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## [Table of Contents](#)

Except for the period from September through December 1982, during a liquidity crisis, the Mexican Central Bank has consistently made foreign currency available to Mexican private-sector entities (such as us) to meet their foreign currency obligations, although amounts made available have, from time to time, been limited. Nevertheless, in the event of renewed shortages of foreign currency, there can be no assurance that foreign currency would continue to be available to private-sector companies or that foreign currency needed by us to service foreign currency obligations or to import goods could be purchased in the open market without substantial additional cost.

On April 29, 2015 the rate for the payment of obligations denominated in foreign currency payable in Mexico as published by the Mexican Central Bank for pesos was Ps.15.3213 per U.S.\$1.00.

### **C. Capitalization and Indebtedness**

Not Applicable.

### **D. Reasons for the Offer and Use of Proceeds**

Not Applicable.

### **E. Risk Factors**

*You should carefully consider all of the information set forth in this annual report and the risks described below before making an investment decision. Our business, results of operations and financial condition could be materially and adversely affected by any of these risks. The trading price of the ADSs could decline due to any of these risks or other factors, and you may lose all or part of your investment.*

*The risks described below are those that we currently believe may adversely affect us or the ADSs. In general, investing in the securities of issuers in emerging market countries, such as Mexico, involves risks that are different from the risks associated with investing in the securities of U.S. companies and companies located in other countries with developed capital markets. Any of these risks could materially and adversely affect our business and results of operations.*

*To the extent that information relates to, or is obtained from sources related to, the Mexican government or Mexican macroeconomic data, the following information has been extracted from official publications of the Mexican government and has not been independently verified by us.*

#### **Risks related to Mexico**

***Political and social events in Mexico as well as changes in Mexican federal governmental policies may have an adverse effect on our business, results of operations, financial condition and prospects.***

Our business, results of operations and financial condition are affected by economic, political or social developments in Mexico, including, among others, any political or social instability in Mexico, changes in the rate of economic growth or contraction, changes in the exchange rate between the peso and the U.S. dollar, an increase in inflation or interest rates, changes in Mexican taxation and any amendments to existing Mexican laws, federal governmental policies and regulations.

Adverse social or political developments in or affecting Mexico could negatively affect us and Mexican financial markets generally, thereby affecting our ability to obtain financing. Presidential and federal congressional elections took place in July 2012. The candidate from the *Partido Revolucionario Institucional*, or PRI, Enrique Peña Nieto won the presidential election and took office on December 1, 2012. In his economic platform, President Peña Nieto proposed energy and fiscal reforms, among others, in order to foster economic

growth. The first of these reforms was passed in December 2013 when amendments to Articles 25, 27 and 28 of the *Constitución Política de los Estados Unidos Mexicanos* (Political Constitution of the United Mexican States, or the Mexican Constitution) were enacted allowing for, among other things, private sector participation in the Mexican hydrocarbons industry, including in the exploration and extraction of crude oil and natural gas and related industrial activities. The Mexican Congress is expected to pass secondary legislation in order to implement these amendments. Additionally, on December 11, 2013, a fiscal reform decree amending and supplementing certain provisions of the *Ley del Impuesto al Valor Agregado* (Value Added Tax Law), the *Ley del Impuesto Especial sobre Producción y Servicios* (IEPS Law) and the *Ley del Impuestos sobre la Renta* (the Income Tax Law, or the ISR Law), and eliminating the *Ley del Impuesto Empresarial a Tasa Única* (the Corporate Tax Law, or the IETU Law) and the *Ley del Impuesto a los Depósitos en Efectivo* (Cash Deposit Tax Law, or the IDE Law), was published in the Official Gazette of the Federation. It is still unclear the effect this and other possible fiscal reforms may have on the Mexican economic policy and economy. We cannot provide any assurance that the current political situation or any future developments in Mexico will not have a material adverse effect on our business, results of operations, financial condition or prospects.

In addition, the Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy. In particular, Mexican federal governmental actions and policies concerning air transportation and similar services could have a significant impact on us. We cannot assure you that changes in Mexican federal governmental and air transportation policies, such as opening Mexican domestic segments to airlines from other countries, will not adversely affect our business, results of operations, financial condition and prospects or the price of the ADSs.

***Adverse economic conditions in Mexico may adversely affect our business, results of operations and financial condition.***

Most of our operations are conducted in Mexico and our business is affected by the performance of the Mexican economy. In 2012, 2013 and 2014, the Mexican economy grew 4.0%, 1.4% and 2.1%, respectively, in terms of GDP, according to the INEGI. Moreover, in the past, Mexico has experienced prolonged periods of economic crises, caused by internal and external factors, over which we have no control. Those periods have been characterized by exchange rate instability, high inflation, high domestic interest rates, economic contraction, a reduction of international capital flows, a reduction of liquidity in the banking sector and high unemployment rates. Decreases in the growth rate of the Mexican economy, or periods of negative growth, or increases in inflation may result in lower demand for our flights, lower fares or a shift to ground transportation options, such as long-distance buses. We cannot assure you that economic conditions in Mexico will not worsen, or that those conditions will not have an adverse effect on our business, results of operations and financial condition.

***If inflation rates in Mexico increase, demand for our services may decrease and our costs may increase.***

Mexico historically has experienced levels of inflation that are higher than the annual inflation rates of its main trading partners. The annual rate of inflation, as measured by changes in the Mexican national consumer price index calculated and published by the Mexican Central Bank and INEGI was 3.57% for 2012, 3.97% for 2013 and 4.08% for 2014. High inflation rates could adversely affect our business and results of operations by reducing consumer purchasing power, thereby adversely affecting consumer demand for our services, increasing our costs beyond levels that we could pass on to our customers and by decreasing the benefit to us of revenues earned to the extent that inflation exceeds growth in our pricing levels.

***Currency fluctuations or the devaluation and depreciation of the peso could adversely affect our business, results of operations, financial condition and prospects.***

Foreign currency exchange gains or losses included in our total financing cost result primarily from the impact of changes in the U.S. dollar-peso exchange rate on our U.S. dollar-denominated monetary liabilities (such as U.S. dollar-denominated debt, U.S. dollar-denominated aircraft lease payments and accounts payable

arising from imports of spare parts and equipment) and assets (such as U.S. dollar-denominated cash, cash equivalents and accounts receivable). Because historically our U.S. dollar-denominated monetary assets (including cash, security deposits and non-finance deposits) have exceeded our U.S. dollar-denominated liabilities, the devaluation and appreciation of the peso resulted in exchange gains and losses, respectively.

The value of the peso has been subject to significant fluctuations with respect to the U.S. dollar in the past and may be subject to significant fluctuations in the future. In 2008, as a consequence of the global economic and financial crisis, the peso depreciated 26.7% against the U.S. dollar in nominal terms. In 2009, 2010 and 2012, the peso appreciated 5.5%, 5.17% and 6.9%, respectively, against the U.S. dollar in nominal terms. However, in 2011 and 2013, the peso depreciated 12.9% and 0.51%, respectively, against the U.S. dollar in nominal terms. As of December 31, 2014, the peso depreciated 12.6% against the U.S. dollar in nominal terms since December 31, 2013.

In 2014, approximately 68% of our total operating costs and 31% of our collections were U.S. dollar-linked or denominated. The remainder of our expenses were denominated in pesos. If the peso declines in value against the U.S. dollar, our revenues, expressed in U.S. dollars, and our operating margin would be adversely affected. We may not be able to adjust our fares denominated in pesos to offset any increases in U.S. dollar-denominated expenses, increases in interest or rental expense or exchange losses on fixed obligations. In addition, 100% of our outstanding financial debt and 100% of our lease payments as of the date of this annual report are denominated in U.S. dollars. Severe devaluation or depreciation of the peso could also result in governmental intervention or disruption of foreign exchange markets. For example, the Mexican government could institute restrictive exchange control policies in the future, as it has done in the past. This would limit our ability to convert and transfer pesos into U.S. dollars for purposes of purchasing or leasing aircraft and other parts and equipment necessary to operate and expand and upgrade our fleet, paying amounts due under some of our maintenance contracts and servicing our U.S. dollar-denominated indebtedness.

***Devaluation or depreciation of the peso against the U.S. dollar may adversely affect the U.S. dollar value of an investment in the ADSs, as well as the U.S. dollar value of any dividend or other distributions that we may make.***

Fluctuations in the exchange rate between the peso and the U.S. dollar, particularly depreciations in the value of the peso, may adversely affect the U.S. dollar equivalent of the peso price of the Series A shares on the Mexican Stock Exchange. Such peso depreciations will likely affect the market price of the ADSs. Exchange rate fluctuations would also affect the U.S. dollar equivalent value of any dividends and other distributions we may elect to make in the future, and may affect the timely payment of any peso cash dividends and other distributions to holders of CPDs that we may elect to pay in the future in respect of the Series A shares.

***Developments in other countries could adversely affect the Mexican economy, the market value of our securities, our financial condition and results of operations.***

The market value of securities of Mexican companies is affected by economic and market conditions in developed and other emerging market countries. Although economic conditions in those countries may differ significantly from economic conditions in Mexico, investors' reactions to developments in any of these other countries, may have an adverse effect on the market value of securities of Mexican issuers. In recent years, for example, prices of both Mexican debt and equity securities have sometimes suffered substantial drops as a result of developments in other countries. In 2008-2009, credit issues in the United States related principally to the sale of sub-prime mortgages resulted in significant fluctuations in securities traded in global financial markets, including Mexico.

In addition, the direct correlation between economic conditions in Mexico and the United States has strengthened in recent years because of the North American Free Trade Agreement, or NAFTA, and increased economic activity between the two countries (including increased remittances of U.S. dollars from Mexican

workers in the United States to their families in Mexico). As a result, economic downturns in the United States, the termination of NAFTA or other related events, could have a material adverse effect on the Mexican economy, which, in turn, could affect our financial condition and results of operations. Terrorist acts in the United States and elsewhere could depress economic activity in the United States and globally, including Mexico. These events could have a material adverse effect on our operations and revenues, which could affect the market price of our securities, including the ADSs.

