

Copa Holdings, S.A.  
Form 20-F  
April 18, 2018  
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As filed with the Securities and Exchange Commission on April 18, 2018

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 20-F**

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**Commission file number: 001-32696**

**COPA HOLDINGS, S.A.**

**(Exact name of Registrant as Specified in Its Charter)**

**Not Applicable**

**(Translation of Registrant's Name Into English)**

**Republic of Panama**

**(Jurisdiction of Incorporation or Organization)**

**Avenida Principal y Avenida de la Rotonda, Costa del Este**

**Complejo Business Park, Torre Norte**

**Parque Lefevre, Panama City**

**Panama**

**(Address of Principal Executive Offices)**

**Raul Pascual**

**Complejo Business Park, Torre Norte**

**Parque Lefevre, Panama City, Panama**

**+507 304 2774 (Telephone)**

**+507 304 2535 (Facsimile)**

**(Registrant's Contact Person)**

**Securities registered or to be registered pursuant to Section 12(b) of the Act**

**Title of Each Class:**  
**Class A Common Stock, without par value**

**Name of Each Exchange On Which Registered**  
**New York Stock Exchange**

**Securities registered or to be registered pursuant to Section 12(g) of the Act:**

**None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

**None**

**Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:** At December 31, 2017, there were outstanding 42,123,766 shares of common stock, without par value, of which 31,185,641 were Class A shares and 10,938,125 were Class B shares.

**Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.**     **Yes**     **No**

**If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**     **Yes**     **No**

**Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.**     **Yes**     **No**

**Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).**     **Yes**     **No**

**Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and non-accelerated filer in Rule 12b-2 of Exchange Act. (Check one):**

**Large Accelerated Filer**

**Accelerated Filer**

**Non-accelerated Filer**

**Emerging Growth Company**

**Indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.**

**Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:**

**U.S. GAAP      International Financial Reporting Standards as issued      Other**

**by the International Accounting Standards Board**

**If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:**

**Item 17      Item 18**

**If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).      Yes      No**

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### **Introduction**

In this annual report on Form 20-F, unless the context otherwise requires, references to **Copa Airlines** are to Compañía Panameña de Aviación, S.A., the unconsolidated operating entity, **Copa Colombia** refers to AeroRepública, S.A.,

**Wingo** refers to the low-cost business model offered by AeroRepública, and references to **Copa**, **Copa Holdings**, **we**, **us** or the **Company** are to Copa Holdings, S.A. and its consolidated subsidiaries. References to **Class A shares** refer to Class A shares of Copa Holdings, S.A.

This annual report contains terms relating to operating performance that are commonly used within the airline industry and are defined as follows:

**Aircraft utilization** represents the average number of block hours operated per day per aircraft for the total aircraft fleet.

**Available seat miles** or **ASMs** represents the aircraft seating capacity multiplied by the number of miles the seats are flown.

**Average stage length** represents the average number of miles flown per flight segment.

**Block hours** refers to the elapsed time between an aircraft leaving an airport gate and arriving at an airport gate.

**Load factor** represents the percentage of aircraft seating capacity that is actually utilized (calculated by dividing revenue passenger miles by available seat miles).

**Operating expense per available seat mile** represents operating expenses divided by available seat miles.

**Operating revenue per available seat mile** represents operating revenues divided by available seat miles.

**Passenger revenue per available seat mile** represents passenger revenues divided by available seat miles.

**Revenue passenger miles** represents the number of miles flown by revenue passengers.

**Revenue passenger kilometers** represents the number of kilometers flown by revenue passengers.

Revenue passengers represents the total number of paying passengers (including all passengers redeeming frequent flyer miles and other travel awards) flown on all flight segments (with each connecting segment being considered a separate flight segment).

Yield represent the average amount one passenger pays to fly one mile.

### **Market Data**

This annual report contains certain statistical data regarding our airline routes and our competitive position and market share in, and the market size of, the Latin American airline industry. This information has been derived from a variety of sources, including the International Air Transport Association, the U.S. Federal Aviation Administration, the International Monetary Fund and other third-party sources, governmental agencies or industry or general publications. Information for which no source is cited has been prepared by us on the basis of our knowledge of Latin American airline markets and other information available to us. The methodology and terminology used by different sources are not always consistent, and data from different sources are not readily comparable. In addition, sources other than us use methodologies that are not identical to ours and may produce results that differ from our own estimates. Although we have not independently verified the information concerning our competitive position, market share, market size, market growth or other similar data provided by third-party sources or by industry or general publications, we believe these sources and publications are generally accurate and reliable.

### **Presentation of Financial and Statistical Data**

Included in this annual report are our audited consolidated statement of financial position as of December 31, 2017 and 2016, and the related audited consolidated statements of profit or loss, comprehensive income or loss, changes in equity and cash flows for the years ended December 31, 2017, 2016 and 2015.

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The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards or IFRS, as issued by the International Accounting Standards Board, or IASB.

Unless otherwise indicated, all references in the annual report to \$ or dollars refer to U.S. dollars.

**Certain figures included in this annual report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.**

## **Special Note About Forward-Looking Statements**

This annual report includes forward-looking statements, principally under the captions Risk Factors, Business Overview and Operating and Financial Review and Prospects. We have based these forward-looking statements largely on our current beliefs, expectations and projections about future events and financial trends affecting our business. Many important factors, in addition to those discussed elsewhere in this annual report, could cause our actual results to differ substantially from those anticipated in our forward-looking statements, including, among other things:

general economic, political and business conditions in Panama and Latin America and particularly in the geographic markets we serve;

our management's expectations and estimates concerning our future financial performance and financing plans and programs;

our level of debt and other fixed obligations;

demand for passenger and cargo air service in the markets in which we operate;

competition;

our capital expenditure plans;

changes in the regulatory environment in which we operate;

changes in labor costs, maintenance costs, fuel costs and insurance premiums;

changes in market prices, customer demand and preferences and competitive conditions;



cyclical and seasonal fluctuations in our operating results;

defects or mechanical problems with our aircraft;

our ability to successfully implement our growth strategy;

our ability to obtain financing on commercially reasonable terms; and

the risk factors discussed under Risk Factors beginning on page 4.

The words believe, may, will, aim, estimate, continue, anticipate, intend, expect and similar words identify forward-looking statements. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, the effects of future regulation and the effects of competition. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to update publicly or to revise any forward-looking statements after the date of this annual report because of new information, future events or other factors. In light of the risks and uncertainties described above, the forward-looking events and circumstances discussed in this annual report might not occur and are not guarantees of future performance.

Considering these limitations, you should not place undue reliance on forward-looking statements contained in this annual report.

**Table of Contents****PART I****Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information****A. Selected Financial Data**

The following table presents summary consolidated financial and operating data for each of the periods indicated. Our consolidated financial statements are prepared in accordance with IFRS, as issued by the IASB and are stated in U.S. dollars. You should read this information in conjunction with our consolidated financial statements included in this annual report and the information under Item 5. Operating and Financial Review and Prospects appearing elsewhere in this annual report.

The summary consolidated financial information as of December 31, 2017, and for the years ended December 31, 2017, 2016 and 2015 have been derived from our audited consolidated financial statements included elsewhere in this annual report. The summary consolidated financial information has been modified using the updated chart of accounts, resulting in the reclassification of certain lines from our consolidated statements of profit or loss for these periods compared to amounts previously reported. The summary consolidated financial information for the years ended December 31, 2014 and 2013 have been derived from our audited consolidated financial statements for those years (not included herein) after giving similar reclassification adjustments for such years.

**Year Ended December 31, (in thousands of dollars, except share and per share data  
and operating data)**

	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>STATEMENT OF PROFIT OR LOSS DATA</b>					
Operating revenue:					
Passenger revenue	2,462,419	2,155,167	2,185,465	2,638,392	2,535,422
Cargo and mail revenue	55,290	53,989	56,738	60,715	60,872
Other operating revenue	9,847	12,696	11,507	12,218	17,715
Total operating revenues	2,527,556	2,221,852	2,253,710	2,711,325	2,614,009
Operating expenses:					
Fuel	572,746	528,996	603,760	822,130	785,010
	415,147	370,190	373,631	376,193	344,233

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Wages, salaries, benefits and other employees expenses					
Passenger servicing	99,447	86,329	84,327	90,457	81,761
Airport facilities and handling charges	171,040	159,771	148,078	141,594	130,893
Sales and distribution	200,413	193,984	188,961	193,038	198,931
Maintenance, materials and repairs	124,709	121,781	111,178	100,307	93,451
Depreciation and amortization	164,345	159,278	134,888	115,147	137,412
Flight operations	101,647	88,188	86,461	85,183	78,540
Aircraft rentals and other rentals	134,539	138,885	142,177	129,431	106,792
Cargo and courier expenses	7,375	6,099	6,471	7,601	6,525
Other operating and administrative expenses	96,087	92,215	105,484	118,746	130,192
<b>Total operating expenses</b>	<b>2,087,495</b>	<b>1,945,716</b>	<b>1,985,416</b>	<b>2,179,827</b>	<b>2,093,740</b>
Operating profit	440,061	276,136	268,294	531,498	520,269
Non-operating income (expense):					
Finance cost	(35,223)	(37,024)	(33,155)	(29,529)	(30,180)
Finance income	17,939	13,000	25,947	18,066	12,636
Gain (loss) on foreign currency fluctuations	(5,218)	13,043	(440,097)	(6,448)	(22,929)
Net change in fair value of derivatives	2,801	111,642	(11,572)	(117,950)	5,241
Other non-operating income (expense)	(2,337)	(3,982)	(1,632)	2,671	3,533
<b>Total non-operating income (expense), net</b>	<b>(22,038)</b>	<b>96,679</b>	<b>(460,509)</b>	<b>(133,190)</b>	<b>(31,699)</b>
Profit (loss) before taxes	418,023	372,815	(192,215)	398,308	488,570
Income tax expenses	(48,000)	(38,271)	(32,759)	(36,639)	(61,099)
Net profit (loss)	370,023	334,544	(224,974)	361,669	427,471

**Table of Contents****STATEMENT OF FINANCIAL POSITION DATA**

Total cash, cash equivalents and short-term investments	943,900	814,689	684,948	766,603	1,131,689
Accounts receivable, net	118,085	116,100	105,777	122,150	135,056
Total current assets	1,198,488	1,069,391	907,585	1,011,449	1,401,153
Purchase deposits for flight equipment	413,633	250,165	243,070	321,175	327,545
Total property and equipment	2,825,904	2,623,682	2,650,653	2,505,336	2,348,514
Total assets	4,252,931	3,846,113	3,715,476	4,079,612	3,952,764
Long-term debt	876,119	961,414	1,055,183	928,964	913,507
Total equity	2,111,495	1,842,271	1,587,422	2,075,108	1,901,906
Capital stock	101,449	93,440	85,845	81,811	77,123

**CASH FLOW DATA**

Net cash from operating activities	727,332	594,590	316,863	384,892	830,265
Net cash (used in) from investing activities	(578,159)	(179,909)	32,384	21,147	(565,720)
Net cash used in financing activities	(204,756)	(248,625)	(357,466)	(316,420)	(201,268)

**OTHER FINANCIAL DATA**

Underlying net income <sup>(1)</sup>	367,222	201,359	226,002	486,181	436,157
Adjusted EBITDA <sup>(2)</sup>	599,652	556,117	(50,119)	524,918	643,526
Aircraft rentals	116,449	120,841	122,217	112,082	90,233
Operating margin <sup>(3)</sup>	17.4%	12.4%	11.9%	19.6%	19.9%
Weighted average shares used in computing net income per share (basic)	42,418,773	42,358,091	43,861,084	44,381,265	44,388,098
Weighted average shares used in computing net income per share (diluted)	42,418,773	42,363,171	43,868,864	44,393,054	44,403,098
Earnings (Loss) per share (basic)	8.72	7.90	(5.13)	8.15	9.63
Earnings (Loss) per share (diluted)	8.72	7.90	(5.13)	8.15	9.63
Dividends per share paid	2.52	2.04	3.36	3.84	1.46
Total number of shares at end of period	42,123,766	42,050,481	41,955,227	43,988,423	44,098,620

**OPERATING DATA**

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Revenue passengers carried <sup>(4)</sup>	14,201	12,870	11,876	11,681	11,345
Revenue passenger miles <sup>(5)</sup>	19,914	17,690	16,309	15,913	14,533
Available seat miles <sup>(6)</sup>	23,936	22,004	21,675	20,757	18,950
Load factor <sup>(7)</sup>	83.2%	80.4%	75.2%	76.7%	76.7%
Total block hours <sup>(8)</sup>	419,610	388,058	388,355	376,903	348,882
Average daily aircraft utilization <sup>(9)</sup>	11.5	10.6	10.8	11.0	11.1
Average passenger fare	173.4	167.5	184.0	225.9	223.5
Yield <sup>(10)</sup>	12.37	12.18	13.40	16.58	17.45
Passenger revenue per ASM <sup>(11)</sup>	10.29	9.79	10.08	12.71	13.38
Operating revenue per ASM <sup>(12)</sup>	10.56	10.10	10.40	13.06	13.79
Operating expenses per ASM (CASM) <sup>(13)</sup>	8.72	8.84	9.16	10.50	11.05
Departures	126,963	123,098	122,588	121,310	119,177
Average daily departures	347.8	337.3	335.9	332.4	326.5
Average number of aircraft	100.4	99.9	98.3	93.8	86.4
Airports served at period end	75	73	73	69	66
On-Time Performance <sup>(14)</sup>	86.8%	88.4%	90.6%	90.5%	87.7%
Stage Length <sup>(15)</sup>	1,282	1,213	1,236	1,213	1,140

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- (1) Underlying net income represents net income (loss) minus the sum of fuel hedge mark-to-market gain/(loss), and devaluation and translation losses in Venezuela and Argentina. Underlying net income is presented because the Company uses this measure to determine annual dividends. However, underlying net income should not be considered in isolation, as a substitute for net income (loss) prepared in accordance with IFRS as issued by the IASB or as a measure of our profitability. The following table presents a reconciliation of our net income (loss) to underlying net income for the specified periods.

	2017	2016	2015	2014	2013
Net income (loss)	370,023	334,544	(224,974)	361,669	427,471
Fuel hedge mark to market gain/(loss)	(2,801)	(111,642)	11,572	117,850	(5,241)
Venezuela devaluation		(21,543)	432,503	6,562	13,927
Argentina devaluation			6,901		
Underlying net income	367,222	201,359	226,002	486,181	436,157

- (2) Adjusted EBITDA represents net income (loss) plus the sum of interest expense, income taxes, depreciation, amortization and impairment minus interest income. Adjusted EBITDA is presented as supplemental information because we believe it is a useful indicator of our operating performance and is useful in comparing our operating performance with other companies in the airline industry. However, adjusted EBITDA should not be considered in isolation, as a substitute for net income (loss) prepared in accordance with IFRS as issued by the IASB or as a measure of our profitability. In addition, our calculation of adjusted EBITDA may not be comparable to other companies' similarly titled measures. The following table presents a reconciliation of our net income (loss) to adjusted EBITDA for the specified periods. Aircraft rentals represent a significant operating expense of our business. Because we leased several of our aircraft during the periods presented, we believe that when assessing our adjusted EBITDA you should also consider the impact of our aircraft rentals.

