the Company participates on "Sky Team" ("alliance"), it is required to operate on the basis of the respective contract, particularly as concerns:
 - i. Compliance with the alliance requirements, which include among others the accomplishment with security, service and trade mark standards, access to frequent passenger rewards programs, etc.;
 - ii. Compliance with the operating conditions to which participants are subject; participants must periodically submit accounts to the alliance and undergo inspection;
 - iii. Making proportional contributions to fund the alliance advertising budget and the annual operating budget.

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The contract specifies a number of cases for early termination with no responsibility, such as insolvency and liquidation. Furthermore, the participants may be terminated in the event of noncompliance. Among the reasons for termination are the sale of assets and the Company being acquired by an airline outside the alliance. With the exception of termination by official mandate without responsibility for either of the parties, any other reasons attributable to the Company leading to withdrawal from the alliance would be subject to a conventional penalty payable by the Company equivalent to 10.5 million euros. The contract expires in June 21, 2020, and is renewable for subsequent five-year periods.

- d. The Company has a commercial cooperation contract with Delta Airlines ("Delta"), in order to keep the term and termination rights over them, similar to each other (seven years from 2011). The objectives of this alliance include, among others, improving sales performance, setting and matching best business practices, outlining marketing strategies, etc. These contracts comprise mainly codeshare agreements, access to lounges and frequent flyer program. The contracts have an exclusivity clause, with limited exceptions, which prevents either party from operating under (the Company with U.S. airlines and Delta with Mexican airlines) similar alliances. If the party does not comply with the limitation mentioned, it would be required to compensate the other party, in a variable amount based on the anniversary date of the signed contract. This compensation is not paid if the non-compliance is due to change of the current shareholders of the Company.

On March 31, 2015 the Company and Delta filed an application before the U.S. Department of Transportation (DOT) seeking antitrust immunity for a new cooperation agreement on flights between the United States and Mexico, this agreement was subject, among others, to the approval of the Mexican Federal Economic Competition Commission (COFECE). In April 2016 COFECE imposed to the operation of this agreement the authorization and compliance of certain terms, including among others the ceding of slots pairs (landing and departure schedules) at the Mexico City International Airport (AICM). Afterwards in 2016, the DOT issued its final resolution for the antitrust immunity which allows the Company and Delta to enter into a joint cooperation agreement. The final resolution between the Mexican and the United States authorities, establish that both airlines should cede up to 24 slots at the AICM and up to 4 slots at the John F. Kennedy Airport (JFK) in New York City. This will take place in 2 stages: (i) 2 pairs of slots at JFK in 2017, and as long as potential beneficiaries demonstrate that they have been unable to access slots in such Airport, up to 2 pairs of additional slots in 2018; (ii) 14 pairs of slots at the AICM in 2017, and provided that potential beneficiaries demonstrate that they have been unable to access slots in such Airport, up to 10 pairs of slots in 2018. On December 21, 2016, both airlines accepted to comply with the terms set for in the cooperation agreement, which is expected to start during the first semester of 2017 (see Note 31).

In addition has entered into shared code and frequent flyer agreements with other airlines.

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e. Fleet renewal.

The Company continues the process to upgrade its fleet and has entered into the following agreements for fleet renewal as of December 31, 2016:

- (i) Acquire from manufacturers, up to ninety Boeing 737MAX narrow body aircraft and up to ten Boeing B787-9, some of which will be incorporated during 2016. Of the ninety aircraft B-737MAX, 60 are firm deliveries, with the ability to purchase an additional 30 aircraft. Of the ten aircraft B787-9, 6 are firm deliveries, with the ability to purchase an additional 4 aircraft. Both additional types of aircraft are subject to reconfirmation by the Company.
- (ii) Some of the aircraft to be incorporated in 2017, referred in the previous paragraph, might be acquired utilizing derivative financial instruments and/or sale and lease back schemes, as they will be acquired from foreign lessors, for an amount not less than its acquisition price, and/or they might be incorporated through the support of Federal Government financial institutions ("Export Credit Agency").
- (iii) Take under operating lease of four Embraer EMB190, four Boeing B737-800 and one B787-9 in the future, for periods between 4 to 10 years.
- (iv) Redelivery of one Boeing B777, three B737-700 and up to three Embraer ERJ145 in 2017.
- (v) Current commitments related to firm deliveries of fleet acquisitions, translated at the exchange rate as of December 31, 2016, are as follows:

2017	\$ 7,753,814
2018	8,664,133
2019	10,227,397
2020	15,342,167
2021 and thereafter	<u>22,748,840</u>
	\$ <u>64,736,351</u>

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(In thousands of Mexican pesos)

(31) Subsequent events-

As of April 18, 2017, date of issuance of these consolidated financial statements, the most significant subsequent events in regards to the December 31, 2016 consolidated financial statements and for the year then ended is as follows:

- a) Uncertainty in fuel prices consumed by the Company. At April 18, 2017, the price reached 1.63 dollars per gallon, and at December 31, 2016, was 1.87 dollars per gallon, and the average in 2016 was 1.47 dollars per gallon.
- b) At April 18, 2017 the exchange rate of the peso against the dollar was \$18.56 while at December 31, 2016 was \$20.64 and the average in 2016 was \$18.70 per US\$.
- c) On April 18, 2017, the Company started the process to redelivery its slots in conformity with the previous conditions established by the DOT and COFECE regarding its joint cooperation agreement with Delta.
- d) The Company has signed service agreements within the normal course of its operations.
- e) As of the date of issuance of these financial statements, April 18, 2017, the currently Company's corporate office building located in Mexico City, has been contributed to a trust with the right of reversion, in a manner that it can be considered in the development of a new property in substitution of the current one, whereby other trustees will provide the necessary constructions to the development of the project called "Aeromexico Tower". This project is estimated approximately forty-six months from the date of production of the necessary licenses and authorizations, in which the Company will own 9,000 square meters of future space.