***Mexican antitrust provisions may affect the fares we are permitted to charge to customers.***

The Mexican Aviation Law (*Ley de Aviación Civil*) provides that in the event that the SCT considers that there is no effective competition among permit and concession holders (required to operate airlines in Mexico), the SCT may request the opinion of the Mexican Antitrust Commission (*Comisión Federal de Competencia*) and then issue regulations governing the fares that may be charged for air transportation services by airlines operating in Mexico. Such regulations will be maintained only during the existence of the conditions that resulted in their establishment. The imposition of fare regulations by the SCT could materially affect our business, results of operations and financial condition.

***Violent crime in Mexico has adversely impacted, and may continue to adversely impact, the Mexican economy and may have a negative effect on our business, results of operations or financial condition.***

Mexico has experienced high levels of violent crime over the past few years relating to illegal drug trafficking, particularly in Mexico's northern states near the U.S. border. This violence has had an adverse impact on the economic activity in Mexico. In addition, violent crime may further affect travel within Mexico and between Mexico and other countries, including the United States, affect the airports or cities in which we operate, including airports or cities in the north of Mexico in which we have significant operations, and increase our insurance and security costs. We cannot assure you that the levels of violent crime in Mexico or their expansion to a larger portion of Mexico, over which we have no control, will not increase or decrease and will have no further adverse effects on the country's economy and on our business, results of operations or financial condition.

***Risks related to the airline industry***

***We operate in an extremely competitive industry.***

We face significant competition with respect to routes, fares, services and slots in airports. Within the airline industry, we compete with legacy carriers, regional airlines and low-cost airlines on many of our routes. The intensity of the competition we face varies from route to route and depends on a number of factors, including the strength of competing airlines. Our competitors may have better brand recognition and greater financial and other resources than we do. In the event our competitors reduce their fares to levels which we are unable to match while sustaining profitable operations or are more successful in the operation of certain routes (as a result of service or otherwise), we may be required to reduce or withdraw services on the relevant routes, which may cause us to incur losses or may impact our growth, financial condition or results of operations. See Item 4: "Information on the Company—Business Overview—Competition."

The airline industry is particularly susceptible to price discounting, because once a flight is scheduled, airlines incur only nominal additional costs to provide service to passengers occupying otherwise unsold seats. Increased fare or other price competition could adversely affect our results of operations and financial condition. Moreover, other airlines have begun to unbundle services by charging separate fees for services such as baggage transported, alcoholic beverages consumed onboard and advance seat selection. This unbundling and potential reduction of costs could enable competitor airlines to reduce fares on routes that we serve, which may result in an improvement in their ability to attract customers and may affect our results of operations and financial condition.

In addition, airlines increase or decrease capacity in markets based on perceived profitability. Decisions by our competitors that increase overall industry capacity, or capacity dedicated to a particular region, market or

route, could have a material adverse impact on our business. Our growth and the success of our ULCC business model could stimulate competition in our markets through our competitors' development of their own ULCC strategies or new market entrants. Any such competitor may have greater financial resources and access to cheaper sources of capital than we do, which could enable them to operate their business with a lower cost structure than we can. If these competitors adopt and successfully execute a ULCC business model, we could be materially adversely affected, including our business, results of operations and financial condition.

Furthermore, we also face competition from air travel substitutes. On our domestic routes, we face competition from other transportation alternatives, such as bus or automobile. In addition, technology advancements may limit the desire for air travel. For example, video teleconferencing and other methods of electronic communication may reduce the need for in-person communication and add a new dimension of competition to the industry as travelers seek lower cost substitutes for air travel. If we are unable to adjust rapidly in the event the basis of competition in our markets changes, it could have a material adverse effect on our business, results of operations and financial condition.

***The airline industry is heavily impacted by the price and availability of fuel. Continued volatility in fuel costs or significant disruptions in the supply of fuel could have a material adverse effect on our business, results of operations and financial condition.***

Fuel is a major cost component for airlines and is our largest operating expense. The cost of fuel accounted for 42%, 40% and 39% of our total operating costs in 2012, 2013 and 2014, respectively. As such, our operating results are significantly affected by changes in the cost and availability of fuel. Both the cost and the availability of fuel are subject to economic, social and political factors and other events occurring throughout the world, which we can neither control nor accurately predict. Fuel prices have been subject to high volatility, fluctuating substantially over the past several years and very sharply beginning in 2008. Due to the large proportion of fuel costs in our total operating cost base, even a relatively small increase in the price of fuel can have a significant negative impact on our operating costs and on our business, results of operations and financial condition. See Item 4: "Information on the Company-Business Overview-Fuel".

***Our inability to renew our concession or the revocation by the Mexican government of our concession would materially adversely affect us.***

We hold a government concession authorizing us to provide domestic air transportation services of passengers, cargo and mail within Mexico, or our Concession. Our Concession was granted by the Mexican federal government through the SCT on May 9, 2005 initially for a period of five years and was extended by the SCT on February 17, 2010 for an additional period of ten years. Mexican law provides that concessions may be renewed several times. However, each renewal may not exceed 30 years and requires that the concessionaire (i) has complied with the obligations set forth in the concession title to be renewed, (ii) requests the renewal one year before the expiration of the applicable concession terms, (iii) has made an improvement in the quality of the services during the term of the concession, and (iv) accepts the new conditions established by the SCT according to the Mexican Aviation Law (*Ley de Aviación Civil*). Although we expect to apply for, and to comply with, all necessary conditions to renew our Concession from time to time and as may be required, we cannot assure you that our Concession will be renewed, or what terms will apply to the renewal, as the SCT has discretion over the final approval and may determine for any reason or without reason, not to extend our Concession. Failure to renew our Concession would have a material adverse effect on our business, results of operations, financial condition and prospects and would prevent us from continuing to conduct our business.

We are required under the terms of our Concession to comply with certain ongoing obligations. Failure to comply with these obligations could result in penalties against us. In addition, the Mexican government has the right to revoke our Concession and the permits we currently hold for various reasons including: service interruptions; our failure to comply with the terms of our Concession; if we assign or transfer rights under our Concession or permits; if we fail to maintain insurance required under applicable law; if we charge fares different

from fares registered with the SCT; if we violate statutory safety conditions; and if we fail to pay statutory indemnification or if we fail to pay to the Mexican government the required compensation. For more information on the potential causes for revocation of our Concession and permits, see Item 4: "Information of the Company-Regulation." If our Concession or permits are revoked, we will be unable to operate our business as it is currently operated and be precluded from obtaining a new concession or permit for five years from the date of revocation.

***Under Mexican law, our assets could be taken or seized by the Mexican government under certain circumstances.***

Pursuant to Mexican law and our Concession, the Mexican federal government may take or seize our assets, temporarily or permanently, including the aircraft, in the event of natural disasters, war, serious changes to public order or in the event of imminent danger to the national security, internal peace or the national economy. The Mexican federal government, in all cases, except in the event of international war, must indemnify us by paying the respective losses and damages at market value. In these circumstances, we would not be able to continue with our normal operations. Applicable law is unclear as to how indemnification is determined and the timing of payment thereof. A temporary seizure of our assets is likely to have a material adverse effect on our business, results of operations and financial condition.

***The airline industry is particularly sensitive to changes in economic conditions. The recent global economic contraction or a reoccurrence of similar conditions could negatively impact our business, results of operations and financial condition.***

Our business and the airline industry in general are affected by changing economic conditions beyond our control, including, among others:

- changes and volatility in general economic conditions, including the severity and duration of any downturn in Mexico, the United States or global economy and financial markets;
- changes in consumer preferences, perceptions, spending patterns or demographic trends, including any increased preference for higher-fare carriers offering higher amenity levels, and reduced preferences for low-fare carriers offering more basic transportation, during better economic times or for other reasons;
- higher levels of unemployment and varying levels of disposable or discretionary income;
- health outbreaks and concerns with safety;
- depressed housing and stock market prices; and
- lower levels of actual or perceived consumer confidence.

These factors can adversely affect our results of operations and financial condition, our ability to obtain financing on acceptable terms and our liquidity generally. Current unfavorable general economic conditions, such as higher unemployment rates, a constrained credit market, housing-related pressures and increased focus on reducing business operating costs can reduce spending for leisure, VFR and business travel. For many travelers, in particular the leisure and VFR travelers we serve, air transportation is a discretionary purchase that they can eliminate from their spending in difficult economic times. Unfavorable economic conditions could affect our ability to raise prices to counteract increased fuel, labor or other costs, which could result in a material adverse effect on our business, results of operations and financial condition. In addition, we are currently striving to increase demand for our flights among the portion of the population in Mexico that has traditionally used ground transportation for travel due to price constraints, by offering lower fares that compete with bus fares on similar routes. Unfavorable economic conditions could affect our ability to offer these lower fares and could affect this population segment's discretionary spending in a more adverse manner than other travelers.

***The airline industry is heavily regulated and our financial condition and results of operations could be materially adversely affected if we fail to maintain the required U.S. and Mexican governmental concessions or authorizations necessary for our operations.***

The airline industry is heavily regulated and we are subject to regulation in Mexico and in the United States for the routes we serve between Mexico and the United States. In order to maintain the necessary concessions or authorizations issued by the SCT, acting through the DGAC, and the U.S. Federal Aviation Administration, or FAA, including authorizations to operate our routes, we must continue to comply with applicable statutes, rules and regulations pertaining to the airline industry, including any rules and regulations that may be adopted in the future. We cannot predict which criteria the SCT will apply for awarding rights to landing slots, bi-lateral agreements, and international routes, which may prevent us from obtaining routes that may become available. In addition, international routes are limited by bi-lateral agreements and not obtaining them will limit our expansion plans in the international market. Furthermore, we cannot predict or control any actions that the DGAC or FAA may take in the future, which could include restricting our operations or imposing new and costly regulations. Also, our fares are subject to review by the DGAC and FAA, either of which may in the future impose restrictions on our fares. Our business, results of operations and financial condition could be materially adversely affected if we fail to maintain the required U.S. and Mexican governmental concessions or authorizations necessary for our operations.