	2017	2016	2015	2014	2013
Net income (loss)	370,023	334,544	(224,974)	361,669	427,471
Interest expense	35,223	37,024	33,155	29,529	30,180
Income taxes	48,000	38,271	32,759	36,639	61,099
Depreciation, amortization and impairment	164,345	159,278	134,888	115,147	137,412
Interest income	(17,939)	(13,000)	(25,947)	(18,066)	(12,636)
Adjusted EBITDA	599,652	556,117	(50,119)	524,918	643,526

- (3) Operating margin represents operating income as a percentage of operating revenues.
- (4) Total number of paying passengers (including all passengers redeeming frequent flyer miles and other travel awards) flown on all flight segments, expressed in thousands.

- (5) Number of miles flown by revenue passengers, expressed in millions.
- (6) Aircraft seating capacity multiplied by the number of miles the seats are flown, expressed in millions.
- (7) Percentage of aircraft seating capacity that is actually utilized. Load factors are calculated by dividing revenue passenger miles by available seat miles.
- (8) The number of hours from the time an airplane moves off the departure gate for a revenue flight until it is parked at the gate of the arrival airport.
- (9) Average number of block hours operated per day per aircraft for the total aircraft fleet.
- (10) Average amount (in cents) one passenger pays to fly one mile.
- (11) Passenger revenues (in cents) divided by the number of available seat miles.
- (12) Total operating revenues (in cents) divided by the number of available seat miles.
- (13) Total operating expenses (in cents) divided by the number of available seat miles.
- (14) Percentage of flights that arrive at the destination gate within fourteen minutes of scheduled arrival.
- (15) The average number of miles flown per flight.

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**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors**

**Risks Relating to Our Company**

*Failure to successfully implement our growth strategy may adversely affect our results of operations and harm the market value of our Class A shares.*

Through a growth-oriented plan, we intend to continue to expand our service to new markets and to increase the frequency of flights to the markets we currently serve. Achieving these goals allows our business to benefit from cost efficiencies resulting from economies of scale. We expect to have substantial cash needs as we expand, including cash required to fund aircraft acquisitions or aircraft deposits as we add to our fleet. If we do not have sufficient cash to fund such projects, we may not be able to successfully expand our route system and our future revenue and earnings growth would be limited.

When we commence a new route, load factors tend to be lower than those on our established routes and our advertising and other promotional costs tend to be higher, which could result in initial losses that could have a negative impact on our results of operations as well as require a substantial amount of cash to fund. We also periodically run special promotional fare campaigns, particularly in connection with the opening of new routes. Promotional fares can have the effect of increasing load factors while reducing our yield on such routes during the period that they are in effect. The number of markets we serve and flight frequencies depend on our ability to identify the appropriate geographic markets upon which to focus and to gain suitable airport access and route approval in these markets. There can be no assurance that the new markets we enter will yield passenger traffic that is sufficient to make our operations in those new markets profitable. Any condition that would prevent or delay our access to key airports or routes, including limitations on the ability to process more passengers, the imposition of flight capacity restrictions, the inability to secure additional route rights under bilateral agreements or the inability to maintain our existing slots and flight banks and obtain additional slots, could constrain the expansion of our operations.

The expansion of our business will also require additional skilled personnel, equipment and facilities. The inability to hire, train and/or retain pilots and other personnel or secure the required equipment and facilities efficiently, cost-effectively, and on a timely basis, could adversely affect our ability to execute our plans. It also could strain our existing management resources and operational, financial and management information systems to the point where they may no longer be adequate to support our operations, requiring us to make significant expenditures in these areas. In light of these factors, we cannot ensure that we will be able to successfully establish new markets or expand our existing markets, and our failure to do so could have an impact on our business and results of operations, as well as the value of our Class A shares.

*Our performance is heavily dependent on economic and political conditions in the countries in which we do business.*



Passenger demand is heavily cyclical and highly dependent on global, regional and country-specific economic growth, economic expectations and foreign exchange rate variations. In the past, we have been negatively impacted by poor economic performance in certain emerging market countries in which we operate, as well as by weaker Latin American currencies. Any of the following developments (or a continuation or worsening of any of the following currently in existence) in the countries in which we operate could adversely affect our business, financial condition, liquidity and results of operations:

changes in economic or other governmental policies, including exchange controls;

changes in regulatory, legal or administrative practices; or

other political or economic developments over which we have no control.

Additionally, a significant portion of our revenues is derived from discretionary and leisure travel, which are especially sensitive to economic downturns and political conditions. An adverse economic and/or political environment, whether global, regional or in a specific country, could result in a reduction in passenger traffic, and leisure travel in particular, as well as a reduction in our cargo business, and could also impact our ability to raise fares, which in turn would materially and negatively affect our financial condition and results of operations.

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***The cost of refinancing our debt and obtaining additional financing for new aircraft has increased and may continue to increase, which may negatively impact our business.***

We currently finance our aircraft through bank loans, sale-leasebacks and operating leases under terms attractive to us. In the past, we have been able to obtain lease or debt financing on satisfactory terms to us with a significant portion of the financing for our Boeing aircraft purchases from commercial financial institutions utilizing guarantees provided by the Export-Import Bank of the United States. As of December 31, 2017, we had \$372.0 million of outstanding indebtedness with financial institutions under financing arrangements guaranteed by the Export-Import Bank.

In recent years the Company has diversified its financing sources and obtained access to very competitive financing terms. Since 2014 our aircraft deliveries have been financed through a mix of sale-leasebacks and Japanese Operating Leases with Call Options ( JOLCO ).

Nevertheless, we cannot ensure that we will be able to continue to raise financing from past sources, or from other sources, on terms comparable to our existing financing or at all. If the cost of such financing increases or we are unable to obtain such financing, we may be forced to incur higher than anticipated financing costs, which could have an adverse impact on the execution of our growth strategy and business.

***We have historically operated using a hub-and-spoke model and are vulnerable to competitors offering direct flights between destinations we serve.***

The general structure of our flight operations follows what is known in the airline industry as a hub-and-spoke model. This model aggregates passengers by operating flights from a number of spoke origins to a central hub through which they are transported to their final destinations. In recent years, many traditional hub-and-spoke operators have faced significant and increasing competitive pressure from low-cost, point-to-point carriers on routes with sufficient demand to sustain point-to-point service. A point-to-point structure enables airlines to focus on the most profitable, high-demand routes and to offer greater convenience and, in many instances, lower fares. As demand for air travel in Latin America increases, some of our competitors have initiated non-stop service between destinations that we currently serve through our hub in Panama. Additionally, new aircraft models, such as, Boeing 737 MAX and Airbus 320-NEO, allow nonstop flights in certain city pairs that could not be served with prior generation aircraft and may bypass our hub. Non-stop service, which bypasses our hub in Panama, is more convenient and possibly less expensive than our connecting service and could significantly decrease demand for our service to those destinations. In December 2016, we launched a low-cost business model, Wingo, to diversify our offerings and to better compete with other low-cost carriers, or LCCs, in the market. However, our traditional hub and spoke model remains our primary operational model and we believe that competition from point-to-point carriers will be directed towards the largest markets that we serve and is likely to continue at this level or intensify in the future. As a result, the effect of competition on us could be significant and could have a material adverse effect on our business, financial condition and results of operations.

***We may not realize benefits from Wingo, our low-cost business model.***

Wingo, our low-cost business model, which is part of Copa Colombia, utilizes four of our 737-700s, each configured with 142 seats in a single class cabin. Wingo operates point-to-point flights within Colombia and to other international destinations in the region.

We have limited experience operating a low-cost business model and we may not be able to accurately predict its impact on our main line services. In particular, if demand for Wingo flights is not substantial, if our pricing strategy does not adequately align with our cost structure, if Wingo does not meet customer expectations or if demand for

Wingo flights cannibalizes some of our main line flights, Wingo's operations may have a negative impact on our reputation or our operating results.

Wingo operates administratively and functionally under Copa Colombia, with an independent structure for its planning, marketing, distribution systems and customer service.

***Our business is subject to extensive regulation which may restrict our growth or our operations or increase our costs.***

Our business, financial condition and results of operations could be adversely affected if we or certain aviation authorities in the countries to which we fly fail to maintain the required foreign and domestic governmental authorizations necessary for our operations. In order to maintain the necessary authorizations issued by the Panamanian Civil Aviation Authority (the *Autoridad de*

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*Aeronáutica Civil*, or the AAC ), the Colombian Civil Aviation Administration (the *Unidad Administrativa Especial de Aeronáutica Civil*, or the UAEAC ), and other corresponding foreign authorities, 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. In addition, Panama is a member state of the International Civil Aviation Organization, or ICAO, a United Nations specialized agency. ICAO coordinates with its member states and various industry groups to establish and maintain international civil aviation standards and recommended practices and policies, which are then used by ICAO member states to ensure that their local civil aviation operations and regulations conform to global standards. We cannot predict or control any actions that the AAC, the UAEAC, ICAO or other foreign aviation regulators may take in the future, which could include restricting our operations or imposing new and costly regulations or policies. Also, our fares are subject to review by the AAC, the UAEAC, and the regulators of certain other countries to which we fly, any of which may in the future impose restrictions on our fares.

We are also subject to international bilateral air transport agreements that provide for the exchange of air traffic rights between each of Panama and Colombia, and various other countries, and we must obtain permission from the applicable foreign governments to provide service to foreign destinations. There can be no assurance that existing bilateral agreements between the countries in which our airline operating companies are based and foreign governments will continue, or that we will be able to obtain more route rights under those agreements to accommodate our future expansion plans. Any modification, suspension or revocation of one or more bilateral agreements could have a material adverse effect on our business, financial condition and results of operations. The suspension of our permits to operate to certain airports or destinations, the cancellation of any of our provisional routes, the inability for us to obtain favorable take-off and landing authorizations at certain high-density airports or the imposition of other sanctions could also have a negative impact on our business. We cannot be certain that a change in a foreign government's administration of current laws and regulations or the adoption of new laws and regulations will not have a material adverse effect on our business, financial condition and results of operations.

We plan to continue to increase the scale of our operations and revenues by expanding our presence on new and existing routes. Our ability to successfully implement this strategy will depend upon many factors, several of which are outside our control or subject to change. These factors include the permanence of a suitable political, economic and regulatory environment in the Latin American countries in which we operate or intend to operate and our ability to identify strategic local partners.

The most active government regulator among the countries to which we fly is the U.S. Federal Aviation Administration, or FAA. The FAA from time to time issues directives and other regulations relating to the maintenance and operation of aircraft that require significant expenditures. FAA requirements cover, among other things, security measures, 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. Additional new regulations continue to be regularly implemented by the U.S. Transportation Security Administration, or TSA, as well. As we continue to expand our presence on routes to and from the United States, we expect to continue incurring expenses to comply with the FAA's and TSA's regulations, and any increase in the cost of compliance could have an adverse effect on our financial condition and results of operations.

***The growth of our operations to the United States and the benefits of our code-sharing arrangements with United Continental Holdings, Inc. ( UAL ) are dependent on Panama's continued favorable safety assessment.***

The FAA periodically audits the aviation regulatory authorities of other countries. As a result of its investigation, each country is given an International Aviation Safety Assessment, or IASA, rating. Since April 2004, IASA has rated Panama as a Category 1, which means that Panama complies with the safety requirements set forth by ICAO. A 2015 ICAO study found significant safety deficiencies in Panama, but the country's category has not been downgraded. We

cannot guarantee that the government of Panama and the AAC in particular, will continue to meet international safety standards, and we have no direct control over their compliance with IASA guidelines. If Panama's IASA rating were to be downgraded in the future, it could prohibit us from increasing service to the United States and UAL affecting our code-share arrangement with United Airlines.

***We are highly dependent on our hub at Panama City's Tocumen International Airport.***

Our business is heavily dependent on our operations at our hub at Panama City's Tocumen International Airport. Substantially all of our Copa flights either depart from or arrive at our hub. Our operations and growth strategy is therefore highly dependent on its facilities and infrastructure, including the success of its multi-phase expansion projects, certain of which have been completed and others, such as Terminal 2, that are underway and have experienced important delays. One of the contractors responsible for the construction of Terminal 2, Norberto Odebrecht Construction, was subject to penalties in 2017 for its past practices related to project approvals. Their involvement in the construction of Terminal 2 may further delay completion of the expansion based on delays

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related to government approvals of individual projects or if they lack sufficient liquidity to complete their portion of the Tocumen International Airport. Terminal 2 is currently scheduled for completion toward the end of 2018. Due to the magnitude of the construction required for this new Terminal 2 currently under construction, we may experience logistical issues and/or be subject to further increases in passenger taxes and airport charges related to the financing of the construction.

In addition, the hub-and-spoke structure of our operations is particularly dependent on the on-time arrival of tightly coordinated groupings of flights (or banks) to ensure that passengers can make timely connections to continuing flights. Like other airlines, we are subject to delays caused by factors beyond our control, including air traffic congestion at airports, adverse weather conditions and increased security measures. On September 18, 2017, our operations were affected by a power outage at Tocumen International Airport, which caused significant delays and cancellation of flights. Delays inconvenience passengers, reduce aircraft utilization and increase costs, all of which in turn negatively affect our profitability. In addition, at its current utilization level, Tocumen International Airport has limited fuel storage capacity. In the event there is a disruption in the transport of fuel to the airport, we may be forced to suspend flights until the fuel tanks can be refueled. A significant interruption or disruption in service or fuel at Tocumen International Airport could have a serious impact on our business, financial condition and operating results.

Tocumen International Airport is operated by a corporation that is owned and controlled by the government of the Republic of Panama. We depend on our good working relationship with the quasi-governmental corporation that operates the airport to ensure that we have adequate access to aircraft parking positions, landing rights and gate assignments for our aircraft to accommodate our current operations and future plans for expansion. The corporation that operates Tocumen International Airport does not enter into any formal, written leases or other agreements with airlines to govern rights to use the airport's jet ways or aircraft parking spaces. Therefore, we would not have contractual recourse if the airport authority assigned new capacity to competing airlines, reassigned our resources to other aircraft operators, raised fees or discontinued investments in the airport's maintenance and expansion. Any of these events could result in significant new competition for our routes or could otherwise have a material adverse effect on our current operations or capacity for future growth.

***We are exposed to increases in airport charges, taxes and various other fees 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, including at Tocumen International Airport, could have a material adverse impact on our results of operations. Passenger taxes and airport charges have increased in recent years, sometimes substantially. Certain important airports that we use may be privatized in the near future, which is likely to result in significant cost increases to the airlines that use these airports. We cannot ensure that the airports used by us will not impose, or further increase, passenger taxes and airport charges in the future, and any such increases could have an adverse effect on our financial condition and results of operations.

Certain airports that we serve (or that we plan to serve in the future) are subject to capacity constraints and impose various restrictions, including slot restrictions during certain periods of the day, limits on aircraft noise levels, limits on the number of average daily departures and curfews on runway use. We cannot be certain that we will be able to obtain a sufficient number of slots, gates and other facilities at airports to expand our services in line with our growth strategy. 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 re-allocated to others. 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 these alternatives could have an adverse financial impact on us. In addition, we cannot ensure 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.