***The airline industry is subject to increasingly stringent environmental regulations and non-compliance therewith may adversely affect our financial condition and results of operations.***

The airline industry is subject to increasingly stringent federal, state, local and foreign laws, regulations and ordinances relating to the protection of the environment, including those relating to emissions to the air, levels of noise, discharges to surface and subsurface waters, safe drinking water, and the management of hazardous substances, oils and waste materials. Compliance with all environmental laws and regulations can require significant expenditures and any future regulatory developments in Mexico, the United States and other countries could adversely affect operations and increase operating costs in the airline industry. For example, some form of federal regulation may be forthcoming in the United States with respect to greenhouse gas emissions (including carbon dioxide (CO<sub>2</sub>)) and/or 'cap and trade' legislation, compliance with which could result in the creation of substantial additional costs to us. The U.S. Congress is considering climate change legislation and the Environmental Protection Agency issued a rule that regulates larger emitters of greenhouse gases. Concerns about climate change and greenhouse gases may result in additional regulation or taxation of aircraft emissions in the United States and Mexico. Future operations and financial results may vary as a result of such regulations in the United States and equivalent regulations adopted by other countries, including Mexico. Compliance with these regulations and new or existing regulations that may be applicable to us in the future could increase our cost base and could have a material adverse effect on our business, results of operations and financial condition. Governmental authorities in several cities in the United States and abroad are also considering or have already implemented aircraft noise reduction programs, including the imposition of nighttime curfews and limitations on daytime take-offs and landings. We have been able to accommodate local noise restrictions imposed to date, but our operations could be adversely affected if locally-imposed regulations become more restrictive or widespread.

***Compliance with airline industry regulations involves significant costs and regulations enacted in both Mexico and the United States may increase our costs significantly in the future.***

Airlines are subject to extensive regulatory and legal compliance requirements, both domestically and internationally, that involve significant costs. In the last several years, the U.S. Congress has passed laws, and the DOT, FAA and TSA have issued regulations, relating to the operation of airlines that have required significant expenditures. FAA requirements cover, among other things, collision avoidance systems, airborne wind shear avoidance systems, noise abatement and other environmental issues, and increased inspections and maintenance procedures to be conducted on older aircraft. We expect to continue to incur expenses in connection with complying with government regulations. Additional laws, regulations, taxes and airport rates and charges have

been proposed from time to time that could significantly increase the cost of airline operations or reduce the demand for air travel. If adopted, these measures could have the effect of raising ticket prices, reducing revenue and increasing costs. For example, the DOT finalized rules, taking effect on April 29, 2010, requiring new procedures for customer handling during long onboard tarmac delays, as well as additional reporting requirements for airlines that could increase the cost of airline operations or reduce revenues.

The DOT released additional rules, most of which became effective beginning in August 2011, that address, among other things, concerns about how airlines handle interactions with passengers through advertising, the reservations process, at the airport and on board the aircraft, including requirements for disclosure of base fares plus a set of regulatory mandated options and limits on cancellations and change fees. Failure to remain in full compliance with these rules, or new rules as enacted from time to time, may subject us to fines or other enforcement action, which could have a material effect on our business, results of operations and financial condition.

In addition, the TSA mandates the federalization of certain airport security procedures in the United States and imposes additional security requirements on airports and airlines, most of which are funded by a per ticket tax on passengers and a tax on airlines. The U.S. federal government has on several occasions proposed a significant increase in the per ticket tax. The proposed ticket tax increase, if implemented, could negatively impact our business, results of operations and financial condition.

Our ability to operate as an airline in the United States is dependent on maintaining our certifications issued to us by the DOT and the FAA. The FAA has the authority to issue mandatory orders relating to, among other things, the grounding of aircraft, inspection of aircraft, installation of new safety-related items and removal and replacement of aircraft parts that have failed or may fail in the future. A decision by the FAA to ground, or require time consuming inspections of or maintenance on, our aircraft, for any reason, could negatively affect our business, results of operations and financial condition. U.S. federal law requires that air carriers operating large aircraft be continuously ‘fit, willing and able’ to provide the services for which they are licensed. Our “fitness” is monitored by the DOT, which considers factors such as unfair or deceptive competition, advertising, baggage liability and disabled passenger transportation. While the DOT has seldom revoked a carrier’s certification for lack of fitness, such an occurrence would render it impossible for us to continue operating as an airline in the United States. The DOT may also institute investigations or administrative proceedings against airlines for violations of regulations.

Furthermore, we cannot assure you that airline industry regulations enacted in the future in Mexico and the United States will not increase our costs significantly.

***Airlines are often affected by factors beyond their control, including air traffic congestion at airports, weather conditions, health outbreaks or concerns, or increased security measures, any of which could harm our business, results of operations and financial condition.***

Like other airlines, we are subject to delays caused by factors beyond our control, including air traffic congestion at airports, air traffic control inefficiencies, adverse weather conditions, health outbreaks or concerns, increased security measures and new travel related taxes. Delays frustrate passengers, reduce aircraft utilization and increase costs, all of which in turn could adversely affect profitability. The federal governments of Mexico and the United States control all Mexican and U.S. airspace, respectively, and airlines are completely dependent on the DGAC and FAA to operate these airspaces in a safe, efficient and affordable manner. The air traffic control system, which is operated by *Servicios a la Navegación en el Espacio Aéreo Mexicano* in Mexico and the FAA in the United States, faces challenges in managing the growing demand for air travel. U.S. and Mexican air-traffic controllers often rely on outdated technologies that routinely overwhelm the system and compel airlines to fly inefficient, indirect routes resulting in delays. Adverse weather conditions and natural disasters can cause flight cancellations or significant delays. Cancellations or delays due to weather conditions or natural disasters, air traffic control problems, health outbreaks or concerns, breaches in security or other factors and any resulting reduction in airline passenger traffic could have a material adverse effect on our business, results of operations and financial condition.



***Airline consolidations and reorganizations could adversely affect the industry.***

The airline industry has undergone substantial consolidation throughout the years and recently, and it may undergo additional consolidation in the future. Any consolidation or significant alliance activity within the airline industry could increase the size and resources of our competitors. The airline industry in Mexico has recently seen a sharp contraction, with the exit of eight Mexican airlines since 2007 (Aerocalifornia, Aladia, Alma, Aviaca, Avolar, Azteca, Nova Air and Grupo Mexicana). Prior to ceasing operations, Grupo Mexicana was one of our most significant competitors. We have requested the DGAC to permanently grant us the six routes from the Mexico City international airport to the United States that we have been operating since late 2010 and 2011, which had been primarily operated by Grupo Mexicana prior to ceasing its operations. However, we cannot be certain that the DGAC will permanently grant us such routes. In addition, air carriers involved in reorganizations have historically engaged in substantial fare discounting in order to maintain cash flows and to enhance continued customer loyalty. Such fare discounting could lower yields for all carriers, including us.

***Because the airline industry is characterized by high fixed costs and relatively elastic revenues, airlines cannot quickly reduce their costs to respond to shortfalls in expected revenue.***

The airline industry is characterized by low gross profit margins, high fixed costs and revenues that generally exhibit substantially greater elasticity than costs. The operating costs of each flight do not vary significantly with the number of passengers flown and, therefore, a relatively small change in the number of passengers, fare pricing or traffic mix could have a significant effect on operating and financial results. These fixed costs cannot be adjusted quickly to respond to changes in revenues and a shortfall from expected revenue levels could have a material adverse effect on our results of operations and financial condition.

***Increases in insurance costs and/or significant reductions in coverage would harm our business, results of operations and financial condition.***

Following the September 11, 2001 terrorist attacks, premiums for insurance against aircraft damage and liability to third parties increased substantially, and insurers could reduce their coverage or increase their premiums even further in the event of additional terrorist attacks, hijackings, airline crashes or other events adversely affecting the airline industry. In the future, certain aviation insurance could become unaffordable, unavailable or available only for reduced amounts of coverage that are insufficient to comply with the levels of insurance coverage required by aircraft lenders and lessors or applicable government regulations. Governments in other countries have agreed to indemnify airlines for liabilities that they might incur from terrorist attacks or provide low-cost insurance for terrorism risks. In that respect, the Mexican government provided certain loans to help airlines face increases in aircraft insurance right after the 2001 terrorist attacks. However, the Mexican government has not indicated an intention to provide similar benefits to us now or at any time in the future. Increases in the cost of insurance may result in both higher fares and a decreased demand for air travel generally, which could materially and negatively affect our business, results of operations and financial condition.

***Downturns in the airline industry caused by terrorist attacks or war, which may alter travel behavior or increase costs, may adversely affect our business, results of operations and financial condition.***

Demand for air transportation may be adversely affected by terrorist attacks, war or political and social instability, natural disasters and other events. Furthermore, these types of situations could have a prolonged effect on air transportation demand and on certain cost items.

The terrorist attacks in the United States on September 11, 2001, for example, have had a severe and lasting adverse impact on the airline industry. Airline traffic in the United States fell dramatically after the attacks and decreased less severely throughout Latin America. The repercussions of September 11, including increases in security, insurance and fear of similar attacks, continue to affect us and the airline industry. Since September 11, 2001, the Department of Homeland Security and the TSA in the United States have implemented numerous

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## [Table of Contents](#)

security measures that restrict airline operations and increase costs, and are likely to implement additional measures in the future. For example, following the widely publicized attempt of an alleged terrorist to detonate plastic explosives hidden underneath his clothes on a Northwest Airlines flight on Christmas Day in 2009, international passengers became subject to enhanced random screening, which may include pat-downs, explosive detection testing or body scans. Enhanced passenger screening, increased regulation governing carry-on baggage and other similar restrictions on passenger travel may further increase passenger inconvenience and reduce the demand for air travel. In addition, increased or enhanced security measures have tended to result in higher governmental fees imposed on airlines, resulting in higher operating costs for airlines. Therefore, any future terrorist attacks or threat of attacks, whether or not involving commercial aircraft, any increase in hostilities relating to reprisals against terrorist organizations, including an escalation of military involvement in the Middle East, or otherwise and any related economic impact, could result in decreased passenger traffic and materially and adversely affect our business, results of operations and financial condition.

***Public health threats, such as the H1N1 flu virus, the bird flu, Severe Acute Respiratory Syndrome (SARS) and other highly communicable diseases, affect travel behavior and could have a material adverse effect on the airline industry.***

During the second quarter of 2009, passenger traffic was negatively affected as a result of the H1N1 flu crisis, which resulted in lower overall demand for intra-Latin America travel, especially to and from Mexico. It is impossible to determine if and when health threats, similar to the H1N1 flu, or perceived health threats, will occur, when the resulting adverse effects will abate and the extent to which they will further decrease demand for air travel, which could materially and negatively affect our business, results of operations and financial condition.

### **Risks related to our business**

***We may not be able to implement our growth strategy.***

Our growth strategy includes increasing the flights to markets we currently serve, expanding the number of markets served where we expect our ultra-low-cost structure to be successful and acquiring additional aircraft. Effectively implementing our growth strategy is critical for our business to achieve economies of scale and to sustain or increase our profitability.

We face numerous challenges in implementing our growth strategy, including our ability to:

- maintain profitability;
- access airports located in our targeted geographic markets where we can operate routes in a manner that is consistent with our cost strategy;
- maintain our high level of service notwithstanding the number of different ground transportation services and airport companies that we use in the course of our business;
- maintain satisfactory economic arrangements (including benefits) with our executives and our union;
- access sufficient gates, slots and other services at airports we currently serve or may seek to serve;
- obtain authorization of new routes;
- renew or maintain our Concession;
- gain access to international routes; and
- obtain financing to acquire new aircraft and in connection with our operations.

Our growth depends upon our ability to maintain a safe and secure operation. An inability to hire and retain trained personnel, maintain suitable arrangements with our union, timely secure the required equipment, facilities and airport services in a cost-effective manner, operate our business efficiently or obtain or maintain the

necessary regulatory approvals may adversely affect our ability to achieve our growth strategy, which could harm our business. In addition, expansion to new international markets may have other risks due to factors specific to those markets. We may be unable to foresee all of the risks attendant upon entering certain new international markets or respond adequately to these risks, and our growth strategy and our business may suffer as a result. In addition, our competitors may reduce their fares and/or offer special promotions following our entry into a new market. We cannot assure you that we will be able to profitably expand our existing markets or establish new markets.

Our target growth markets are in Mexico and the United States. In the future, we also intend to target markets in Latin America, including countries with less developed economies that may be vulnerable to more unstable economic and political conditions, such as significant fluctuations in GDP, interest and currency exchange rates, civil disturbances, government instability, nationalization and expropriation of private assets and the imposition of taxes or other charges by governments. The occurrence of any of these events in markets served by us and the resulting instability may adversely affect our ability to implement our growth strategy.

Expansion of our markets and services may also strain our existing management resources and operational, financial and management information systems to the point that they may no longer be adequate to support our operations, requiring us to make significant expenditures in these areas. We expect that we will need to develop further financial, operational and management controls, reporting systems and procedures to accommodate future growth. We cannot assure you that we will be able to develop these controls, systems or procedures on a timely basis, and the failure to do so could harm our business.

***Our ultra-low-cost structure is one of our primary competitive advantages and many factors could affect our ability to control our costs.***

Our ultra-low-cost structure is one of our primary competitive advantages. However, we have limited control over many of our costs. For example, we have limited control over the price and availability of fuel, aviation insurance, airport and related infrastructure taxes, the cost of meeting changing regulatory requirements, and our cost to access capital or financing. We cannot guarantee we will be able to maintain a cost advantage over our competitors. If our cost structure increases and we are no longer able to maintain a cost advantage over our competitors, it could have a material adverse effect on our business, results of operations, financial condition and prospects.

***Our fuel hedging strategy may not reduce our fuel costs.***

Our fuel hedging policy allows us to enter into fuel derivative instruments to hedge against changes in fuel prices when we have excess cash available to support the costs of such hedges. As of December 31, 2014, we had hedged approximately 39% and 5% of our projected fuel requirements for the year ended December 31, 2015 and for the first quarter of 2016, respectively. However, we cannot provide any assurance that our fuel hedging program is sufficient to protect us against significant increases in the price of fuel. There is no assurance that we will be able to secure new fuel derivative contracts on terms which are commercially acceptable to us or at all. Furthermore, our ability to react to the cost of fuel is limited since we set the price of tickets in advance of incurring fuel costs. Our ability to pass on any significant increases in fuel costs through fare increases is also limited by our low-cost, low-fare business model.

***We have a significant amount of fixed obligations that could impair our liquidity and thereby harm our business, results of operations and financial condition.***

The airline business is capital intensive and, as a result, many airline companies are highly leveraged. All of our aircraft and spare engines are leased, and we paid the lessors rent and maintenance deposits aggregating U.S.\$172.2 million and U.S.\$73.9million, respectively, in 2014, and have future operating lease obligations aggregating approximately U.S.\$1,131.1 million over the next 12 years. In addition, we have significant

obligations for aircraft and engines that we have ordered from Airbus, IAE International Aero Engines AG (IAE) and Pratt & Whitney, respectively, for delivery over the next five years. Our ability to pay the fixed costs associated with our contractual obligations will depend on our operating performance and cash flow, which will in turn depend on, among other things, the success of our current business strategy, whether fuel prices continue at current price levels and/or further increase or decrease, further weakening or improvement in the Mexican and U.S. economies, whether financing is available on reasonable terms or at all, as well as general economic and political conditions and other factors that are, to some extent, beyond our control. The amount of our aircraft related fixed obligations could have a material adverse effect on our business, results of operations and financial condition and could:

- require a substantial portion of cash flow from our operations for operating lease and maintenance deposit payments, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our ability to make required pre-delivery deposit payments to Airbus for our aircraft on order;
- limit our ability to obtain additional financing to support our expansion plans and for working capital and other purposes on acceptable terms or at all;
- make it more difficult for us to pay our other obligations as they become due during adverse general economic and market industry conditions because any related decrease in revenues could cause us to not have sufficient cash flows from operations to make our scheduled payments;
- reduce our flexibility in planning for, or reacting to, changes in our business and the airline industry and, consequently, place us at a competitive disadvantage to our competitors with less fixed payment obligations; and
- cause us to lose access to one or more aircraft and forfeit our rent and purchase deposits if we are unable to make our required aircraft lease rental payments or purchase installments and our lessors exercise their remedies under the lease agreement including under cross default provisions in certain of our leases.

A failure to pay our operating leases and other fixed cost obligations or a breach of our contractual obligations could result in a variety of adverse consequences, including the exercise of remedies by our creditors and lessors. In such a situation, it is unlikely that we would be able to fulfill our obligations, make required lease payments or otherwise cover our fixed costs, which would have a material adverse effect on our business, results of operations and financial condition.

***Inability to obtain lease or debt financing for additional aircraft would impair our growth strategy.***

We presently finance our aircraft through operating leases as well as sale and leaseback arrangements. In the future, we may elect to own a portion of our fleet as well as continue to lease aircraft through long-term operating leases. We may not be able to obtain lease or debt financing on terms attractive to us, or at all. To the extent we cannot obtain such financing on acceptable terms or at all, we may be required to modify our aircraft acquisition plans or to incur higher than anticipated financing costs, which would have an adverse impact on the execution of our growth strategy and business.

***Our limited lines of credit and borrowing facilities make us highly dependent upon our operating cash flows.***

We have limited lines of credit and borrowing facilities, and rely primarily on operating cash flows to provide working capital. Unless we secure additional lines of credit, borrowing facilities or equity financing, we will be dependent upon our operating cash flows to fund our operations and to make scheduled payments on our debt and other fixed obligations. If we fail to generate sufficient funds from our operations to meet these cash requirements or are unable to secure additional lines of credit, other borrowing facilities or equity financing, we could default on our debt and other fixed obligations. Our inability to meet our obligations as they become due would materially adversely affect our ability to grow and seriously harm our business, results of operations and financial condition.

***We are highly dependent on the Mexico City, Tijuana, Guadalajara and Cancún airports for a large portion of our business.***

Our business is heavily dependent on our routes to and from the Mexico City, Tijuana, Guadalajara and Cancún airports. Routes through Mexico City, Tijuana, Guadalajara and Cancún make up a large portion of the balance of our routes. Our slots in Mexico City have currently been granted on a temporary basis and could be withdrawn in the future. Any significant increase in competition, redundancy in demand for air transportation or disruption in service or the fuel supply at these airports, could have a material adverse impact on our business, results of operations and financial condition. In addition, conditions affecting services at these airports or our slots, such as adverse changes in local economic or political conditions, negative public perception of these destinations, unfavorable weather conditions, violent crime or drug related activities, could also have a material adverse impact on our business, results of operations and financial condition.

***Our maintenance costs will increase as our fleet ages.***

As of December 31, 2014, the average age of our 50 aircraft in service was approximately 4.3 years. Our relatively new aircraft require less maintenance now than they will in the future. Our fleet will require more maintenance as it ages and our maintenance and repair expenses for each of our aircraft will be incurred at approximately the same intervals. In addition, the terms of our lease agreements require us to pay supplemental rent, also known as maintenance deposits, to be paid to the lessor in advance of the performance of major maintenance, resulting in our recording significant aircraft maintenance deposits on our statements of financial position. We expect scheduled and unscheduled aircraft maintenance expenses to increase as a percentage of our revenue over the next several years. Any significant increase in maintenance and repair expenses would have a material adverse effect on our margins and our business, results of operations and financial condition.