***We have significant fixed financing costs and expect to incur additional fixed costs as we expand our fleet.***

The airline business is characterized by high leverage. We have significant fixed expenditures in connection with our operating leases and facility rental costs, and substantially all of our property and equipment is pledged to secure indebtedness. For the year ended December 31, 2017, our finance cost and aircraft and other rental expense under operating leases totaled \$169.8 million. At December 31, 2017, approximately 36.1% of our total indebtedness bore interest at fixed rates and the remainder was determined with reference to LIBOR. Most of our aircraft lease obligations bear interest at fixed rates. Accordingly, our financing and rent expense will not decrease significantly if market interest rates decline, but our financing costs could materially increase as LIBOR rates increase.

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As of December 31, 2017, the Company had two purchase contracts with Boeing: the first contract entails two firm orders of Boeing 737 Next Generation aircraft, to be delivered in the first half of 2018, and the second contract entails 71 firm orders of Boeing 737 MAX aircraft, which will be delivered between 2018 and 2025. The firm orders have an approximate value of \$9.5 billion based on aircraft list prices, including estimated amounts for contractual price escalation and pre-delivery deposits. We will require substantial capital from external sources to meet our future financial commitments. In addition, the acquisition and financing of these aircraft will likely result in a substantial increase in our leverage and fixed financing costs. A high degree of leverage and fixed payment obligations could:

limit our ability in the future to obtain additional financing for working capital or other important needs;

impair our liquidity by diverting substantial cash from our operating needs to service fixed financing obligations; or

limit our ability to plan for or react to changes in our business, in the airline industry or in general economic conditions.

Any one of these factors could have a material adverse effect on our business, financial condition and results of operations.

***Our existing debt financing agreements and our aircraft operating leases contain restrictive covenants that impose significant operating and financial restrictions on us.***

Our aircraft financing loans, operating leases and the instruments governing our other indebtedness contain a number of significant covenants and restrictions that limit our and our subsidiaries' ability to:

create material liens on our assets;

take certain actions that may impair creditors' rights to our aircraft;

sell assets or engage in certain mergers or consolidations; and

engage in other specified significant transactions.

In addition, several of our aircraft financing agreements require us to maintain compliance with specified financial ratios and other financial and operating tests. For example, our access to certain borrowings under our aircraft financing arrangements is conditioned upon our maintenance of minimum debt service coverage and capitalization ratios. See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources. Complying with these covenants may cause us to take actions that could make it more difficult to execute our business strategy successfully, and we may face competition from companies not subject to such restrictions. Moreover, our failure to comply with these covenants could result in an event of default or refusal by our creditors to extend certain of our



loans.

***If we fail to successfully take delivery of or reliably operate new aircraft, in particular our new Boeing 737 MAX aircraft, our business could be harmed.***

We fly and rely on Boeing and Embraer aircraft. As of December 31, 2017 we operated a fleet of 80 Boeing aircraft and 20 Embraer 190 aircraft. In 2018, we expect to take delivery of two additional Boeing 737-800s and five of our first Boeing 737 MAX aircraft. In the future we expect to continue to incorporate new aircraft into our fleet. The decision to incorporate new aircraft is based on a variety of factors, including the implementation of our growth strategy. Acquisition of new aircraft involves a variety of risks relating to their ability to be successfully placed into service including:

manufacturer's delays in meeting the agreed upon aircraft delivery schedule;

difficulties in obtaining financing on acceptable terms to complete our purchase of all of the aircraft we have committed to purchase; and

the inability of new aircraft and their components to comply with agreed upon specifications and performance standards.

In addition, we cannot predict the reliability of our fleet as the aircraft matures. In particular, we cannot predict the reliability of the Boeing 737 MAX aircraft, which first entered commercial service in May 2017. Any technical issues with our aircraft would increase our maintenance expenses.

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***If we were to determine that our aircraft, rotatable parts or inventory were impaired, it would have a significant adverse effect on our operating results.***

If there is objective evidence that an impairment loss on long-lived assets carried at amortized cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the higher of its fair value less cost to sell and its value in use, defined as the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the asset's risk adjusted interest rate. The carrying amount of the asset is reduced and the loss is recorded in the consolidated statement of profit or loss. In addition to the fact that the value of our fleet declines as it ages, any potential excess capacity in the airline industry, airline bankruptcies and other factors beyond our control may further contribute to the decline of the fair market value of our aircraft and related rotatable parts and inventory. If such impairment does occur, we would be required under IFRS to write down these assets through a charge to earnings. A significant charge to earnings would adversely affect our financial condition and operating results. In addition, the interest rates on and the availability of certain of our aircraft financing loans are tied to the value of the aircraft securing the loans. If those values were to decrease substantially, our interest rates may rise or the lenders under those loans may cease extending credit to us, either of which could have an adverse impact on our financial condition and results of operations.

***We rely on information and other aviation technology systems to operate our businesses and any failure or disruption of these systems may have an impact on our business.***

We rely upon information technology systems to operate our business and increase our efficiency. We are highly reliant on certain systems for flight operations, maintenance, reservations, check-in, revenue management, accounting and cargo distribution. Other systems are designed to decrease distribution costs through internet reservations and to maximize cargo distributions, crew utilization and flight operations. These systems may not deliver their anticipated benefits.

In the ordinary course of business, we may upgrade or replace our systems or otherwise modify and refine our existing systems to address changing business requirements. In particular, aircraft rely on advanced technology and, as this technology is updated, old aircraft models may become obsolete. Our operations and competitive position could be adversely affected if we are unable to upgrade or replace our systems in a timely and effective manner once they become outdated, and any inability to upgrade or replace our systems could negatively impact our financial results.

Further, Wingo, our low-cost business model, uses a reservation system that differs from the system we have traditionally used for our operations. Any transition to new systems may result in a loss of data or service interruption that could harm our business. Information systems could also suffer disruptions due to events beyond our control, including natural disasters, power failures, terrorist attacks, cyber-attacks, data theft, equipment or software failures, computer viruses or telecommunications failures. We cannot ensure that our security measures or disaster recovery plans are adequate to prevent failures or disruptions. Substantial or repeated website, reservations systems or telecommunication system failures or disruptions, including failures or disruptions related to our integration of technology systems, could reduce the attractiveness of our Company versus our competitors, materially impair our ability to market our services and operate flights, result in the unauthorized release of confidential or otherwise protected information, and result in increased costs, lost revenue, or the loss or compromise of important data.

***Our reputation and business may be harmed and we may be subject to legal claims if there is a loss, unlawful disclosure or misappropriation of, or unsanctioned access to, our customers', employees', business partners' or our own information, or any other breaches of our information security.***

We make extensive use of online services and centralized data processing, including through third-party service providers. The secure maintenance and transmission of customer and employee information is a critical element of our operations. Our information technology and other systems, or those of service providers or business partners that maintain and transmit customer information, may be compromised by a malicious third-party penetration of our network security, or of a third-party service provider or business partner, or impacted by deliberate or inadvertent actions or inactions by our employees, or those of a third-party service provider or business partner. As a result, personal information may be lost, disclosed, accessed or taken without consent.

We transmit confidential credit card information by way of secure private retail networks and rely on encryption and authentication technology licensed from third parties to provide the security and authentication necessary to effect secure transmission and storage of confidential information, such as customer credit card information. The Company has made significant efforts to secure its computer network. If our security or computer network were compromised in any way, it could have a material adverse effect on the reputation, business, operating results and financial condition of the Company, and could result in a loss of customers. Additionally, any material failure by the Company to achieve or maintain compliance with the Payment Card Industry security requirements or rectify a security issue may result in fines and the imposition of restrictions on the Company's ability to accept credit cards as a form of payment.

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As a result of these types of risks, we regularly review and update procedures and processes to prevent and protect against unauthorized access to our systems and information and inadvertent misuse of data. However, we cannot be certain that we will not be the target of attacks on our networks and intrusions into our data, particularly given recent advances in technical capabilities, and increased financial and political motivations to carry out cyber-attacks on physical systems, gain unauthorized access to information, and make information unavailable for use through, for example, ransomware or denial-of-service attacks, and otherwise exploit new and existing vulnerabilities in our infrastructure. The risk of a data security incident or disruption, particularly through cyber-attack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Furthermore, in response to these threats there has been heightened legislative and regulatory focus on attacks on critical infrastructures, including those in the transportation sector, and on data security in Panama, the United States and other parts of the world, including requirements for varying levels of data subject notification in the event of a data security incident.

Any such loss, disclosure or misappropriation of, or access to, customers , employees or business partners information or other breach of our information security could result in legal claims or legal proceedings, including regulatory investigations and actions, may have a negative impact on our reputation and may materially adversely affect our business, operating results and financial condition. Furthermore, the loss, disclosure or misappropriation of our business information may materially adversely affect our business, operating results and financial condition.

***Our liquidity could be adversely impacted in the event one or more of our credit card processors were to impose material reserve requirements for payments due to us from credit card transactions.***

We currently have agreements with organizations that process credit card transactions arising from purchases of air travel tickets by our customers. Credit card processors have financial risk associated with tickets purchased for travel that can occur several weeks after the purchase. Our credit card processing agreements provide for reserves to be deposited with the processor in certain circumstances. We do not currently have reserves posted for our credit card processors. If circumstances were to occur requiring us to deposit reserves, the negative impact on our liquidity could be significant, which could materially adversely affect our business.

***Our quarterly results could fluctuate substantially, and the trading price of our Class A shares may be affected by such variations.***

The airline industry is by nature cyclical and seasonal, and our operating results may vary from quarter to quarter. In general, demand for air travel is higher in the third and fourth quarters, particularly in international markets, because of the increase in vacation travel during these periods relative to the remainder of the year. We tend to experience the highest levels of traffic and revenue in July and August, with a smaller peak in traffic in December and January. We generally experience our lowest levels of passenger traffic in April and May. 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 and weather conditions.

Due to the factors described above and others described in this annual report, quarter-to-quarter comparisons of our 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 our Class A shares could decline, perhaps substantially.

***Our reputation and financial results could be harmed in the event of an accident or incident involving our aircraft.***

An accident or incident involving one of our aircraft could involve significant claims by injured passengers and others, as well as significant costs related to the repair or replacement of a damaged aircraft and its temporary or permanent loss from service. We are required by our creditors and the lessors of our aircraft under our operating lease agreements to carry liability insurance, but the amount of such liability insurance coverage may not be adequate and we may be forced to bear substantial losses in the event of an accident. Our insurance premiums may also increase, or we may lose our eligibility for insurance, due to an accident or incident affecting one of our aircraft. Substantial claims resulting from an accident in excess of our related insurance coverage or increased premiums would harm our business and financial results.

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Moreover, any aircraft accident or incident, even if fully insured, could cause the public to perceive us as less safe or reliable than other airlines, which could harm our business and results of operations. The Copa brand name and our corporate reputation are important and valuable assets. Adverse publicity (whether or not justified) could tarnish our reputation and reduce the value of our brand. Adverse perceptions of the types of aircraft that we operate arising from safety concerns or other problems, whether real or perceived, or in the event of an accident involving those types of aircraft, could significantly harm our business as the public may avoid flying on our aircraft.

***Fluctuations in foreign exchange rates could negatively affect our net income.***

In 2017, approximately 59.8% of our expenses and 43.7% of our revenues were denominated in U.S. dollars, respectively (2016: 67.2% and 46.8%, respectively). A significant part of our revenue is denominated in foreign currencies, including the Brazilian real, Colombian peso and Argentinian peso, which represented 16.5%, 11.4% and 7.8%, respectively (2016: 10.1%, 11.8% and 6.8% respectively). If any of these currencies decline 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 other currencies to offset any increases in U.S. dollar-denominated expenses, increases in interest expense or exchange losses on fixed obligations or indebtedness denominated in foreign currency.

We are also exposed to exchange rate losses, as well as gains, due to the fluctuation in the value of local currencies the U.S. dollar during the period of time between the times we are paid in local currencies and the time we are able to repatriate the revenues in U.S. dollars. Typically this process takes between one and two weeks in most countries to which we fly, excluding Venezuela [note 28.2 Market risk on our Financial Statements].

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

The average age of our fleet was approximately 8.0 years as of December 31, 2017. Historically, we have incurred low levels of maintenance expenses relative to the size of our fleet because most of the parts on our aircraft are covered under multi-year warranties. As our fleet ages and these warranties expire and the mileage on each aircraft increases, our maintenance costs will increase, both on an absolute basis and as a percentage of our operating expenses.

***If we enter into a prolonged dispute with any of our employees, many of whom are represented by unions, or if we are required to substantially increase the salaries or benefits of our employees, it may have an adverse impact on our operations and financial condition.***

Approximately 62.9% of our 9,045 employees are unionized. There are currently five unions covering our employees based in Panama: the pilots union; the flight attendants union; the mechanics union; the passenger service agents union; and an industry union, which represents ground personnel, messengers, drivers, passenger service agents, counter agents and other non-executive administrative staff. Copa entered into collective bargaining agreements with the pilot's union in July 2017, the industry union in December 2017, the mechanics union during the late first quarter 2018 and the flight attendants union during the early third quarter of 2018. Collective bargaining agreements in Panama typically have four-year terms. In addition to unions in Panama, there are four unions covering employees in Colombia; in Brazil, all airline industry employees in the country are covered by the industry union agreements; employees in Uruguay are covered by an industry union, and airport employees in Argentina are affiliated to an industry union (UPADEP).

A strike, work interruption or stoppage or any prolonged dispute with our employees who are represented by any of these unions could have an adverse impact on our operations. These risks are typically exacerbated during periods of

renegotiation with the unions, which typically occurs every two to four years depending on the jurisdiction and the union. For example, on November 23, 2017, our ground staff held a one-day work stoppage at the end of the negotiation process between Copa and the *Sindicato Nacional de Trabajadores de la Industria de la Aviación Civil* union or SIELAS. Our operations were not interrupted during such work stoppage. Any renegotiated collective bargaining agreement could feature significant wage increases and a consequent increase in our operating expenses. Any failure to reach an agreement during negotiations with unions may require us to enter into arbitration proceedings, use financial and management resources, and potentially agree to terms that are less favorable to us than our existing agreements. Employees who are not currently members of unions may also form new unions that may seek further wage increases or benefits.

Our business is labor-intensive. We expect salaries, wages, benefits and other employee expenses to increase on a gross basis, and these costs could increase as a percentage of our overall costs. If we are unable to hire, train and retain qualified pilots and other employees at a reasonable cost, our business could be harmed and we may be unable to complete our expansion plans.

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***Our revenues depend on our relationship with travel agents and tour operators and we must manage the costs, rights and functionality of these third-party distribution channels effectively.***

In 2017, approximately 67.3% of our revenues were derived from tickets sold through third-party distribution channels, including those provided by conventional travel agents, online travel agents, or OTAs, or tour operators. We cannot assure that we will be able to maintain favorable relationships with these ticket sellers. Our revenues could be adversely impacted if travel agents or tour operators elect to favor other airlines or to disfavor us. Our relationship with travel agents and tour operators may be affected by:

the size of commissions offered by other airlines;

changes in our arrangements with other distributors of airline tickets; and

the introduction and growth of new methods of selling tickets.