***Our business could be harmed by a change in the availability or cost of air transport infrastructure and airport facilities.***

The lack of adequate air transport infrastructure can have a direct adverse impact on our business operations, including our future expansion plans. The availability and cost of terminal space, slots and aircraft parking are critical to our operations. Additional ground and maintenance facilities, including gates and hangars and support equipment will be required to operate additional aircraft in line with our expansion plans and may be unavailable in a timely or economic manner in certain airports. Our inability to lease, acquire or access airport facilities on reasonable terms, at preferred times or based upon adequate service, to support our operations and growth could have a material adverse effect on our operations. Further, as old airports become modernized or new airports are constructed, this may lead to increases in the costs of using airport infrastructure and facilities, and may also result in an increase in related costs such as landing charges. Such increases may adversely affect our business, results of operations and financial condition. Our ability to pass on such increased costs to our passengers is limited by several factors, including economic and competitive conditions.

***We are exposed to increases in landing charges and other airport access fees and restrictions, and cannot be assured access to adequate facilities and landing rights necessary to achieve our expansion plans.***

We must pay fees to airport operators for the use of their facilities. Any substantial increase in airport charges could have a material adverse impact on our results of operations and financial condition. Passenger taxes and airport charges have also increased in recent years, sometimes substantially. We cannot assure you that the airports used by us will not impose, or further increase, passenger taxes and airport charges in the future, particularly in light of increased competition, and any such increases could have an adverse effect on our results of operations and financial condition.

Certain airports that we serve (or that we plan to serve in the future) are subject to capacity constraints and impose slot restrictions during certain periods of the day. As a result, we cannot assure you that we will be able

## [Table of Contents](#)

to obtain a sufficient number of slots, gates and other facilities at airports to maintain or expand our services as we are proposing to do. It is also possible that airports not currently subject to capacity constraints may become so in the future. In addition, an airline must use its slots on a regular and timely basis or risk having those slots reallocated to other airlines. Where slots or other airport resources are not available or their availability is restricted in some way, we may have to amend our schedules, change routes or reduce aircraft utilization, any of which could have an adverse effect on our business, results of operations and financial condition.

In addition, some of the airports we serve impose various restrictions, including limits on aircraft noise levels, limits on the number of average daily departures and curfews on runway use. We cannot assure you that airports at which there are no such restrictions may not implement restrictions in the future or that, where such restrictions exist, they may not become more onerous. Such restrictions may limit our ability to continue to provide or to increase services at such airports.

***Our reputation and business could be adversely affected in the event of an emergency, accident or similar incident involving our aircraft.***

We are exposed to potential significant losses and material adverse effects on our business in the event that any of our aircraft is subject to an emergency, accident, terrorist incident or other similar incident, and significant costs related to passenger claims, repairs or replacement of a damaged aircraft and its temporary or permanent loss from service. There can be no assurance that we will not be affected by such events, or that the amount of our insurance coverage will be adequate in the event such circumstances arise and any such event could cause a substantial increase in our insurance premiums. See “—Increases in insurance costs and/or significant reductions in coverage would harm our business, results of operations and financial condition.” In addition, any future aircraft emergency, accident or similar incident, even if fully covered by insurance or even if it does not involve our airline, may create a public perception that our airline or the equipment we fly is less safe or reliable than other transportation alternatives, which could have an adverse impact on our reputation and could have a material adverse effect on our business, results of operations and financial condition.

***We are exposed to certain risks against which we do not have insurance.***

In line with industry practice, we leave some business risks uninsured including business interruption, loss of profit or revenue and consequential business losses arising from mechanical breakdown. To the extent that uninsured risks materialize, we could be materially and adversely affected. There can also be no assurance that our insurance coverage will cover actual losses incurred. To the extent that actual losses incurred by us exceed the amount insured, we may have to bear substantial losses which could have a material adverse effect on our financial condition and results of operations.

***A failure to comply with covenants contained in our aircraft or engine lease agreements, or the occurrence of an event of default thereunder, could have a negative impact on us and our financial condition and results of operations.***

We have entered into aircraft and engine operating lease agreements and sale and leaseback arrangements with various lessors. These agreements contain certain events of default and also require us to comply with certain covenants, including covenants triggered by a change of control, during the term of each agreement. The lease agreements generally provide for events of default if (i) we fail to obtain or maintain the insurance required, (ii) we breach any covenant or representation and warranty and do not cure it within the agreed time periods, (iii) we do not have unencumbered control or possession of the aircraft or engines, (iv) we discontinue (temporarily or otherwise) business or sell or otherwise dispose of all or substantially all of our assets, (v) we no longer possess the licenses, certificates and permits required for the conduct of our business as a certificated air carrier, (vi) Volaris Opco experiences a change of control, or (vii) we fail to pay when due any airport or navigation charges or any landing fees assessed with respect to the aircraft or any aircraft operated by us which, if unpaid, may give rise to any lien, right of detention, right of sale or other security interest in relation to the

aircraft or parts thereof. The lease agreements also provide for events of default in case of certain insolvency events and if a material adverse change occurs in our financial condition which, in lessor's reasonable opinion, would materially and adversely affect our ability to perform our obligations under the lease agreements and related documents. Failure to comply with covenants could result in a default under the relevant agreement, and ultimately in a re-possession of the relevant aircraft or engine. Certain of these agreements also contain cross default clauses, as a result of which defaults under one agreement may be treated as defaults under other lease agreements. As such, a failure to comply with the covenants in our aircraft and engine lease agreements, or the occurrence of an event of default thereunder, could have a negative impact on us and, as a result, on our financial condition and results of operations.

***We rely on maintaining a high daily aircraft utilization rate to implement our ultra-low-cost structure, which makes us especially vulnerable to flight delays or cancellations or aircraft unavailability.***

One of the key elements of our business strategy is to maintain a high daily aircraft utilization rate. Our average daily aircraft utilization was 12.40 block hours in 2012, 12.45 block hours in 2013 and 12.42 block hours in 2014. Aircraft utilization is the average amount of time per day that our aircraft spend carrying passengers. Our revenue per aircraft can be increased by high daily aircraft utilization, which is achieved in part by reducing turnaround times at airports, so we can fly more hours on average in a day. Aircraft utilization is reduced by delays and cancellations arising from various factors, many of which are beyond our control, including air traffic congestion at airports or other air traffic control problems, adverse weather conditions, increased security measures or breaches in security, international or domestic conflicts, terrorist activity, health outbreaks or other changes in business conditions. In addition, pulling aircraft out of service for unscheduled and scheduled maintenance, which will increase as our fleet ages, may materially reduce our average fleet utilization. High aircraft utilization increases the risk that if an aircraft falls behind schedule during the day, it could remain behind schedule during the remainder of that day and potentially into the next day, which can result in disruption in operating performance, leading to passenger dissatisfaction related to delayed or cancelled flights and missed connections. Due to the relatively small size of our fleet and high daily aircraft utilization rate, the unavailability of one or more aircraft and resulting reduced capacity or our failure to operate within time schedules, could have a material adverse effect on our business, results of operations and financial condition.

***The growth of our operations to the United States is dependent on Mexico's continued favorable safety assessment.***

The FAA periodically audits the aviation regulatory authorities of other countries. As a result of their investigation, each country is given an International Aviation Safety Assessment, or IASA, rating. In December 2010, Mexico's IASA rating was upgraded back to Category 1 from Category 2, six months after it had been downgraded due to alleged deficiencies in Mexican air safety standards. We cannot assure you that the government of Mexico, and the DGAC in particular, will continue to meet international safety standards, and we have no direct control over their compliance with IASA guidelines. If Mexico's IASA rating were to be downgraded in the future, it could restrict our ability to maintain or increase service to the United States, which would in turn adversely affect our business, results of operations and financial condition.

***We rely heavily on technology and automated systems to operate our business and any failure of these technologies or systems or failure by their operators could harm our business.***

We are highly dependent on technology and automated systems to operate our business and achieve low operating costs. These technologies and systems include our computerized airline reservation system, flight operations system, financial planning, management and accounting system, telecommunications systems, website, maintenance systems and check-in kiosks. For our operations to work efficiently, our website and reservation system must be able to accommodate a high volume of traffic, maintain secure information and deliver flight information. Substantially all of our tickets are issued to passengers as electronic tickets. We depend on our reservation system, which is hosted and maintained by third-party service providers, to be able to

issue, track and accept these electronic tickets. If our reservation system fails or experiences interruptions and we are unable to book seats for any period of time, we could lose significant amounts of revenues as customers book seats on competing airlines. We have experienced short duration reservation system outages from time to time and may experience similar outages in the future. Furthermore, if our flight operations system were to fail, our operations would be materially and adversely affected.

We also rely on third-party service providers of our other automated systems for technical support, system maintenance and software upgrades. If our automated systems are not functioning or function partially or if the current providers were to fail to adequately provide updates or technical support for any one of our key existing systems, we could experience service disruptions and delays, which could harm our business and result in the loss of important data, increase our expenses and decrease our revenues. In the event that one or more of our primary technology or systems' vendors goes into bankruptcy, ceases operations or fails to perform as contemplated in the agreements, replacement services may not be readily available on a timely basis, at competitive rates or at all and any transition time to a new system may be significant.

We retain personal information received from customers and have put in place security measures to protect against unauthorized access to such information. Personal information is further protected under applicable Mexican law. Personal information held both offline and online is highly sensitive and, if third parties were to access such information without the customers' prior consent or if third parties were to misappropriate that information, our reputation could be adversely affected and customers could bring legal claims against us, any of which could adversely affect our business, results of operations and financial condition. In addition, we may be liable to credit card companies should any credit card information be accessed and misused as a result of lack of sufficient security systems implemented by us.

In addition, our automated systems cannot be completely protected against events that are beyond our control, including natural disasters, computer viruses or telecommunications failures. Substantial or sustained system failures could cause service delays or failures and result in our customers purchasing tickets from other airlines. We have implemented security measures, back-up procedures and disaster recovery plans; however, we cannot assure you that these measures are adequate to prevent disruptions. Disruption in, changes to or a breach of, these systems could result in the disruption to our business and the loss of important data. These disruptions may also result in adverse economic consequences. Any of the foregoing could result in a material adverse effect on our business, results of operations and financial condition.

***We rely on third-party service providers to perform functions integral to our operations.***

We have entered into agreements with third-party service providers to furnish certain facilities and services required for our operations, including Lufthansa Technik AG for certain technical services and Aeromantenimiento S.A., or Aeroman, a FAA-approved maintenance provider, for our heavy airframe and engine maintenance, as well as other third-party service providers, including the concessionaries' of the Mexican airports in which we operate, for ground handling, catering, passenger handling, engineering, refueling and airport facilities as well as administrative and support services. We are likely to enter into similar service agreements in new markets we decide to enter, and there can be no assurance that we will be able to obtain the necessary services at acceptable rates.

Although we seek to monitor the performance of third-party service providers, their efficiency, timeliness and quality of contract performance are often beyond our control, and any failure by any of them to perform their contracts may have an adverse impact on our business and operations. We expect to be dependent on such third-party arrangements for the foreseeable future.

Furthermore, our agreements with third parties are subject to termination upon short notice. The loss or expiration of these contracts or any inability to renew them or negotiate and enter into contracts with other providers at comparable rates could harm our business. Our reliance upon others to provide essential services on our behalf also gives us less control over costs, and the efficiency, timeliness and quality of contract services.



***Our processing, storage, use and disclosure of personal data could give rise to liabilities as a result of governmental regulation.***

In the processing of our customer transactions, we receive, process, transmit and store a large volume of identifiable personal data, including financial data such as credit card information. This data is subject to legislation and regulation, intended to protect the privacy of personal data that is collected, processed and transmitted. More generally, we rely on consumer confidence in the security of our system, including our internet site on which we sell the majority of our tickets. Our business, results of operations and financial condition could be adversely affected if we are unable to comply with existing privacy obligations or legislation or regulations are expanded to require changes in our business practices. Furthermore, lawsuits may be initiated against us and our reputation may be negatively affected if we fail to comply with applicable law and privacy obligations.

***We depend on our non-ticket revenue to remain profitable, and we may not be able to maintain or increase our non-ticket revenue base.***

Our business strategy significantly relies upon our portfolio of non-ticket revenues, including ancillary products and services and cargo revenue, on which we depend to remain profitable due to our ULCC strategy of low base fares. There can be no assurance that passengers will pay for additional ancillary products and services or that passengers will continue to choose to pay for the ancillary products and services we currently offer. Failure to maintain our non-ticket revenues would have a material adverse effect on our results of operations and financial condition. Furthermore, if we are unable to maintain and grow our non-ticket revenues, we may not be able to execute our strategy to continue to lower base fares in order to stimulate demand for air travel. In addition, our strategy to increase and develop non-ticket revenue by charging for additional ancillary services may be adversely perceived by our customers and negatively affect our business.

***Restrictions on or increased taxes applicable to fees or other charges for ancillary products and services paid by airlines passengers could harm our business, results of operations and financial condition.***

Our non-ticket revenues are generated from (i) air travel-related services (ii) revenues from non-air-travel related services and (iii) cargo services. Air travel-related services include but are not limited to fees charged for excess baggage, bookings through the call center or third-party agencies, advanced seat selection, itinerary changes, charters and passenger charges for no-show tickets. Revenues from non-air-travel-related services include commissions charged to third parties for the sale of hotel rooms, trip insurance and rental cars. Additionally, services not directly related to air transportation include Volaris' sale of VClub membership and the sale of advertising spaces to third parties.

In April 2011, the DOT published a broad set of final rules relating to, among other things, how airlines handle interactions with passengers through advertising, the reservations process, at the airport and on board the aircraft. The final rules require airlines to publish a full fare for a flight, including mandatory taxes and fees, and to enhance disclosure of the cost of optional products and services, including baggage charges. The rules restrict airlines from increasing ticket prices post-purchase (other than increases resulting from changes in government-imposed fees or taxes) and increasing significantly the amount and scope of compensation payable to passengers involuntarily denied boarding due to oversales. The final rules also extend the applicability of penalties to include international flights and provide that reservations made more than one week prior to flight date may be held at the quoted fare without payment, or cancelled without penalty, for 24 hours. Failure to remain in full compliance with these rules may subject us to fines or other enforcement action, including requirements to modify our passenger reservations system, which could have a material adverse effect on our business. Moreover, we cannot assure you that compliance with these new rules will not have a material adverse effect on our business.

In addition, the U.S. Congress and Federal administrative agencies have undertaken investigations of the airline industry practice of unbundling services, including public hearings held in 2010. If new taxes are imposed on non-ticket revenues, or if other laws or regulations are adopted that make unbundling of services

impermissible, or more cumbersome or expensive than the new rules described above, our business, results of operations and financial condition could be materially adversely affected. Congressional and other government agency scrutiny may also change industry practice or public willingness to pay for ancillary services. See also “—Compliance with airline industry regulations involves significant costs and regulations enacted in both Mexico and the United States may increase our costs significantly in the future.”

***Changes in how we or others are permitted to operate at airports could have a material adverse effect on our business, results of operations and financial condition.***

Our results of operations may be affected by actions taken by the Mexican airports’ concessionaires, governmental or other agencies or authorities having jurisdiction over our operations at airports, including, but not limited to:

- termination of our airport use agreements, some of which can be terminated by the other party or airport authorities with little notice to us;
- international travel regulations such as customs and immigration;
- increases in taxes;
- changes in the law that affect the services that can be offered by airlines in particular markets and at particular airports;
- strikes and other similar disruptions affecting airports;
- restrictions on competitive practices;
- the adoption of statutes or regulations that impact customer service standards, including security and health standards and termination of licenses or concessions to operate airports; and
- the adoption of more restrictive locally-imposed noise regulations or curfews.

In general, any changes in airport operations could have a material adverse effect on our business, results of operations and financial condition.

***We rely on a number of single suppliers for our fuel, aircraft and engines.***

We purchase fuel from *Aeropuertos y Servicios Auxiliares*, or ASA, which also supplies fuel and fills our aircraft tanks in Mexico, where we do most of the fillings. In the United States, we have entered into fuel supply agreements with suppliers such as World Fuel Services, or WFS, pursuant to which WFS or its affiliates sell fuel to us at various airports as specified in the agreements. The agreement with ASA expires in March 2018 and may be terminated by us with 60-days prior notice and by ASA only if we do not pay for the fuel provided. The agreement with WFS expires in September 2015 and may be terminated by either party with 30-days prior notice. If either ASA or WFS offers fuel to one or more of our competitors at a more competitive price or with more advantageous terms, it may materially affect our ability to compete against other airlines, and may have a material effect on our business. If either of ASA or WFS terminates its agreement with us, is unwilling to renew it upon termination or is unable or unwilling to cover our fuel needs, we would have to seek an alternative source of fuel. Currently, no substitute exists for ASA as a fuel supplier in Mexico. We cannot assure you that we will be able to find another fuel provider or, if so, whether we will be able to find one that provides fuel in such a cost-effective a manner as our current agreements with ASA and WFS. Failure to renew agreements or to source fuel from alternate sources will materially and adversely affect our business, results of operations and financial condition.

One of the elements of our business strategy is to save costs by operating an aircraft fleet consisting solely of Airbus A319 and A320 aircraft, narrow body aircraft, powered by engines manufactured by IAE. We currently intend to continue to rely exclusively on these aircraft and engine manufacturers for the foreseeable future. If

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## [Table of Contents](#)

Airbus or IAE becomes unable to perform its contractual obligations, or if we are unable to acquire or lease aircraft or engines or spare parts from other owners, operators or lessors on acceptable terms, we would have to find other suppliers for a similar type of aircraft, engine or spare parts. If we have to lease or purchase aircraft from another supplier, we would lose the significant benefits we derive from our current single fleet composition. We may also incur substantial transition costs, including costs associated with retraining our employees, replacing our manuals and adapting our facilities and maintenance programs. Our operations could also be materially affected by the failure or inability of aircraft, engine and parts suppliers to provide sufficient spare parts or related support services on a timely basis.

### ***Any real or perceived problem with the Airbus A320 family aircraft or IAE engines could adversely affect our operations.***

We operate a uniform fleet of Airbus A319 and A320 aircraft, which belong to the Airbus A320 family aircraft. Our aircraft also exclusively use IAE engines. Our dependence on the Airbus A319 and A320 aircraft and IAE engines makes us particularly vulnerable to any problems that might be associated with the Airbus A320 family aircraft or engines. If any design defect or mechanical problem is discovered, or if the technology relating to such aircrafts should become obsolete, our aircraft may have to be grounded while such defect or problem is corrected, assuming it could be corrected at all. Any such defect or problem may also result in aviation authorities in Mexico and the United States implementing certain airworthiness directives which may require substantial cost to comply with. Further, our operations could be materially adversely affected if passengers avoid flying with us as a result of an adverse perception of the Airbus A320 family aircraft or IAE engines due to real or perceived safety concerns or other problems.

### ***Cyber-attacks or other breaches of network or information technology security could have an adverse effect on our business***

Cyber-attacks or other breaches of network or information technology security may cause equipment failures or disruptions to our operations. Our inability to operate our networks as a result of such events, even for a limited period of time, may result in significant expenses or loss of market share to other airlines. Cyber-attacks, which include the use of malware, computer viruses and other means for disruption or unauthorized access to companies, have increased in frequency, scope and potential harm in recent years. The preventive actions we take to reduce the risk of cyber incidents and protect our information technology and networks may be insufficient to repel a major cyber-attack in the future. The costs associated with a major cyber-attack on us could include increased expenditures on cyber security measures, litigation, damage to our reputation, lost revenues from business interruption and the loss of existing customers and business partners. In addition, if we fail to prevent the theft of valuable information such as financial data and sensitive information about us, or if we fail to protect the privacy of customer and employee confidential data against breaches of network or information technology security, it could result in damage to our reputation, which could adversely impact customer and investor confidence. Any of these occurrences could result in a material adverse effect on our results of operations and financial condition.