These third-party distribution channels, along with global distribution systems, or GDSs, that travel agents, OTAs and tour operators use to obtain airline travel information and issue airline tickets, are more expensive than those we operate ourselves, such as our website. Certain of these distribution channels also effectively restrict the manner in which we distribute our products generally. To remain competitive, we will need to successfully manage our distribution costs and rights, increase our distribution flexibility and improve the functionality of third-party distribution channels, while maintaining an industry-competitive cost structure. These initiatives may affect our relationships with our third-party distribution channels. Any inability to manage our third-party distribution costs, rights and functionality at a competitive level or any material diminishment or disruption in the distribution of our tickets could have a material adverse effect on our business, results of operations and financial condition.

***We rely on third parties to provide our customers and us with services that are integral to our business.***

We have several agreements with third-party contractors to provide certain services primarily outside of Panama. Maintenance services include aircraft heavy checks, engine maintenance, overhaul, component repairs and line maintenance activities. In addition to call center services, third-party contractors also provide us with below the wing aircraft services. At airports other than Tocumen International Airport, most of our aircraft services are performed by third-party contractors. Substantially all of our agreements with third-party contractors are subject to termination on short notice. The loss or expiration of these agreements or our inability to renew these agreements or to negotiate new agreements with other providers at comparable rates could negatively impact our business and results of operations. Further, our reliance on third parties to provide reliable equipment or essential services on our behalf could lead us to have less control over the costs, efficiency, timeliness and quality of our service. A contractor's negligence could compromise our aircraft or endanger passengers and crew. This could also have a material adverse effect on our business. We expect to be dependent on such agreements for the foreseeable future and if we enter any new market, we will need to have similar agreements in place.

***We depend on a limited number of suppliers.***

We are subject to the risks of having a limited number of suppliers for our aircraft and engines. One of the elements of our business strategy is to save costs by operating a simplified fleet. Copa currently operates the Boeing 737-700/800 Next Generation aircraft powered by CFM 56-7B engines from CFM International and the Embraer 190, powered by



CF 34-10 engines from General Electric. We currently intend to continue to rely exclusively on these aircraft. However, starting in August 2018 we will begin receiving the 737 MAX, which is an advanced version of the existing 737-Next Generation. This aircraft will be equipped with a Leap 1B engine, also manufactured by CFM International. If any of Boeing, Embraer, CFM International or General Electric are unable to perform their contractual obligations, or if we are unable to acquire or lease new aircraft or engines from aircraft or engine manufacturers or lessors on acceptable terms, we would have to find another supplier for a similar type of aircraft or engine.

If we have to lease or purchase aircraft from another supplier, we could lose the benefits we derive from our current fleet composition. We cannot ensure that any replacement aircraft would have the same operating advantages as the Boeing 737-700/800 Next Generation or Embraer 190 aircraft that would be replaced or that Copa could lease or purchase engines that would be as reliable and efficient as the CFM 56-7B and GE CF34-10. We may also incur substantial transition costs, including costs associated with acquiring spare parts for different aircraft models, retraining our employees, replacing our manuals and adapting our facilities. Our operations could also be harmed by the failure or inability of Boeing, Embraer, CFM International or General Electric to provide sufficient parts or related support services on a timely basis.

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Our business would be impacted if a design defect or mechanical problem with any of the types of aircraft or components that we operate were discovered that would ground any of our aircraft while the defect or problem was being addressed, assuming it could be corrected at all. The use of our aircraft could be suspended or restricted by regulatory authorities in the event of any actual or perceived mechanical or design issues. Our business would also be negatively impacted if the public began to avoid flying with us due to an adverse perception of the types of aircraft that we operate stemming from safety concerns or other problems, whether real or perceived, or in the event of an accident involving those types of aircraft or components.

We also depend on a limited number of suppliers with respect to supplies obtained locally, such as our fuel. These local suppliers may not be able to maintain the pace of our growth and our requirements may exceed their capabilities, which may adversely affect our ability to execute our day-to-day operations and our growth strategy.

### ***Our business financial condition and results of operations could be materially affected by the loss of key personnel.***

Our success depends to a significant extent on the ability of our senior management team and key personnel to operate and manage our business effectively. Most of our employment agreements with key personnel do not contain any non-competition provisions applicable upon termination. Competition for highly qualified personnel is intense. If we lose any executive officer, senior manager or other key employee and are not able to obtain an adequate replacement, or if we are unable to attract and retain new qualified personnel, our business, financial condition and results of operations could be materially adversely affected.

## **Risks Relating to the Airline Industry**

### ***The airline industry is highly competitive.***

We face intense competition throughout our route network. Overall airline industry profit margins are low and industry earnings are volatile. Airlines compete in the areas of pricing, scheduling (frequency and flight times), on-time performance, frequent flyer programs and other services. Some of our competitors have larger customer bases and greater brand recognition in the markets we serve outside Panama, and some of our competitors have significantly greater financial and marketing resources than we have. Airlines based in other countries may also receive subsidies, tax incentives or other state aid from their respective governments, which are not provided by the Panamanian government. Changes in our interactions with our passengers or our product offerings could negatively impact our business. For example, prior to 2015, we had participated in UAL's loyalty program, MileagePlus, but in July 2015, we launched our own ConnectMiles frequent flyer program. Although, ConnectMiles is allowing us to build a more direct relationship with our customers, it may not be as successful as UAL's MileagePlus program in building, and maintaining, brand loyalty. In addition, the commencement of, or increase in, service on the routes we serve by existing or new carriers could negatively impact our operating results. Likewise, competitors' service on routes that we are targeting for expansion may make those expansion plans less attractive.

We compete with a number of other airlines that currently serve some of the routes on which we operate, including Avianca, American Airlines, Delta Air Lines, Aeromexico, and LATAM Group among others. Strategic alliances, bankruptcy restructurings and industry consolidations characterize the airline industry and tend to intensify competition. Several air carriers have merged and/or reorganized in recent years, including certain of our competitors, such as LAN-TAM, Avianca-Taca, American-US Airways and Delta-Northwest, and have benefited from lower operating costs and fare discounting in order to maintain cash flows and to enhance continued customer loyalty.

Traditional hub-and-spoke carriers in the United States and Europe continue to face substantial and increasing competitive pressure from LCCs offering discounted fares. The LCCs' operations are typically characterized by

point-to-point route networks focusing on the highest demand city pairs, high aircraft utilization, single class service and fewer in-flight amenities. As evidenced by Grupo Viva, which is growing in domestic and international markets in Latin America; Spirit, which serves Latin America, including Panama, from Fort Lauderdale; Volaris that operates within Central America region, Mexico and the United States; JetBlue, which flies from Orlando to Latin America; Azul, which flies from Brazil to several South American countries and a number of other LCCs that operate within the Latin American region. The LCC business model appears to be gaining acceptance in the Latin American aviation industry. As a result, we may face new and substantial competition from LCCs in the future, which could result in significant and lasting downward pressure on the fares we charge for flights on our routes. In December 2016, Copa's subsidiary in Colombia, AeroRepública, launched Wingo, a low-cost business model to serve domestic destinations and some point-to-point international leisure markets, to improve Copa's position within Colombia, and better compete with low unbundled prices from LCCs. Although we intend to compete vigorously and maintain our strong competitive position in the industry, Avianca and LAN Colombia (LATAM) represent a significant portion of the domestic market in Colombia and have access to greater resources as a result of their recent combinations. Therefore, Copa faces stronger competition now than in recent years, and its prior results may not be indicative of its future performance.

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We must constantly react to changes in prices and services offered by our competitors to remain competitive. The airline industry is highly susceptible to price discounting, particularly because airlines incur very low marginal costs for providing service to passengers occupying otherwise unsold seats. Carriers use discount fares to stimulate traffic during periods of lower demand to generate cash flow and to increase market share. Any lower fares offered by one airline are often matched by competing airlines, which often results in lower industry yields with little or no increase in traffic levels. Price competition among airlines in the future could lead to lower fares or passenger traffic on some or all of our routes, which could negatively impact our profitability. We cannot be certain that any of our competitors will not undercut our fares in the future or increase capacity on routes in an effort to increase their respective market share. Although we intend to compete vigorously and to assert our rights against any predatory conduct, such activity by other airlines could reduce the level of fares or passenger traffic on our routes to the point where profitable levels of operations cannot be maintained. Due to our smaller size and financial resources compared to several of our competitors, we may be less able to withstand aggressive marketing tactics or fare wars engaged in by our competitors should such events occur.

***Significant changes or extended periods of high fuel costs or fuel supply disruptions could materially affect our operating results.***

Fuel costs constitute a significant portion of our total operating expenses, representing approximately 27.4% of operating expenses in 2017, 27.2% in 2016 and 30.4% in 2015. Jet fuel costs have been subject to wide fluctuations as a result of increases in demand, sudden disruptions in and other concerns about global supply, as well as market speculation. Fuel prices reached record levels during the middle of 2008, decreased substantially in 2009, and have fluctuated up and down since 2009. Both the cost and availability of fuel are subject to many economic, political, weather, environmental and other factors and events occurring throughout the world that we can neither control nor accurately predict, including international political and economic circumstances such as the political instability in major oil-exporting countries in Latin America, Africa and Asia. Any future fuel supply shortage (for example, as a result of production curtailments by the Organization of the Petroleum Exporting Countries, or OPEC, a disruption of oil imports, supply disruptions resulting from severe weather or natural disasters, the continued unrest in the Middle East or otherwise could result in higher fuel prices or further reductions in scheduled airline services). We cannot ensure that we would be able to offset any increases in the price of fuel by increasing our fares.

***We may experience difficulty recruiting, training and retaining pilots and other employees.***

The airline industry is a labor-intensive business. We employ a large number of flight attendants, maintenance technicians and other operating and administrative personnel. The airline industry has, from time to time, experienced a shortage of qualified personnel. Recently, we have experienced significant turnover due to shifting economic environments worldwide that have led competitors to offer incentives to attract skilled pilots. As is common with most of our competitors, considerable turnover of employees may occur and may not always be predictable. When we experience higher turnover, our training costs may be higher due to the significant amount of time required to train each new employee and, in particular, each new pilot. If our pilots terminate their contracts earlier than anticipated, we may be unable to successfully recoup the costs spent to train those pilots. We cannot be certain that we will be able to recruit, train and retain the qualified employees that we need to continue our current operations to replace departing employees. A failure to hire, train and retain qualified employees at a reasonable cost could materially adversely affect our business, financial condition and results of operations.

Under Panamanian law, there is a limit on the maximum number of non-Panamanian employees that we may employ. Our need for qualified pilots has at times exceeded the domestic supply and as such, we have had to hire a substantial number of non-Panamanian national pilots. However, we cannot ensure that we will continue to attract Panamanian and foreign pilots. The inability to attract and retain pilots may adversely affect our growth strategy by limiting our

ability to add new routes or increase the frequency of existing routes.

***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 net income.

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***Our business may be adversely affected by downturns in the airline industry caused by terrorist attacks, political unrest, war or outbreak of disease, which may alter travel behavior or increase costs.***

Demand for air transportation may be adversely affected by terrorist attacks, war or political and social instability, an outbreak of a disease or similar public health threat, natural disasters, cyber security threats and other events. Any of these events could cause governmental authorities to impose travel restrictions or otherwise cause a reduction in travel demand or changes in travel behavior in the markets in which we operate. Any of these events in our markets could have a material impact on our business, financial condition and results of operations. Furthermore, these types of situations could have a prolonged effect on air transportation demand and on certain cost items, such as security and insurance costs.

The terrorist attacks in the United States on September 11, 2001, for example, had a severe and lasting adverse impact on the airline industry, in particular, a decrease in airline traffic in the United States and, to a lesser extent, in Latin America. Our revenues depend on the number of passengers traveling on our flights. 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 negatively affect our business, financial condition and results of operations.

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

Following the 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 abroad or in Latin America. 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. While 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, the Panamanian government has not indicated an intention to provide similar benefits to us. Increases in the cost of insurance may result in higher fares, which could result in a decreased demand and materially and negatively affect our business, financial condition and results of operations.

***Failure to comply with applicable environmental regulations could adversely affect our business.***

Our operations are covered by various local, national and international environmental regulations. These regulations cover, among other things, emissions to the atmosphere, disposal of solid waste and aqueous effluents, aircraft noise and other activities that result from the operation of aircraft. Future operations and financial results may vary as a result of such regulations. Compliance with these regulations and new or existing regulations that may be applicable to us in the future could increase our cost base and adversely affect our operations and financial results.

**Risks Relating to Panama and our Region**

***We are highly dependent on conditions in Panama and, to a lesser extent, in Colombia.***

A substantial portion of our assets is located in the Republic of Panama and a significant proportion of our passengers trips either originates or ends in Panama. Furthermore, substantially all of Copa's flights operate through our hub at Tocumen International Airport. As a result, we depend on economic and political conditions prevailing from time to

time in Panama. Panama's economic conditions in turn highly depend on the continued profitability and economic impact of the Panama Canal. Control of the Panama Canal and many other assets were transferred from the United States to Panama in 1999 after nearly a century of U.S. control. Political events in Panama may significantly affect our operations.

Copa Colombia's results of operations are highly sensitive to macroeconomic and political conditions prevailing in Colombia. Although the state of affairs in Colombia has been steadily improving since 2002, the Colombian economy's growth slowed during 2015. Any political unrest and instability in Colombia could adversely affect Copa Colombia's financial condition and results of operations.

According to International Monetary Fund estimates, during 2018 the Panamanian and Colombian economies are expected to grow by 6.1% and 3.8%, respectively, as measured by their GDP at constant prices. However, if either economy experiences a sustained recession, or significant political disruptions, our business, financial condition or results of operations could be materially and negatively affected.

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***Any increase in the taxes we or our shareholders pay in Panama or the other countries where we do business could adversely affect our financial performance and results of operations.***

We cannot ensure that our current tax rates will not increase. Our income tax expenses were \$48.0 million, \$38.3 million and \$32.8 million in the years ended December 31, 2017, 2016 and 2015, respectively, which represented an effective income tax rate of 11.5%, 10.2% and -17.0%, respectively. We are subject to local tax regulations in each of the jurisdictions where we operate, the great majority of which are related to the taxation of income. In some of the countries to which we fly, we do are not subject to pay income taxes, either because those countries do not have income tax or because of treaties or other arrangements those countries have with Panama. In the remaining countries, we pay income tax at rates ranging from 22% to 34% of income.

Different countries calculate income in different ways, but they are typically derived from sales in the applicable country multiplied by our net margin or by a presumed net margin set by the relevant tax legislation. The determination of our taxable income in certain countries is based on a combination of revenues sourced to each particular country and the allocation of expenses of our operations to that particular country. The methodology for multinational transportation company sourcing of revenues and expenses is not always specifically prescribed in the relevant tax regulations, and therefore is subject to interpretation by both us and the respective taxing authorities. Additionally, in some countries, the applicability of certain regulations governing non-income taxes and the determination of our filing status are also subject to interpretation. We cannot estimate the amount, if any, of potential tax liabilities that might result if the allocations, interpretations and filing positions used by us in our tax returns were challenged by the taxing authorities of one or more countries. If taxes were to increase, our financial performance and results of operations could be materially and adversely affected. Due to the competitive revenue environment, many increases in fees and taxes have been absorbed by the airline industry rather than being passed on to the passenger. If we were to pass any of these increases in fees and taxes onto passengers, we may no longer compete effectively as those increases may result in reduced customer demand for air travel with us and we may no longer compete effectively, thereby reducing our revenues. If we were to absorb any increases in fees and taxes, the additional costs could have a material adverse effect on our results of operations.

The Panamanian tax code for the airline industry states that tax is based on net income earned for traffic with an origin or final destination in the Republic of Panama. The applicable tax rate is currently 25%. Dividends from our Panamanian subsidiaries, including Copa, are separately subject to a 10% percent withholding tax on the portion attributable to Panamanian-sourced income and a 5% withholding tax on the portion attributable to foreign-sourced income. Additionally, a 7% value added tax is levied on tickets issued in Panama for travel commencing in Panama and going abroad, irrespective of where such tickets were ordered. If such taxes were to increase, our financial performance and results of operations could be materially and adversely affected.

***Political unrest and instability in Latin American countries in which we operate may adversely affect our business and the market price of our Class A shares.***

While geographic diversity helps reduce our exposure to risks in any one country, we operate primarily within Latin America and are thus subject to a full range of risks associated with our operations in these regions. These risks may include unstable political or economic conditions, lack of well-established or reliable legal systems, exchange controls and other limits on our ability to repatriate earnings and changeable legal and regulatory requirements. In Venezuela and Argentina, for example, we and other airlines and foreign companies may only repatriate cash through specific governmental programs, which may effectively preclude us from repatriating cash for periods of time. In addition, Venezuela has experienced difficult political conditions and declines in the rate of economic growth in recent periods as well as governmental actions that have adversely impacted businesses that operate there. For the year ended December 31, 2017, sales in local currency in Venezuela and Argentina represented 0.1% and 9.4% of our total sales,



respectively. Inflation, any decline in GDP or other future economic, social and political developments in Latin America may adversely affect our financial condition or results of operations.

Although conditions throughout Latin America vary from country to country, our customers' reactions to developments in Latin America generally may result in a reduction in passenger traffic, which could materially and negatively affect our financial condition, results of operations and the market price of our Class A shares.

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**Table of Contents****Risks Relating to Our Class A Shares**

***The value of our Class A shares may be adversely affected by ownership restrictions on our capital stock and the power of our Board of Directors to take remedial actions to preserve our operating license and international route rights by requiring sales of certain outstanding shares or issuing new stock.***

Pursuant to the Panamanian Aviation Act, as amended and interpreted to date, and certain of the bilateral treaties affording us the right to fly to other countries, we are required to be substantially owned and effectively controlled by Panamanian nationals. Our failure to comply with such requirements could result in the loss of our Panamanian operating license and/or our right to fly to certain important countries. Our Articles of Incorporation (*Pacto Social*) give special powers to our independent directors to take certain significant actions to attempt to ensure that the amount of shares held in us by non-Panamanian nationals does not reach a level that could jeopardize our compliance with Panamanian and bilateral ownership and control requirements. If our independent directors determine it is reasonably likely that we will be in violation of these ownership and control requirements and our Class B shares represent less than 10% of our total outstanding capital stock (excluding newly issued shares sold with the approval of our independent directors committee), our independent directors will have the power to issue additional Class B shares or Class C shares with special voting rights solely to Panamanian nationals. See 10B. Memorandum and Articles of Association Description of Capital Stock.

If any of these remedial actions are taken, the trading price of the Class A shares may be materially and adversely affected. An issuance of Class C shares could have the effect of discouraging certain changes of control of Copa Holdings or may reduce any voting power that the Class A shares enjoy prior to the Class C share issuance. There can be no assurance that we would be able to complete an issuance of Class B shares to Panamanian nationals. We cannot be certain that restrictions on ownership by non-Panamanian nationals will not impede the development of an active public trading market for the Class A shares, adversely affect the market price of the Class A shares or materially limit our ability to raise capital in markets outside of Panama in the future.

***Our controlling shareholder has the ability to direct our business and affairs, and its interests could conflict with those of other shareholders.***

All of our Class B shares, representing approximately 26.0% of the economic interest in Copa Holdings and 100% of the voting power of our capital stock, are owned by *Corporación de Inversiones Aéreas, S.A.*, or CIASA, a Panamanian entity. CIASA is in turn controlled by a group of Panamanian investors. In order to comply with the Panamanian Aviation Act, as amended and interpreted to date, we have amended our organizational documents to modify our share capital so that CIASA will continue to exercise voting control of Copa Holdings. CIASA will not be able to transfer its voting control unless control of our Company will remain with Panamanian nationals. CIASA will maintain voting control of the Company so long as CIASA continues to own a majority of our Class B shares and the Class B shares continue to represent more than 10% of our total share capital (excluding newly issued shares sold with the approval of our independent directors committee). Even if CIASA ceases to own the majority of the voting power of our capital stock, CIASA may continue to control our Board of Directors indirectly through its control of our Nominating and Corporate Governance Committee. As the controlling shareholder, CIASA may direct us to take actions that could be contrary to other shareholders' interests and under certain circumstances CIASA will be able to prevent other shareholders, including you, from blocking these actions. Also, CIASA may prevent change of control transactions that might otherwise provide an opportunity to dispose of or realize a premium on investments in our Class A shares.

***The Class A shares will only be permitted to vote in very limited circumstances and may never have full voting rights.***

The holders of Class A shares have no right to vote at our shareholders' meetings except with respect to corporate transformations of Copa Holdings, mergers, consolidations or spin-offs of Copa Holdings, changes of corporate purpose, voluntary delisting of the Class A shares from the NYSE, the approval of nominations of our independent directors and amendments to the foregoing provisions that adversely affect the rights and privileges of any Class A shares. The holders of Class B shares have the power to elect the Board of Directors and to determine the outcome of all other matters to be decided by a vote of shareholders. Class A shares will not have full voting rights unless the Class B shares represent less than 10% of our total capital stock (excluding newly issued shares sold with the approval of our independent directors committee). See Item 10B. Memorandum and Articles of Association Description of Capital Stock. We cannot assure that the Class A shares will ever carry full voting rights.

***Substantial future sales of our Class A shares by CIASA could cause the price of the Class A shares to decrease.***

CIASA owns all of our Class B shares, and those Class B shares will be converted into Class A shares if they are sold to non-Panamanian investors. In connection with our initial public offering in December 2005, Continental and CIASA reduced their ownership of our total capital stock from 49.0% to approximately 27.3% and from 51.0% to approximately 25.1%, respectively. In a

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follow-on offering in June 2006, Continental further reduced its ownership of our total capital stock from 27.3% to 10.0%. In May 2008, we and CIASA released Continental from its standstill obligations and they sold down their remaining shares in the public market. CIASA holds registration rights with respect to a significant portion of its shares pursuant to a registration rights agreement entered into in connection with our initial public offering. In March 2010, CIASA converted a portion of its Class B shares into 1.6 million non-voting Class A shares and sold such Class A shares in an SEC-registered public offering. In the event CIASA seeks to reduce its ownership below 10% of our total share capital, our independent directors may decide to issue special voting shares solely to Panamanian nationals to maintain the ownership requirements mandated by the Panamanian Aviation Act. As a result, the market price of our Class A shares could drop significantly if CIASA further reduces its investment in us, other significant holders of our shares sell a significant number of shares or if the market perceives that CIASA or other significant holders intend to sell their shares. As of December 31, 2017 CIASA owned 26.0% of Copa Holdings' total capital stock mainly as a result of share repurchase programs executed in 2014 and 2015.

***Holders of our common stock are not entitled to preemptive rights, and as a result shareholders may experience substantial dilution upon future issuances of stock by us.***

Under Panamanian corporate law and our organizational documents, holders of our Class A shares are not entitled to any preemptive rights with respect to future issuances of capital stock by us. Therefore, unlike companies organized under the laws of many other Latin American jurisdictions, we are free to issue new shares of stock to other parties without first offering them to our existing Class A shareholders. In the future we may sell Class A or other shares to persons other than our existing shareholders at a lower price than the shares already sold, and as a result shareholders may experience substantial dilution of their interest in us.

***Shareholders may not be able to sell our Class A shares at the price or at the time desired because an active or liquid market for the Class A shares may not continue.***

Our Class A shares are listed on the NYSE. During the three months ended December 31, 2017, the average daily trading volume for our Class A shares as reported by the NYSE was approximately 249,224 shares. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for our investors. The liquidity of a securities market is often affected by the volume of shares publicly held by unrelated parties. We cannot predict whether an active liquid public trading market for our Class A shares will be sustained.

***Our operations in Cuba may adversely affect the market price of our Class A shares***

We currently operate seven daily departures to and from Cuba which provide passenger, cargo and mail transportation service. For the year ended December 31, 2017, our transported passengers to and from Cuba represented approximately 4.3% of our total passengers. Our operating revenues from Cuban operations during the year ended December 31, 2017 represented approximately 1.7% of our total consolidated operating revenues for such year. Our assets located in Cuba are not significant.

The U.S. Treasury Department's Office of Foreign Assets Control (OFAC) administers and enforces economic and trade sanctions based on U.S. foreign policy against Cuba and certain other targeted foreign countries, and groups opposed to the Cuban regime may seek to exert pressure on companies doing business in Cuba. Although Cuba has been removed from the U.S. Department of State's list of state sponsors of terrorism, uncertainty remains over OFAC's enforcement of sanctions against Cuba and the impact the sanctions program will have on our operations, particularly if such activities grow in the future. Certain U.S. states have enacted or may enact legislation regarding investments by state-owned investors, such as public employee pension funds and state university endowments, in companies that have business activities with Cuba. As a result, such state-owned institutional investors may be subject to restrictions

with respect to investments in companies such as ours, which could adversely affect the market for our shares.

***Our Board of Directors may, in its discretion, amend or repeal our dividend policy. Shareholders may not receive the level of dividends provided for in the dividend policy or any dividends at all.***

In February 2016, the Board of Directors approved a change to the dividend policy to limit aggregate annual dividends to an amount equal to 40% of the previous year's annual consolidated underlying net income, to be distributed in equal quarterly installments subject to board approval. Our Board of Directors may, in its sole discretion and for any reason, amend or repeal any aspect of this dividend policy. Our Board of Directors may decrease the level of dividends provided for in this dividend policy or entirely discontinue the payment of dividends. Future dividends with respect to shares of our common stock, if any, will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, provisions of applicable law and other factors that our Board of Directors may deem relevant. See Item 8A. Consolidated Statements and Other Financial Information Dividend Policy.

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***To the extent we pay dividends to our shareholders, we will have less capital available to meet our future liquidity needs.***

Our Board of Directors has reserved the right to amend the dividend policy or pay dividends in excess of the level circumscribed in the dividend policy. The aviation industry has cyclical characteristics, and many international airlines are currently experiencing difficulties meeting their liquidity needs. Also, our business strategy contemplates growth over the next several years, and we expect such growth will require a great deal of liquidity. To the extent that we pay dividends in accordance with, or in excess of, our dividend policy, the money that we distribute to shareholders will not be available to us to fund future growth and meet our other liquidity needs.

***Our Articles of Incorporation impose ownership and control restrictions on our Company that ensure that Panamanian nationals will continue to control us and these restrictions operate to prevent any change of control or some transfers of ownership in order to comply with the Aviation Act and other bilateral restrictions.***

Under Law No. 21 of January 29, 2003, as amended and interpreted to date, or the Aviation Act, which regulates the aviation industry in the Republic of Panama, Panamanian nationals must exercise effective control over the operations of the airline and must maintain substantial ownership. Under certain of the bilateral agreements between Panama and other countries pursuant to which we have the right to fly to those other countries and over their territories, we must also continue to have substantial Panamanian ownership and effective control by Panamanian nationals to retain these rights. On November 25, 2005, the Executive Branch of the Government of Panama promulgated a decree stating that the substantial ownership and effective control requirements of the Aviation Act are met if a Panamanian citizen or a Panamanian company is the record holder of shares representing 51% or more of the voting power of the Company. Although the decree has the force of law for so long as it remains in effect, it does not supersede the Aviation Act, and it could be modified or superseded at any time by a future Executive Branch decree. Additionally, the decree has no binding effect on regulatory authorities of other countries whose bilateral agreements impose Panamanian ownership and control limitations on us. These phrases are not defined in the Aviation Act itself or in the bilateral agreements to which Panama is a party, and it is unclear how a Panamanian court or, in the case of the bilateral agreements, foreign regulatory authorities, would interpret them.

The share ownership requirements and transfer restrictions contained in our Articles of Incorporation, as well as the dual-class structure of our voting capital stock, are designed to ensure compliance with these ownership and control restrictions. See Item 10B. Memorandum and Articles of Association Description of Capital Stock. At the present time, CIASA is the record owner of 100% of our Class B voting shares, representing approximately 26.0% of our total share capital and all of the voting power of our capital stock. These provisions of our Articles of Incorporation may prevent change of control transactions that might otherwise provide an opportunity to realize a premium on investments in our Class A shares. They also ensure that Panamanians will continue to control all the decisions of our Company for the foreseeable future.

***The protections afforded to minority shareholders in Panama are different from and more limited than those in the United States and may be more difficult to enforce.***

Under Panamanian law, the protections afforded to minority shareholders are different from, and much more limited than, those in the United States and some other Latin American countries. For example, the legal framework with respect to shareholder disputes is less developed under Panamanian law than under U.S. law and there are different procedural requirements for bringing shareholder lawsuits, including shareholder derivative suits. As a result, it may be more difficult for our minority shareholders to enforce their rights against us or our directors or controlling shareholder than it would be for shareholders of a U.S. company. In addition, Panamanian law does not afford minority shareholders as many protections for investors through corporate governance mechanisms as in the United

States and provides no mandatory tender offer or similar protective mechanisms for minority shareholders in the event of a change in control. While our Articles of Incorporation provide limited rights to holders of our Class A shares to sell their shares at the same price as CIASA in the event that a sale of Class B shares by CIASA results in the purchaser having the right to elect a majority of our board, there are other change of control transactions in which holders of our Class A shares would not have the right to participate, including the sale of interests by a party that had previously acquired Class B shares from CIASA, the sale of interests by another party in conjunction with a sale by CIASA, the sale by CIASA of control to more than one party, or the sale of controlling interests in CIASA itself.

#### **Item 4. Information on the Company**

##### **A. History and Development of the Company**

###### **General**

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Copa was established in 1947 by a group of Panamanian investors and Pan American World Airways, which provided technical and economic assistance as well as capital. Initially, Copa served three domestic destinations in Panama with a fleet of three Douglas C-47 aircraft. In the 1960s, Copa began its international service with three weekly flights to cities in Costa Rica, Jamaica and Colombia using a small fleet of Avro 748s and Electra 188s. In 1971, Pan American World Airways sold its stake in Copa to a group of Panamanian investors who retained control of the airline until 1986. During the 1980s, Copa suspended its domestic service to focus on international flights.

In 1986, CIASA purchased 99% of Copa, which was controlled by the group of Panamanian shareholders who currently control CIASA. From 1992 until 1998, Copa was a part of a commercial alliance with Grupo TACA's network of Central American airline carriers. In 1997, together with Grupo TACA, Copa entered into a strategic alliance with American Airlines. After a year our alliance with American Airlines was terminated by mutual consent.