### ***If we are unable to attract and retain qualified personnel or fail to maintain our company culture, our business, results of operations and financial condition could be harmed.***

We require large numbers of pilots, flight attendants, maintenance technicians and other personnel, and our growth strategy will require us to hire, train and retain a significant number of new employees in the future. The airline industry has from time to time experienced a shortage of qualified personnel, particularly with respect to pilots and maintenance technicians. This has been particularly acute for Mexico. In addition, as is common with most of our competitors, we have faced considerable turnover of our employees. We may be required to increase wages and/or benefits or to implement additional training programs in order to attract and retain qualified personnel. If we are unable to hire, train and retain qualified employees, our business could be affected adversely and we may be unable to complete our growth plans.

In addition, as we hire more people and grow, we believe it may be increasingly challenging to continue to hire people who will maintain our company culture. Our company culture, which is one of our competitive strengths, is important to providing high-quality customer service and having a productive, accountable workforce that helps keep our costs low. As we continue to grow, we may be unable to identify, hire or retain enough people who meet the above criteria, including those in management or other key positions. Our company culture could otherwise be adversely affected by our growing operations and geographic diversity. If we fail to maintain the strength of our company culture, our competitive ability and our business, results of operations and financial condition could be harmed.

***Increased labor costs, union disputes, employee strikes, and other labor-related disruption may adversely affect our operations.***

Our business is labor intensive, with labor costs representing approximately 12%, 12% and 11% of our total operating costs for the fiscal years 2012, 2013 and 2014, respectively. As of December 31, 2014, approximately 74% of our workforce was represented by the general aviation union (Sindicato de Trabajadores de la Industria Aeronáutica, Similares y Conexos de la República Mexicana—STIAS) and thereby covered by substantially the same collective bargaining agreement entered into between us and each of our subsidiaries. The collective bargaining agreements are negotiated every two years in respect of general labor conditions and every year in connection with wages. Our current agreements with this union expire in February 2016. The terms and conditions of our future collective bargaining agreements may be affected by the results of collective bargaining negotiations at other airlines that may have a greater ability, due to larger scale, greater efficiency or other factors, to bear higher costs than we can. We cannot assure you that our labor costs going forward will remain competitive because in the future our labor agreements may be amended and new agreements could have terms with higher labor costs or more onerous conditions, one or more of our competitors may significantly reduce their labor costs, thereby reducing or eliminating our comparative advantages as to one or more of such competitors, or our labor costs may increase in connection with our growth. Traditionally, the relationship between Mexican legacy carriers and their unions has been complex. We may also become subject to additional collective bargaining agreements in the future as non-unionized workers may unionize or unionized workers may decide to join a different union. If we are unable to reach agreement with any of our unionized work groups on future negotiations regarding the terms of their collective bargaining agreements, we may be subject to work interruptions or stoppages. Any such action or other labor dispute with unionized employees (including negotiation of more onerous conditions), or the deterioration of the relationship between unions and businesses in Mexico, could disrupt our operations, reduce our profitability, or interfere with the ability of our management to focus on executing our business strategies.

***Our business, results of operations and financial condition could be materially adversely affected if we lose the services of our key personnel.***

Our success depends to a significant extent upon the efforts and abilities of our senior management team and key financial and operating personnel. Competition for highly qualified personnel is intense, and the loss of any executive officer, senior manager or other key employee without adequate replacement or the inability to attract new qualified personnel could have a material adverse effect on our business, results of operations and financial condition. Experienced executives in the airline industry are difficult to source. We do not maintain key-man life insurance on our management team.

***Because we have a limited operating history, it is difficult to evaluate an investment in the ADSs.***

We began flight operations in March 2006. It is difficult to evaluate our future prospects and an investment in the ADSs because of our limited operating history. Our prospects are uncertain and must be considered in light of the risks, uncertainties and difficulties frequently encountered by companies in the early stage of operations. Historically, there has been a high failure rate among start-up airlines, particularly in Mexico. Our future performance will depend upon a number of factors, including our ability to implement our growth strategy,

choose new markets successfully, maintain our ultra-low-cost structure, provide high-quality customer service at low prices, attract, retain and motivate qualified personnel, hedge against fuel price, react to customer and market demands, operate at airports providing adequate service, and maintain the safety of our operations. We cannot assure you that we will successfully address any of these factors, and our failure to do so could adversely affect our business, financial condition, results of operations and the market price of the ADSs.

***Our results of operations will fluctuate.***

The airline industry is by nature cyclical and seasonal, and our operating results can be expected to vary from quarter to quarter. We generally expect demand to be greater during the summer months in the northern hemisphere, in December and around Easter, which can fall either in the first or second quarter, compared to the rest of the year. We generally experience our lowest levels of passenger traffic in February, September and October. Given our high proportion of fixed costs, seasonality can affect our profitability from quarter to quarter. Demand for air travel is also affected by factors such as economic conditions, war or the threat of war, fare levels, security and health concerns and weather conditions.

In addition, we expect our quarterly operating results to fluctuate in the future based on a variety of other factors, including:

- the timing and success of our growth plans as we increase flights in existing markets and enter new markets;
- changes in fuel, security, health and insurance costs;
- increases in personnel, marketing, aircraft ownership and other operating expenses to support our anticipated growth; and
- the timing and amount of maintenance expenditures.

Due to the factors described above and others described in this annual report, quarter-to-quarter comparisons of operating results may not be good indicators of our future performance. In addition, it is possible that in any quarter our operating results could be below the expectations of investors and any published reports or analyses regarding our company. In that event, the price of the ADSs could decline, perhaps substantially.

***We do not have a control group.***

Since the completion of our initial public offering on September 23, 2013, we have not had a control group and corporate decisions requiring shareholder approval, such as the election of a majority of the board of directors, are made by the majority of our Series A shareholders, which shares are required to be owned by Mexican nationals. We no longer have a control group because holders of ADSs and CPOs do not have voting rights, and the CPOs and ADSs are voted by the CPO trustee in the same manner as the majority of the holders of Series A shares that are not represented by CPOs or ADSs. Thus, there are no large groups holding a large block. Furthermore, it is unlikely that a significant block of shareholders will form in the future because no person or group of persons is permitted to acquire more than 5% of our outstanding capital stock without our board of directors' consent. As a result, a shareholder or shareholders of a very small number of Series A shares could determine the outcome of any shareholder vote without being a control group.

***We require the affirmative vote of our principal shareholders to make certain corporate decisions.***

Our current principal non-Mexican shareholders, Discovery Air, Blue Sky Investments and Indigo, own Series B shares, that are convertible into Series A shares, subsequent to the offering. Series A shares that are converted may be deposited in the CPO trust. The Series B shares are not and are not intended to be listed on any exchange and currently represent 13.24% of our outstanding capital stock that is not represented by CPOs (including ADSs). Holders of Series B shares are entitled to vote their shares on all matters and, for so long as

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## [Table of Contents](#)

such Series B shares represent 12% or more of our outstanding capital stock, their affirmative vote will be required to approve any matters related to (i) by-law amendments affecting Series B shares, (ii) delisting of Series A shares from any stock exchange, (iii) mergers or spinoffs affecting us, (iv) incurring indebtedness or granting guarantees if the Lease-Adjusted Net Debt to EBITDA ratio exceeds 3.25 times (Lease-Adjusted Net Debt is the sum of short-term and long-term debt, 7.0 times the aircraft rentals for the last four quarters, less cash and cash equivalents at the end of the last quarter for which financial statements have been prepared), and (v) change of material accounting policies. The exercise of any such consent rights may conflict with the interests of our majority shareholders. Likewise, together, the Series B shareholders shall have the right to appoint and revoke the designation of three members of the Board of Directors and their respective alternates, as long as the Series B shares represent at least 12% of our outstanding capital stock.

***Volaris is a holding company and does not have any material assets other than the shares of its subsidiaries.***

Volaris is a holding company that conducts its operations through a series of operating subsidiaries. We support these operating subsidiaries with technical and administrative services through various other subsidiaries of Volaris. All of the assets we use to perform administrative and technical services and to operate the concessions and authorizations are held at the subsidiary level. As a result, Volaris does not have any material assets other than the shares of its subsidiaries. Dividends or payments that Volaris may be required to make will be subject to the availability of cash provided by its subsidiaries. Transfers of cash from Volaris' subsidiaries to Volaris may be further limited by corporate and legal requirements, or by the terms of the agreements governing our indebtedness. If a shareholder were to assert a claim against Volaris, the enforcement of any related judgment would be limited to the available assets of Volaris, rather than the assets of Volaris and its combined subsidiaries.

### **Risks related to our securities and the ADSs**

#### ***Our ADSs have a limited trading history.***

Our ADSs began to trade on the New York Stock Exchange ("NYSE") on September 18, 2013, and as a result have a limited trading history. We cannot predict the extent to which investor interest in our company will maintain an active trading market on the NYSE, or how liquid that market will be in the future. The market price of our ADSs may be volatile and may be influenced by many factors, some of which are beyond our control, including:

- the failure of financial analysts to cover the ADSs or our common stock or changes in financial estimates by analysts;
- actual or anticipated variations in our operating result;
- changes in financial estimates by financial analysts, or any failure by us to meet or exceed any such estimates, or changes in the recommendations of any financial analysts that elect to follow the ADSs or Series A shares or the shares of common stock of our competitors;
- announcements by us or our competitors of significant contracts or acquisitions;
- future sales of the ADSs and Series A shares; and
- investor perceptions of us and the industries in which we operate.