On May 6, 1998, Copa Holdings, S.A., the holding company for Copa and related companies was incorporated as a *sociedad anónima* under the laws of Panama to facilitate the sale by CIASA of a 49% stake in Copa Holdings to Continental. In connection with Continental's investment, we entered into an extensive alliance agreement with Continental providing for code-sharing, joint marketing, technical exchanges and other cooperative initiatives between the airlines. At the time of our initial public offering in December 2005, Continental reduced its ownership of our total capital stock from 49% to approximately 27.3%. In a follow-on offering in June 2006, Continental further reduced its ownership of our total capital stock from 27.3% to 10.0%. In May 2008, Continental sold its remaining shares in the public market. In March 2010, CIASA sold 4.2% of its interest and as of December 31, 2017 held 26.0% of our total capital stock.

Since 1998, we have grown and modernized our fleet while improving customer service and reliability. Copa has expanded its operational fleet from 13 aircraft to 100 aircraft at December 31, 2017. In 1999, we received our first Boeing 737-700s, in 2003 we received our first Boeing 737-800, and in 2005 we received our first Embraer 190. In the first quarter of 2005, we completed our fleet renovation program and discontinued the use of our last Boeing 737-200. Since 2005, we have expanded from 24 destinations in 18 countries to 75 destinations in 31 countries. We plan to continue our expansion, which includes increasing our fleet, over the next several years. In 2018, we expect to take delivery of five of our first Boeing 737 MAX aircraft.

On April 22, 2005, we acquired an initial 85.6% equity ownership interest in AeroRepública, which was one of the largest domestic carriers in Colombia in terms of passengers carried. Through subsequent acquisitions, we increased our total ownership interest in AeroRepública to 99.9% by the end of that year. We believe that Copa Airlines operational coordination with Copa Colombia creates additional passenger traffic in our existing route network by providing Colombian passengers more convenient access to the international destinations served through our Panama hub.

In July 2015, we elected to cease co-branding the MileagePlus frequent flyer program in Latin America and launched our own frequent flyer program, ConnectMiles. We have reached a scale where establishing our own direct relationship with our customers is warranted. Copa and UAL will remain strong loyalty partners through our participation in Star Alliance.

In December 2016, we launched a low-cost business model, Wingo, to diversify our offerings and to better compete with other low-cost carriers in the markets. Wingo serves domestic flights in Colombia and some international cities to and from Colombia.

Our registered office is located at Avenida Principal y Avenida de la Rotonda, Urbanización Costa del Este, Complejo Business Park, Torre Norte, Parque Lefevre, Panama City, Panama and our telephone number is +507 304-2774. The



website of Copa Airlines is [www.copaair.com](http://www.copaair.com). Information contained on, or accessible through, this website is not incorporated by reference herein and shall not be considered part of this annual report. Our agent for service of process in the United States is Puglisi & Associates, 850 Library Avenue, Suite 204, Newark, Delaware 19715, and its telephone number is +(302) 738-6680.

### **Capital Expenditures**

During 2017, our capital expenditures were \$272.4 million, which consisted primarily of the acquisition of property and equipment. During 2016, our capital expenditures were \$106.7 million, which consisted primarily of the acquisition of property and equipment. During 2015, our capital expenditures were \$3.7 million, which consisted primarily of expenditures related to our purchase of four Boeing 737-800 aircraft, offset by reimbursement of advance payments on aircraft purchase contracts.

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**B. Business Overview**

We are a leading Latin American provider of airline passenger and cargo service through our two principal operating subsidiaries, Copa Airlines and Copa Colombia. Copa Airlines operates from its strategically-located position in the Republic of Panama, and Copa Colombia flies from Colombia to Copa Airlines Hub of the Americas in Panama, and operates a low-cost business model within Colombia and various cities in the region. We currently operate a fleet of 106 aircraft, 80 Boeing 737-Next Generation aircraft and 20 Embraer 190 aircraft to meet our growing capacity requirements. As of December 31, 2017 the Company had two purchase contracts with Boeing: the first contract entails two firm orders of Boeing 737 Next Generation aircraft, to be delivered in the first half of 2018, and the second contract entails 71 firm orders of Boeing 737 MAX aircraft, which will be delivered between 2018 and 2025.

Copa currently offers approximately 347 daily scheduled flights among 75 destinations in 31 countries in North, Central and South America and the Caribbean from its Panama City hub. Copa provides passengers with access to flights to more than 200 other destinations through code-share arrangements with UAL and other airlines pursuant to which each airline places its name and flight designation code on the other's flights. Through its Panama City hub, Copa is able to consolidate passenger traffic from multiple points to serve each destination effectively.

Copa began its strategic alliance with Continental in 1998. Since then, Copa, Continental and Continental's successor, United Airlines, or UAL or United, have conducted joint marketing and code-sharing arrangements. On October, 2010, Continental merged with United Airlines. The combined carrier took the United Airlines name but uses the former Continental's livery and logo. All of the service and alliance agreements we had in place with Continental have been transferred to the combined UAL entity. We believe that Copa's co-branding and joint marketing activities, which continue with UAL, have enhanced its brand in Latin America, and that the relationship with UAL has afforded it cost-related benefits, such as improved purchasing power in negotiations with aircraft vendors and insurers. We have reached a mutually beneficial arrangement with UAL and extended the term, and continue with, an updated alliance agreement from May 2016 forward. Due to the long-standing alliance relationship with Continental, and in order to ensure Copa remained fully aligned with Continental on a number of important joint initiatives, Copa officially joined Star Alliance on June 21, 2012, which Continental had joined at the end of 2009.

Since January 2001, we have grown significantly and have established a track record of consistent profitability, with the one exception of 2015. Although in 2015 and 2016 our revenues and margins decreased as compared to 2014, our total operating revenues increased from \$0.3 billion in 2001 to \$2.5 billion in 2017 while our operating margins also increased from 8.6% to 17.4% over the same period.

**Our Strengths**

We believe our primary business strengths that have allowed us to compete successfully in the airline industry include the following:

*Our Hub of the Americas airport is strategically located. We believe that Copa's base of operations at the geographically central location of Tocumen International Airport in Panama City, Panama provides convenient connections to our principal markets in North, Central and South America and the Caribbean, enabling us to consolidate traffic to serve several destinations that do not generate enough demand to justify point-to-point service. Flights from Panama operate with few service disruptions due to weather, contributing to high completion factors and on-time performance. Tocumen International Airport's sea-level altitude allows our aircraft to operate*

without the performance restrictions they would be subject to a higher altitude airports. We believe that Copa's hub in Panama allows us to benefit from Panama City's status as a center for financial services, shipping and commerce and from Panama's stable, dollar-based economy, free-trade zone and growing tourism.

*We focus on keeping our operating costs low.* In recent years, our low operating costs and efficiency have contributed significantly to our profitability. Our operating CASM, excluding costs for fuel was \$6.91 in 2013, \$6.54 in 2014, \$6.37 in 2015, \$6.44 in 2016 and \$6.33 in 2017. We believe that our cost per available seat mile reflects our modern fleet, efficient operations and the competitive cost of labor in Panama.

*We operate a modern fleet.* Our fleet consists of modern Boeing 737-Next Generation and Embraer 190 aircraft equipped with winglets and other modern cost-saving and safety features. Over the next several years, we intend to enhance our modern fleet through the addition of two Boeing 737-Next Generation aircraft which will be delivered in the first half of 2018 and 71 Boeing 737 MAX aircraft to be delivered between 2018 and 2025. We believe that our modern fleet contributes to our on-time performance and high completion factor (percentage of scheduled flights not cancelled).

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*We believe Copa has a strong brand and a reputation for quality service.* We believe that the Copa brand is associated with value to passengers, providing world-class service and competitive pricing. For the year ended December 31, 2017, Copa's statistic for on-time performance, according to DOT standard methodology of arrivals within 14 minutes of scheduled arrival time, was 86.8% and its completion factor was 99.5%. We believe our focus on customer service has helped to build passenger loyalty. In addition, the excellent response to our new loyalty program, ConnectMiles, demonstrates the strong affinity Copa customers have for the brand. During 2017 we were recognized by OAG as the fourth most on-time airline in the world, and by Flight Stats, for the fifth consecutive year as the most on-time airline in Latin America.

*Our management fosters a culture of teamwork and continuous improvement.* Our management team has been successful at creating a culture based on teamwork and focused on continuous improvement. Each of our employees has individual objectives based on corporate goals that serve as a basis for measuring performance. When corporate operational and financial targets are met, employees are eligible to receive bonuses according to our profit sharing program. See Item 6D. Employees. We also recognize outstanding performance of individual employees through company-wide recognition, one-time awards, special events and, in the case of our senior management, grants of restricted stock and stock options. Our goal-oriented culture and incentive programs have contributed to a motivated work force that is focused on satisfying customers, achieving efficiencies and growing profitability.

## **Our Strategy**

Our goal is to continue to grow profitably and enhance our position as a leader in Latin American aviation by providing a combination of superior customer service, convenient schedules and competitive fares, while maintaining competitive costs. The key elements of our business strategy include the following:

*Expand our network by increasing frequencies and adding new destinations.* We believe that demand for air travel in Latin America is likely to expand in the next decade, and we intend to use our increasing fleet capacity to meet this growing demand. We intend to focus on expanding our operations by increasing flight frequencies on our most profitable routes and initiating service to new destinations. Copa's Panama City hub allows us to consolidate traffic and provide non-stop or one-stop connecting service to over 2,000 city pairs, and we intend to focus on providing new or increased service to destinations that we believe best enhance the overall connectivity and profitability of our network.

*Continue to focus on keeping our costs low.* We seek to reduce our cost per available seat mile without sacrificing services valued by our customers as we execute our growth plans. Our goal is to maintain a modern fleet and to make effective use of our resources through efficient aircraft utilization and employee productivity. We intend to reduce our distribution costs by increasing direct sales as well as improving efficiency through technology and automated processes.

*Emphasize superior service and value to our customers.* We intend to continue to focus on satisfying our customers and earning their loyalty by providing a combination of superior service

and competitive fares. We believe that continuing our operational success in keeping flights on time, reducing mishandled luggage and offering convenient schedules to attractive destinations will be essential to achieving this goal. We intend to continue to incentivize our employees to improve or maintain operating and service metrics relating to our customers' satisfaction by continuing our profit sharing plan and employee recognition programs. We will continue to reward our customer loyalty with, ConnectMiles awards, upgrades and access to our Copa Club lounges.

## **Industry**

In Latin America, the scheduled passenger service market consists of three principal groups of travelers: strictly leisure, business and travelers visiting friends and family. Leisure passengers and passengers visiting friends and family typically place a higher emphasis on lower fares, whereas business passengers typically place a higher emphasis on flight frequency, on-time performance, breadth of network and service enhancements, including loyalty programs and airport lounges.

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According to data from the International Air Transport Association, or IATA, Latin America comprised approximately 7.2% of international worldwide passengers flown in 2016 or million passengers.

The Central American aviation market is dominated by international traffic. According to data from IATA, international revenue passenger kilometers, or RPKs, are concentrated between North America and Central America. This segment represented 78% of international RPKs flown to and from Central America in 2016, compared to 16.4% RPKs flown between Central America and South America and 5.9% for RPKs flown between Central American countries. Total RPKs flown on international flights to and from Central America increased 6.1%, and load factors on international flights to and from Central America were 80% on average.

The chart below details passenger traffic between regions in 2016:

	<b>2016 IATA Traffic Results</b>					
	<b>Passenger Kms Flown (Millions)</b>	<b>Change (%)</b>	<b>Available Seat Kms (Millions)</b>	<b>Change (%)</b>	<b>Passenger Load Factor (%)</b>	<b>Load Factor Change (%)</b>
North America - Central America / Caribbean	144,853	4.4	175,212	3.3	83%	0.9 p.p.
North America - South America	97,822	(0.5)	116,775	(3.3)	84%	2.3 p.p.
Within South America	40,671	8.0	50,829	7.4	80%	0.5 p.p.
Central America/Caribbean - South America	30,459	4.3	37,622	(0.5)	81%	3.8 p.p.
Within Central America	10,971	45.3	15,206	32.7	72%	6.3 p.p.

Panama serves as a hub for connecting passenger traffic between major markets in North, South, and Central America and the Caribbean. Accordingly, passenger traffic to and from Panama is significantly influenced by economic growth in surrounding regions. Major passenger traffic markets in North, South and Central America experienced growth in their GDP in 2017. Preliminary figures indicate that real GDP increased by 5.8% in Panama and by 2.7% in Colombia, according to data of the World Economic and Financial Survey conducted by the International Monetary Fund or IMF.

	<b>GDP (in US\$ billions)</b>		<b>GDP per Capita</b>
	<b>2017 Current Prices (US\$)</b>	<b>2017 Real GDP (% Growth)</b>	<b>2017 Current Prices (US\$)</b>
Argentina	620	2.46	14,062
Brazil	2,081	0.75	10,020
Chile	263	1.38	14,315
Colombia	307	1.70	6,238
Mexico	1,142	2.15	9,249
Panama	59	5.30	14,409
USA	19,362	2.18	59,495

Source: International Monetary Fund, World Economic Outlook Database, October 2017

Panama has benefited from a stable economy with moderate inflation and steady GDP growth. According to IMF estimates, from 2011 to 2017, Panama's real GDP grew at an average annual rate of 7.2%, while inflation averaged 2.9% per year. The IMF currently estimates Panama's population to be approximately 4.1 million in 2017, with the majority of the population concentrated in Panama City, where our hub at Tocumen International Airport is located. We believe the combination of a stable, service-oriented economy and steady population growth has helped drive our domestic origin and destination passenger traffic.

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Domestic travel within Panama primarily consists of individuals visiting families as well as domestic and foreign tourists visiting the countryside. Most of this travel is done via ground transportation, and its main flow is to and from Panama City, where most of the economic activity and population is concentrated. Demand for domestic air travel is growing and relates primarily to leisure travel from foreign and local tourists. Since January 2015, Copa has operated three daily flights to the second-largest city in Panama, David in Chiriqui. The remaining market is served primarily by one local airline, Air Panama, which operates a fleet primarily consisting of turbo prop aircraft generally with less than 50 seats. This airline offers limited international service and operates in the domestic terminal of Panama City, which is located 30 minutes by car from Tocumen International Airport.

Colombia is the third largest country in Latin America in terms of population, with a population of approximately 49.3 million in 2017 according to the IMF, and has a land area of approximately 440,000 square miles. Colombia's GDP is estimated to be \$307.5 billion for 2017, and per capita income was approximately \$6.2 thousand (current prices) according to the IMF. Colombia's geography is marked by the Andean mountains and an inadequate road and rail infrastructure, making air travel a convenient and attractive transportation alternative. Colombia shares a border with Panama, and for historic, cultural and business reasons it represents a significant market for many Panamanian businesses.

## **Route Network and Schedules**

As of December 31, 2017, Copa provided regularly-scheduled flights to 75 cities in North, Central and South America and the Caribbean. The majority of Copa flights operate through our hub in Panama City which allows us to transport passengers and cargo among a large number of destinations with service that is more frequent than if each route were served directly.

We believe our hub-and-spoke model is the most efficient way for us to operate our business since most of the origination/destination city pairs we serve do not generate sufficient traffic to justify point-to-point service. Also, since we serve many countries, it would be very difficult to obtain the bilateral route rights necessary to operate a competitive network-wide point-to-point system.

Copa schedules its hub flights using a connecting bank structure, where flights arrive at the hub at approximately the same time and depart a short time later. In June 2011, we increased our banks of flights from four to six a day. This allowed us to increase efficiency in the use of hub infrastructure in addition to providing more time of day choices to passengers.

As a part of our strategic relationship with UAL, Copa provides flights through code-sharing arrangements to over 200 other destinations. In addition to code-shares provided with our Star Alliance partners, Copa also has code-sharing arrangements in place with several other carriers, including Air France, KLM, Iberia, Emirates, Gol, Tame and Aeromexico.

In addition to increasing the frequencies to destinations we already serve, Copa's business strategy is also focused on adding new destinations across Latin America, the Caribbean and North America in order to increase the attractiveness of our Hub of the Americas at Tocumen International Airport for intra-American traffic. We currently plan to introduce new destinations and to increase frequencies to many of the destinations that Copa currently serves. Our Embraer 190 aircraft, together with the Boeing 737-Next Generation aircraft, allow us to improve our service by increasing frequencies and service to new destinations with the right-sized aircraft.

In December 2016, we launched a low-cost business model, Wingo, to diversify our offerings and to better compete with other low-cost carriers in the markets. Wingo serves domestic flights in Colombia and some international cities



to and from Colombia.

Our plans to introduce new destinations and increase frequencies depend on the allocation of route rights, a process over which we do not have direct influence. Route rights are allocated through negotiations between the government of Panama and Colombia, and the governments of countries to which we intend to increase flights. If we are unable to obtain route rights, we will exercise the flexibility within our route network to re-allocate capacity as appropriate.

### **Revenue by Region**

The following table shows our revenue generated in each of our major operating regions.

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Region	Year Ended December 31,				
	2017	2016	2015	2014	2013
North America (1)	24.1%	28.8%	24.8%	20.5%	18.0%
South America	48.6%	42.2%	45.7%	55.1%	63.6%
Central America (2)	22.1%	23.1%	23.3%	19.7%	13.7%
Caribbean (3)	5.2%	5.9%	6.2%	4.7%	4.7%

(1) Includes USA, Canada, Mexico

(2) Includes Panama

(3) Cuba, Dominican Republic, Haiti, Jamaica, Puerto Rico, Aruba, Curaçao, St. Maarten, Bahamas, and Trinidad and Tobago

**Airline Operations****Passenger Operations**

Passenger revenue accounted for approximately \$2,462.4 million in 2017, \$2,155.2 million in 2016, and \$2,185.5 million in 2015, representing 97.4%, 97.0%, and 97.0%, respectively, of Copa's total revenues. Leisure traffic, which makes up close to half of Copa's total traffic, tends to coincide with holidays, school vacations and cultural events and peaks in July and August, and again in December and January. Despite these seasonal variations, Copa's overall traffic pattern is relatively stable due to the constant influx of business travelers. Approximately half of Copa's passengers regard Panama City as their destination or origination point, and most of the remaining passengers pass through Panama City in transit to other points on our route network.

**Cargo Operations**

In addition to our passenger service, we make efficient use of extra capacity in the belly of our aircraft by carrying cargo. Our cargo operations consist principally of freight service. Copa's cargo business generated revenues of approximately \$55.3 million in 2017, \$54.0 million in 2016, and \$56.7 million in 2015, representing 2.2%, 2.4%, and 2.5% respectively, of Copa's operating revenues. We primarily move our cargo in the belly of our aircraft; however, we also wet-lease and charter freighter capacity when necessary to meet our cargo customers' needs.

**Pricing and Revenue Management**

Copa has designed its fare structure to balance its load factors and yields in a way that it believes will maximize profits on its flights. Copa also maintains revenue management policies and procedures that are intended to maximize total revenues, while remaining generally competitive with those of our major competitors. Copa uses Revenue Manager (RMS), the revenue management software designed by Sabre.

Copa charges higher fares for tickets sold on higher-demand routes, tickets purchased on short notice and other itineraries suggesting a passenger would be willing to pay a premium. This represents strong value to Copa's business customers, who need more flexibility with their flight plans. The number of seats Copa offers at each fare level in each market results from a continual process of analysis and forecasting. Past booking history, seasonality, the effects of competition and current booking trends are used to forecast demand. Current fares and knowledge of upcoming events at destinations that will affect traffic volumes are included in Copa's forecasting model to arrive at optimal seat allocations for its fares on specific routes. Copa uses a combination of approaches, taking into account yields, flight

load factors and effects on load factors of continuing traffic, depending on the characteristics of the markets served, to arrive at a strategy for achieving the best possible revenue per available seat mile, balancing the average fare charged against the corresponding effect on our load factors.

### **Relationship with UAL**

It is common practice in the commercial aviation industry for airlines to develop marketing and commercial alliances with other carriers in order to offer a more complete and seamless travel experience to passengers. These alliances typically yield certain conveniences such as code-sharing, frequent flyer reciprocity, and, where permitted, coordinated scheduling of flights as well as additional joint marketing activities.

In May 1998, Copa Airlines and Continental entered into a comprehensive alliance agreement package, encompassing a broad array of activities such as Copa's participation in Continental's frequent flyer programs and VIP lounges; as well as agreements in other areas, such as trademarks. These agreements were initially signed for a period of ten years. In November 2005, Copa and Continental amended and restated these agreements and extended their term through the year 2016. In 2010, United Airlines merged with Continental Airlines, keeping the name United Airlines. In May 2016 Copa and United Airlines amended and restated these agreements and extended their term through the year 2021.

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Copa Holdings is also a party to a supplemental agreement with CIASA and Continental entered into in connection with Continental's May 1998 offering of our shares. The supplemental agreement terminates the shareholders agreement between the Company, CIASA and Continental that existed prior to Continental's exit and further amends the amended and restated registration rights agreement between the parties. Pursuant to the supplemental agreement, Continental received the right to appoint a member of its senior management to our Board of Directors during the term of our alliance agreement with Continental.

On October 1, 2010, Continental merged with United Airlines and became a wholly-owned subsidiary of UAL. All the benefits from our previous alliance with Continental were recognized by UAL. Our alliance relationship with Continental enjoyed a grant of antitrust immunity from the U.S. Department of Transportation, or DOT. The DOT issued a route transfer order document after Continental merged with UAL, whereby the existing antitrust immunity grant between Continental and Copa Airlines is now in effect between UAL and Copa Airlines.

As a result of our alliance, we have benefited from Continental's and now UAL's expertise and experience over the years. For example, prior to July 2015 when we launched our own frequent flyer program, ConnectMiles, we adopted Continental's OnePass (now UAL's MileagePlus) frequent flyer program and rolled out a co-branded joint product in most of Latin America, which enabled Copa to develop brand loyalty among travelers. The co-branding of the OnePass (now MileagePlus) loyalty program helped Copa to leverage the brand recognition that Continental already enjoyed across Latin America and has enabled Copa to compete more effectively against regional competitors such as Avianca and the Oneworld alliance represented by American Airlines and LATAM Airlines. We also share UAL's Sceptre inventory management software, which allows Copa to pool spare parts with UAL and to rely on UAL to provide engineering support for maintenance projects. We have also been able to take advantage of UAL's purchasing power and negotiate more competitive rates for spare parts and third-party maintenance work. In addition to the Sceptre system, we have adopted several important information technology systems, such as the SHARES computer reservation system in an effort to maintain commonality with UAL.

In 2007, Copa joined the SkyTeam global alliance as an Associate Member, in part due to the support and sponsorship of Continental. Continental left the SkyTeam global alliance and joined Star Alliance effective the fourth quarter of 2009. Due to the long-standing alliance relationship with Continental, and in order to ensure Copa remained fully aligned with Continental on a number of important joint initiatives, Copa also exited the SkyTeam global alliance during the fourth quarter of 2009 and officially joined Star Alliance on June 21, 2012.

*Alliance Agreement.* Under our current alliance agreement with UAL, both entities agree to continue their code-sharing relationship with extensions as they feel appropriate and to work to maintain our antitrust immunity with the DOT. In order to support the code-sharing relationship, the alliance agreement also contains provisions mandating a continued frequent flyer relationship between the airlines, setting minimum levels of quality of service for the airlines and encouraging cooperation in marketing and other operational initiatives. Other than by expiration as described above, the agreement is also terminable by either airline in cases of, among other things, uncured material breaches of the alliance agreement by the other airline, bankruptcy of the other airline, termination of the services agreement for breach by the other airline, termination of the frequent flyer participation agreement without entering into a successor agreement with the other airline, certain competitive activities, certain changes of control of either of the parties and certain significant operational service failures by the other airline.

*Frequent Flyer Participation Agreement.* In July 2015, we elected to cease co-branding the MileagePlus frequent flyer program in Latin America and launched our own frequent flyer program, ConnectMiles. We have reached a scale where establishing our own direct relationship with our customers is warranted. Copa and UAL will remain strong loyalty partners through our participation in Star Alliance.

*Trademark License Agreement.* Under our trademark license agreement with UAL, we have the right to use a logo incorporating a design that is similar to the design of the new UAL logo. We also have the right to use UAL's trade dress, aircraft livery and certain other UAL marks under the agreement that allow us to more closely align our overall product with our strategic alliance partner. The trademark license agreement is coterminous with the alliance agreement and can also be terminated for breach. In most cases, we have a period of five years after termination to cease to use the marks on our aircraft, with less time provided for signage and other uses of the marks or in cases where the agreement is terminated for a breach by us.

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### **Sales, Marketing and Distribution**

*Sales and Distribution.* Approximately 66.1% of sales during 2017 were completed through travel agents, including OTAs and other airlines while approximately 33.9% were direct sales via our city ticket offices, or CTOs, call centers, airport counters or website. Travel agents receive base commissions, not including back-end incentive payments, ranging from 0% to 6.7% depending on the country. The weighted average rate for these commissions during 2017 was 1.9%. In recent years, base commissions have decreased significantly in most markets as more efficient back-end incentive programs have been implemented to reward selected travel agencies that exceed their sales targets.

Travel agents obtain airline travel information and issue airline tickets through global distribution systems, or GDSs, that enable them to make reservations on flights from a large number of airlines. GDSs are also used by travel agents to make hotel and car rental reservations. Copa participates actively in all major international GDSs, including SABRE, Amadeus, Galileo and Worldspan. In return for access to these systems, Copa pays transaction fees that are generally based on the number of reservations booked through each system.

Copa has a sales and marketing network consisting of 68 domestic and international ticket offices, including city ticket offices located in Panama and Colombia, in addition to the airports where we operate.

The call center that operates Copa's reservations and sales services handles calls from Panama as well as most other countries to which Copa flies. Such centralization has resulted in a significant increase in telephone sales, as it efficiently allows for improvements in service levels such as 24-hour-a-day, 7-days-a-week service, in three different languages.

*Advertising and Promotional Activities.* Our advertising and promotional activities include the use of television, print, radio and billboards, as well as targeted public relation events in the cities where we fly. In recent years, we have increased our use of digital marketing, including social media via Facebook, Instagram and Twitter to enhance our brand image and engage customers in a new way. We believe that the corporate traveler is an important part of our business, and we particularly promote our service to these customers by conveying the reliability, convenience and consistency of our service and offering value-added services such as convention and conference travel arrangements. We also promote package deals for the destinations where we fly through combined efforts with selected hotels and travel agencies.

### **Competition**

We face considerable competition throughout our route network. Overall airline industry profit margins are relatively low and industry earnings are volatile. Airlines compete in the areas of pricing, scheduling (frequency and flight times), on-time performance, frequent flyer programs and other services. Strategic alliances, bankruptcy restructurings and industry consolidations characterize the airline industry and tend to intensify competition.

Copa competes with a number of other airlines that currently serve the routes on which we operate, including Avianca, American Airlines, Delta Airlines, Aeromexico, and LATAM, among others. In order to remain competitive, we must constantly react to changes in prices and services offered by our competitors.

Since 2008, the airline industry has experienced increased consolidation and changes in international alliances, both of which have altered and will continue to alter the competitive landscape in the industry by resulting in the formation of airlines and alliances with increased financial resources, more extensive global networks and altered cost structures.

The airline industry is highly susceptible to price discounting, particularly because airlines incur very low marginal costs for providing service to passengers occupying otherwise unsold seats. Carriers use discount fares to stimulate traffic during periods of lower demand to generate cash flow and to increase market share. Any lower fares offered by one airline are often matched by competing airlines, which frequently results in lower industry yields with little or no increase in traffic levels. Price competition among airlines could lead to lower fares or passenger traffic on some or all of our routes, which could negatively impact our profitability.

Airlines based in other countries may also receive subsidies, tax incentives or other state aid from their respective governments, which are not provided by the Panamanian government. The commencement of, or increase in, service on the routes we serve by existing or new carriers could negatively impact our operating results. Likewise, competitors' service on routes that we are targeting for expansion may make those expansion plans less attractive. We must constantly react to changes in prices and services offered by our competitors to remain competitive.

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Traditional hub-and-spoke carriers in the United States and Europe have in recent years faced substantial and increasing competitive pressure from low-cost carriers offering discounted fares. The low-cost carriers' operations are typically characterized by point-to-point route networks focusing on the highest demand city pairs, high aircraft utilization, single class service and fewer in-flight amenities. As evidenced by the operations of competitors in Brazil and other South American countries and several new low-cost carriers which have launched service, the low-cost carrier business model appears to be gaining acceptance in the Latin American aviation industry, and we may face new and substantial competition from low-cost carriers in the future.

With respect to our cargo operations, we will continue to face competition from all of the major airfreight companies, most notably DHL, which has a cargo hub operation at Tocumen International Airport.

**Aircraft**

As of December 31, 2017, Copa operated a fleet consisting of 100 aircraft, including 14 Boeing 737-700 Next Generation aircraft, 66 Boeing 737-800 Next Generation aircraft and 20 Embraer 190 aircraft. As of December 31, 2017, Copa had firm orders, including purchase and lease commitments, for two additional Boeing 737 Next Generation aircraft to be delivered in the first half of 2018, and 71 Boeing 737 MAX aircraft to be delivered between 2018 and 2025. The 737 MAX aircraft first entered commercial service in May 2017.

The current composition of the Copa fleet as of December 31, 2017 is fully described below:

	Number of Aircraft			Average Term of Lease		Seating Capacity
	Total	Owned	Leased	Remaining (Years)	Average Age (Years)	
Boeing 737-700	14	12	2	3.3	15.6	124/142
Boeing 737-800	66	39	27	3.5	5.6	154/160
Embraer 190	20	19	1	0.2	10.6	94/100
Total	100	70	30	3.4	8.0	

The table below describes the expected size of our fleet at the end of each year set forth below, assuming delivery of all aircraft for which we currently have firm orders but not taking into account any aircraft for which we have purchase rights and options:

Aircraft Type	2018	2019	2020	2021	2022
737-700 <sup>(1)</sup>	14	14	16	14	14
737-800 <sup>(2)</sup>	68	64	61	57	52
737-MAX <sup>(3)</sup>	5	13	22	34	46
Embraer 190	19	19	19	19	19
Total Fleet	106	110	118	124	131

(1) Assumes the return of leased aircraft upon expiration of lease contracts.