In addition, the stock market in general has experienced substantial price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of particular companies affected. These broad market and industry factors may materially harm the market price of the ADSs and Series A shares, regardless of our operating performance. In the past, following periods of volatility in the market price of certain companies' securities, securities class-action litigation has been instituted against these companies. Such litigation, if instituted against us, could have a material adverse effect on us.

***The relatively low liquidity and high volatility of the Mexican securities market may cause trading prices and volumes of our Series A shares and the ADSs to fluctuate significantly.***

The Mexican Stock Exchange is one of Latin America's largest exchanges in terms of aggregate market capitalization of the companies listed therein, but it remains relatively illiquid and volatile compared to other major foreign stock markets. Although the public participates in the trading of securities on the Mexican Stock Exchange, a substantial portion of trading activity on the Mexican Stock Exchange is conducted by or on behalf of large institutional investors. The trading volume for securities issued by emerging market companies, as Mexican companies, tends to be lower than the trading volume of securities issued by companies in more developed countries. These market characteristics may limit the ability of a holder of our Series A shares to sell its Series A shares and may also adversely affect the market price of the Series A shares and, as a result, the market price of the ADSs.

***If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our share price and trading volume could decline.***

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

***If we issue additional equity securities in the future, shareholders may suffer dilution, and trading prices for our securities may decline.***

In connection with our business strategy of expanding through acquisitions, we may finance corporate needs and expenditures, or future transactions, by issuing additional capital stock. Any such issuances of capital stock would result in the dilution of shareholders' ownership stake. In addition, future issuances of our equity securities or sales by our shareholders or management, or the announcement that we or they intend to make such an issuance or sale, could result in a decrease in the market price of the ADSs and Series A shares.

***Provisions of Mexican law and our by-laws make a takeover more difficult, which may impede the ability of holders of Series A shares or ADSs to benefit from a change in control or to change our management and board of directors.***

Provisions of Mexican law and our by-laws may make it difficult and costly for a third party to pursue a tender offer or other takeover attempt resulting in a change of control. Holders of ADSs may desire to participate in one of these transactions, but may not have an opportunity to do so. For example, our by-laws contain provisions which, among other things, require board approval prior to any person or group of persons acquiring, directly or indirectly, (i) 5% or more of our shares (whether directly or by acquiring ADSs or CPOs), or (ii) 20% or more of our shares (whether directly or by acquiring ADSs or CPOs) and in the case of this item (ii) if such approval is obtained, require the acquiring person to make a tender offer to purchase 100% of our shares and CPOs (or other securities that represent them) at a substantial premium over the market price of our shares to be determined by the board of directors, based upon the advice of a financial advisor.

These provisions could substantially impede the ability of a third party to control us, and be detrimental to shareholders desiring to benefit from any change of control premium paid on the sale of the company in connection with a tender offer. See Item 10: "Additional Information—Memorandum and Articles of Association—Overview—Change of Control Provisions" and "Additional Information—Memorandum and Articles of Association—Overview—Voting Rights."

***Substantial future sales of the ADSs or Series A shares could cause the price of the ADSs or Series A shares to decrease.***

We may finance future corporate needs and expenditures by using shares of Series A common stock, to be evidenced by Series A shares or ADSs. Any such issuances of such shares could result in a dilution of our shareholders' ownership stake or a decrease in the market price of the ADSs or the Series A shares. In addition, our principal shareholders are entitled to rights with respect to registration of their shares under the Securities Act of 1933, as amended, or the Securities Act, pursuant to a registration rights agreement. Please see Item 7: "Major Shareholders and related Party Transactions—Major Shareholders." If they exercise their registration rights with respect to such shares, then there will be additional Series A shares eligible for trading in the public market, which may have an adverse effect on the market price of our Series A shares and ADSs.

***Non-Mexican investors may not hold our Series A shares directly and must have them held in a CPO trust at all times.***

Each ADS represents ten CPOs and each CPO represents a financial interest in one Series A share. Non-Mexican investors in the ADSs may not directly hold the underlying Series A shares, but may hold them only indirectly through CPOs issued by a Mexican bank as trustee under the CPO trust or ADSs evidencing CPOs. Upon expiration of the 50-year term of our CPO trust agreement, the underlying Series A shares must be placed in a new trust similar to the current CPO trust for non-Mexican investors to hold an economic interest in such Series A shares, or be sold to third parties or be delivered to non-Mexican holders to the extent then permitted by applicable law (not currently permitted). We cannot assure you that a new trust similar to the CPO trust will be created if the current CPO trust terminates, or that, if necessary, the Series A shares represented by the CPOs will be sold at an adequate price, or that Mexican law will be amended to permit the transfer of Series A shares to non-Mexican holders in the event that the trust is terminated. In that event, unless Mexican law has changed to permit non-Mexican investors to hold our shares directly, non-Mexican holders may be required to cause all of the Series A shares represented by the CPOs to be sold to a Mexican individual or corporation.

We have obtained authorization from the Mexican Ministry of Economy (*Secretaría de Economía*) for the issuance up to 90% of our outstanding capital stock in CPOs. Since non-Mexican investors are required to invest in CPOs in order to hold any interest in our capital stock, if this 90% threshold were to be met, we would be unable to obtain additional capital contributions from non-Mexican investors.

***Holders of the ADSs and CPOs do not have voting rights.***

Holders of the ADSs and CPOs are not entitled to vote the underlying Series A shares. As a result, holders of the ADSs and CPOs do not have any influence over the decisions made relating to our company's business or operations, nor are they being protected from the results of any such corporate action taken by our holders of Series A shares and Series B shares. Mexican investors will determine the outcome of substantially all shareholder matters, subject to the rights of the holders of Series B shares that are required to vote affirmatively to approve certain limited matters. For a more complete description of the circumstances under which holders of our securities may vote, see Item 10: "Additional Information—Memorandum and Articles of Association—Overview."

***Preemptive rights may be unavailable to non-Mexican holders of the ADSs and CPOs and, as a result, such holders may suffer dilution.***

Except in certain circumstances, under Mexican law, if we issue new shares of common stock for cash as part of a capital increase, we generally grant our shareholders the right to subscribe and pay for a sufficient number of shares to maintain their existing ownership percentage in our company. Rights to subscribe and pay for shares in these circumstances are known as preemptive rights. We may not legally be permitted to allow holders of ADSs and CPOs in the United States to exercise any preemptive rights in any future capital increase



unless we file a registration statement with the SEC with respect to that future issuance of shares or the offering qualifies for an exemption from the registration requirements of the Securities Act. Similar restrictions may apply to holders of ADSs and CPOs in other jurisdictions. We cannot assure you that we will file a registration statement with the SEC, or any other regulatory authority, to allow holders of ADSs and CPOs in the United States, or any other jurisdiction, to participate in a preemptive rights offering. At the time of any future capital increase, we will evaluate the costs and potential liabilities associated with filing a registration statement with the SEC and any other factors that we consider important to determine whether we will file such a registration statement. Under Mexican law, sales by the depositary of preemptive rights and distribution of the proceeds from such sales to you, the ADS holders, is not possible.

In addition, additional CPOs may be issued only if the CPO deed permits the issuance of a number of CPOs sufficient to represent the shares to be issued to and held by the CPO trustee upon the exercise of preemptive rights. Because non-Mexican holders of ADSs and CPOs are not entitled to acquire direct ownership of the underlying Series A shares in respect of such ADSs and CPOs, they may not be able to exercise their preemptive rights if the CPO deed will not permit additional CPOs to be delivered in an amount sufficient to represent the shares of common stock to be issued as a result of the exercise of preemptive rights on behalf of non-Mexican ADS or CPO holders, unless the CPO deed is modified, or a new CPO deed is entered into, which permits delivery of the number of CPOs necessary to represent the shares to be subscribed and paid as a result of the exercise of such preemptive rights. Although we expect to take all measures necessary to maintain sufficient CPOs available to permit non-Mexican holders of ADSs and CPOs to exercise preemptive rights, if and when applicable, no assurances can be made that we will be able to do so, particularly because regulatory approvals in Mexico are necessary for the issuance and delivery of CPOs. As a result of the limitations described above, if we issue additional shares in the future in connection with circumstances giving rise to preemptive rights, the equity interests of holders of ADSs and CPOs may be diluted. See Item 10: "Additional Information-Memorandum and Articles of Association-Preemptive Rights."

***We do not intend to pay cash dividends for the foreseeable future, and our revolving line of credit with Banco Santander México and Bancomext may limit our ability to declare and pay dividends.***

We have never declared or paid cash dividends on our common stock. We currently intend to retain our future earnings, if any, to finance the further development and expansion of our business and do not intend to pay cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, restrictions contained in current or future financing instruments and such other factors as our board of directors deems relevant. In addition, our revolving line of credit with Banco Santander México and Bancomext may limit our ability to declare and pay dividends in the event that we fail to comply with the payment terms thereunder. See Item 5: "Operating and Financial Review and Prospects-Liquidity and Capital Resources-Loan Agreements" and Item 8: "Financial Information-Consolidated Statements and Other Financial Information-Dividend Policy."

***Minority shareholders may be less able to enforce their rights against us, our directors, or our controlling shareholders in Mexico.***

Under Mexican law, the protections afforded to minority shareholders are different from those afforded to minority shareholders in the United States. For example, because Mexican laws concerning fiduciary duties of directors (i.e., the duty of care and the duty of loyalty) have been in existence for a relatively short period and are not as developed as securities laws in other jurisdictions, it is complex for minority shareholders to bring an action against directors for breach of this duty, as would be permitted in some other foreign jurisdictions. Also, such actions may not be initiated as a direct action, but as a shareholder derivative suit (that is for the benefit of our company). The grounds for shareholder derivative actions under Mexican law are limited. Even though applicable law has been modified to so permit, and procedures for class action lawsuits have been adopted, there is very limited experience with regards to class action lawsuits and how procedures for such suits are followed in