(2)



We have the flexibility to choose between the different members of the 737-Next Generation family of aircraft for most of the 737-800 aircraft deliveries.

(3) We have the flexibility to choose between the different members of the 737 MAX family.

The Boeing 737 aircraft currently in our fleet are fuel-efficient and suit our operations well for the following reasons:

They have simplified maintenance procedures.

They require just one type of standardized training for our crews.

They have one of the lowest operating costs in their class.

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Our focus on profitable operations means that we periodically review our fleet composition. As a result, our fleet composition changes over time when we conclude that adding other types of aircraft will help us achieve this goal. The introduction of any new type of aircraft to our fleet is only done if, after careful consideration, we determine that such a step will improve our profitability. In line with this philosophy, after conducting a careful cost-benefit analysis, we added the Embraer 190 aircraft because its combination of smaller size and highly efficient operating characteristics made it the ideal aircraft to serve new mid-sized markets and to increase frequency to existing destinations. The Embraer 190 incorporates advanced design features, such as integrated avionics, fly-by-wire flight controls, and CF34-10 engines made by General Electric. The Embraer 190 has a range of approximately 2,000 nautical miles, enabling it to fly to a wide range of destinations from short-haul to certain medium-haul destinations. We have configured Copa's Embraer aircraft with a business class section similar to the business class section we have on our Boeing 737-Next Generation aircraft. Following our growth strategy, we have placed an order of 71 Boeing 737 MAX aircraft. The 737 MAX will provide additional benefits to the current fleet such as fuel efficiency, longer range and additional capacity compared to the current Copa seat configuration.

Through several special purpose vehicles, we currently have beneficial ownership of 70 of our aircraft, including 19 Embraer 190s. In addition, we lease two of our Boeing 737-700s, 27 of our Boeing 737-800s, and one of our Embraer 190s under long-term operating lease agreements that have an average remaining term of 3.4 years. Since 2012, we have financed certain aircraft by entering into sale-leaseback transactions. In 2013, we sold four Boeing 737-800 aircraft delivered in 2013 to MC Aviation Partners, or MCAP, the aircraft leasing arm of Mitsubishi Corporation, and in 2014 an additional four Boeing 737-800 aircraft delivered in 2014 to SMBC Aviation Capital or SMBC. We have entered into leasing arrangements on market terms with the purchasers for all eight aircraft. Leasing some of our aircraft provides us with flexibility to change our fleet composition if we consider it to be in our best interests to do so. We make monthly rental payments, some of which are based on floating rates, but we are not required to make termination payments at the end of the lease. Currently, we do not have purchase options under any of our operating lease agreements. Under our operating lease agreements, we are required in some cases to keep maintenance reserve accounts and in other cases to make supplemental rent payments at the end of the lease that are calculated with reference to the aircraft's maintenance schedule. In either case, we must return the aircraft in the agreed-upon condition at the end of the lease term. Title to the aircraft remains with the lessor. We are responsible for the maintenance, servicing, insurance, repair and overhaul of the aircraft during the term of the lease.

To better serve the growing number of business travelers, we offer a business class (*Clase Ejecutiva*) configuration in our fleet. Our business class service features upgraded meal service, special check-in desks, bonus mileage for full-fare business class passengers and access to VIP lounges. In each of our Boeing 737-700 aircraft, we offer 12 business class luxury seats with 38-inch pitch. Our Boeing 737-800 aircraft currently have two different configurations, one with 16 business class seats with 38-inch pitch; and a second, with 49-inch pitch seats, which is currently being used in 36 of our 737-800s. In order to accommodate these luxury seats, a row from economy class was removed, decreasing the total number of seats in those aircraft from 160 to 154. On our Embraer 190s, we offer two different configurations, one with 12 business class seats in a four abreast configuration with 40-inch pitch, and one with 10 business class seats in a three abreast configuration with 38-inch pitch.

Also, within the Copa Holdings fleet, there are four 737-700s dedicated to the operations of Wingo. These aircraft are equipped with 142 economy class seats.

Each of our Boeing 737-Next Generation aircraft is powered by two CFM International Model CFM 56-7B engines. Each of our Embraer 190 aircraft is powered by two CF34-10 engines made by General Electric. We currently have 16 spare engines for service replacements and for periodic rotation through our fleet. In 2018, we will receive our first Boeing 737 MAX aircraft which is powered by two CMF International LEAP engines.

## Maintenance

The maintenance performed on our aircraft can be divided into two general categories: line and heavy maintenance. Line maintenance consists of routine, scheduled maintenance checks on our aircraft, including pre-flight, service visits, A-checks and any diagnostics and routine repairs. Copa's line maintenance is performed by Copa's own technicians at our main base in Panama and/or at the out stations by Copa Airlines and/or Copa Colombia employees or third-party contractors. Heavy maintenance consists of more complex inspections and overhauls, including C-checks, and servicing of the aircraft that cannot be accomplished during an overnight visit. Maintenance checks are performed intermittently as determined by the aircraft manufacturer through Copa Airlines AAC approved maintenance program. These checks are based on the number of hours, departures or calendar months flown. Historically we had contracted with certified outside maintenance providers, such as COOPESA. In October of 2010, Copa decided to begin performing a portion of the heavy maintenance work in-house. The hiring, training, facility and tooling setup, as well as enhancing certain support shops, were completed during a ten-month period. Ultimately, Copa acquired the required certifications by the local authorities to perform the first in-house C-Check in August 2011, followed by its second C-check in October of the same year. Today we are performing a continuous line of C-Checks in-house for the entire year, and on January 20, 2017 we held the ground-breaking of our new maintenance facility which allows us to perform up to three complete continuous lines of C-checks, as required. We estimate the completion date for the new facility to be July 2018. In 2017, 19 heavy maintenance checks were successfully performed in-house. When possible, Copa attempts to schedule heavy maintenance during its lower-demand seasons in order to maximize productive use of its aircraft.

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Copa has exclusive long-term contracts with GE Engines whereby they perform maintenance on all of our CFM-56 and CF-34 engines.

In October of 2014 Copa Airlines established its own maintenance technician training academy. Through this program, we recruit and train technicians through on-the-job training and formal classes. These future technicians stay in the program for four years total. After the first two years, each trainee will receive their airframe license and become a mechanic. After the next two years, each trainee will receive their power plant license and will be released as a mechanic into our work force. Presently, we have 60 students in the program.

Copa Airlines and Copa Colombia employ, system-wide, around 500 maintenance professionals, who perform maintenance in accordance with maintenance programs that are established by the manufacturers and approved and certified by international aviation authorities. Every mechanic is trained in factory procedures and goes through our own rigorous in-house training program. Every mechanic is licensed by the AAC and approximately 34 of our mechanics are also licensed by the FAA. Our safety and maintenance procedures are reviewed and periodically audited by the AAC (Panama), UAEAC (Colombia), the FAA (United States), IATA (IOSA) and, to a lesser extent, every foreign country to which we fly. Copa Airlines' maintenance facility at Tocumen International Airport has been certified by the FAA as an approved repair station, and once a year the FAA inspects this facility to validate and renew the certification. Copa's aircraft are initially covered by warranties that have a term of four years, resulting in lower maintenance expenses during the period of coverage. All of Copa Airlines' and Copa Colombia's mechanics are trained to perform line maintenance on each of the Boeing 737-Next Generation, Boeing 737 MAX and Embraer 190 aircraft.

All of Copa Colombia's maintenance and safety procedures are certified by the *Aeronáutica Civil* of Colombia and BVQi, the institute that issues International Organization for Standardization, or ISO, quality certificates. All of Copa Colombia's maintenance personnel are licensed by the *Aeronáutica Civil* of Colombia. In December 2017, Copa Colombia received its IATA Operational Safety Audit, or IOSA, compliance certification, which will remain valid until December 2019.

## **Safety**

We place a high priority on providing safe and reliable air service. We are focused on continuously improving our safety performance by implementing internationally recognized best practices such as Safety Management System, or SMS, Flight Data Analysis (FDA), internal and external operational safety audits, and associated programs.

Our SMS provides operational leaders with reactive, proactive, and predictive data analyses that are delivered on a frequent and recurring basis. This program also uses a three-tiered meeting structure to ensure the safety risk of all identified hazards are assessed and corrective actions (if required) are implemented. At the lowest meeting level, the Operational Leaders review the risk assessments, assign actions, and monitor progress. At the middle meeting level, the Chief Operations Officer meets with the Operational Leaders to ensure all cross-divisional issues are properly addressed and funded. At the highest meeting level, the Chief Executive Officer monitors the performance of the SMS program and ensures the safety risk is being properly managed.

The SMS is supported by safety investigations and a comprehensive audit program. Investigations are initiated either by operational events or analyses of relevant trend information, such as via our Flight Data Analysis program. These investigations are conducted by properly qualified and trained internal safety professionals. Our audit program consists of three major components. The first serves as the aircraft maintenance quality assurance program and is supported by six dedicated maintenance professionals. The second team consists of an internal team dedicated to conducting standardized audits of airport, flight operations, and associated functions. The third component of our

audit program is a biennial audit of all operational components by the internationally recognized standard IOSA (IATA Operational Safety Audit). We are happy to report that in 2017 Copa Airlines and Copa Colombia successfully completed IOSA audits by external providers.

### **Airport Facilities**

We believe that our hub at Panama City's Tocumen International Airport (PTY) is an excellent base of operations for the following reasons:

Panama's consistently temperate climate is ideal for airport operations. For example, in recent years Tocumen was closed and unavailable for flight operations for a total of fewer than two hours per year on average.

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Tocumen is the only airport in Central America with two operational runways. Also, unlike some other regional airports, consistent modernization and growth of our hub has kept pace with our needs. In 2012, Tocumen Airport completed Phase II of an expansion project of the existing terminal. In 2013, Tocumen was awarded the bid for the construction of a new south terminal, with an additional 20 gates, eight remote positions and a second customs area. Currently, this second terminal is under construction and scheduled for completion toward the end of 2018.

Panama's central and sea level location provides a very efficient base to operate our narrow body fleet, efficiently serving short and long-haul destinations in Central, North and South America, as well as the Caribbean.

Travelers can generally make connections seamlessly through Tocumen because of its manageable size and Panama's policies accommodating in-transit passengers.

Tocumen International Airport is operated by an independent corporate entity established by the government, where stakeholders have a say in the operation and development of the airport. The law that created this entity also provided for a significant portion of revenues generated at Tocumen to be used for airport expansion and improvements. We do not have any formal, written agreements with the airport management to govern access fees, landing rights or allocation of terminal gates. We rely upon our good working relationship with the airport's management and the Panamanian government to ensure that we have access to the airport resources we need at prices that are reasonable.

We worked closely with the airport's management and consulted with the IATA infrastructure group to provide plans and guidance for Phase I of an airport expansion that provided eight new gate positions with jet bridges, six new remote parking positions, expanded retail areas and improved baggage-handling facilities. The government authorized \$70 million to cover the costs of this expansion. Work on Phase I was completed in the third quarter of 2006. Phase II of the expansion added 12 additional jet bridge gates and was completed in the fourth quarter of 2012. Construction on the south terminal started in 2013 and is expected to be completed toward the end of 2018.

We provide most of our own ground services and handling of passengers and cargo at Tocumen International Airport. In addition, we provide services to several of the principal foreign airlines that operate at Tocumen. At most of the foreign airports where we operate, foreign airport services companies provide all of our support services other than sales, counter services and some minor maintenance.

We lease a variety of facilities at Tocumen, including our maintenance hangar and our operations facilities in the airport terminal. We generally cooperate with the airport authority to modify the lease terms as necessary to account for capital improvements and expansion plans. Currently, our Gold and higher PreferMember passengers have access to a Copa Club at the Tocumen International Airport in Panama. The capacity of the lounge is approximately 300 passengers and boasts a spacious footprint of more than 13,000 square feet, offering more space, improved facilities and additional value to our passengers.

Our Gold and higher PreferMember passengers also have access to four other Copa Clubs in the region, which are strategically located in San José, Guatemala City, Santo Domingo, Medellin and Bogota. The Copa Club in San José is located at the Juan Santa Maria International Airport and has a capacity of up to 135 passengers with an area of almost 6,400 square feet. The Copa Club in Guatemala City is located at the Aurora International Airport and has a capacity of 55 passengers with an area of almost 2,400 square feet. In Santo Domingo, the lounge is located at the Las Americas International Airport with a capacity in excess of 65 passengers and an area of almost 3,000 square feet. Additionally, the Copa Club in Medellin, located at Jose Maria Cordova International Airport, has an area close to

2,800 square feet and a capacity of more than 65 passengers. Lastly, our Copa Club in Bogota is located at the Dorado International Airport. It seats 107 passengers and has an area close to 3,500 square feet.

## **Fuel**

Fuel costs are extremely volatile, as they are subject to many global economic, geopolitical, weather, environmental and other factors that we can neither control nor accurately predict. Due to its inherent volatility, aircraft fuel has historically been our most unpredictable unit cost. In the past, rapid increases in prices have come from increased demand for oil coupled with limited refinery capacity and instability in oil-exporting countries. Recently, prices have decreased due to the strong U.S. dollar, declining demand and rising crude oil inventories.

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	<b>Aircraft Fuel Data</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Average price per gallon of jet fuel into plane (excluding hedge) (in U.S. dollars)	\$ 1.85	\$ 1.53	\$ 1.83
Gallons consumed (in millions)	307.0	284.3	277.1
Available seat miles (in millions)	23,936	22,004	21,675
Gallons per ASM (in hundredths)	1.28	1.29	1.28

In 2017 the average price of West Texas Intermediate or WTI crude oil, a benchmark widely used for crude oil prices that is measured in barrels and quoted in U.S. dollars, increased by 17.9% from \$43.1 per barrel to \$50.9 per barrel. In 2017, we hedged approximately 5% of our fuel needs and for 2018 we have not hedged any part of our fuel needs. Although we have not added hedge positions since August of 2015, we continue to evaluate various hedging strategies and may enter into additional hedging agreements in the future, as any substantial and prolonged increase in the price of jet fuel will likely materially and negatively affect our business, financial condition and results of operation. In the past, we have managed to offset some of the increases in fuel prices with higher load factors, fuel surcharges and fare increases. In addition, our relatively young, winglet-equipped fleet also helps us mitigate the impact of higher fuel prices.

Tocumen International Airport has limited fuel storage capacity. In the event there is a disruption in the transport of fuel to the airport, we may be forced to suspend flights until the fuel tanks can be refueled.

**Insurance**

We maintain passenger liability insurance in an amount consistent with industry practice, and we insure our aircraft against losses and damages on an all risks basis. We have obtained all insurance coverage required by the terms of our leases. We believe our insurance coverage is consistent with airline industry standards and appropriate to protect us from material losses in light of the activities we conduct. No assurance can be given, however, that the amount of insurance we carry will be sufficient to protect us from material losses. We have negotiated low premiums on our Copa Airlines insurance policies by leveraging the purchasing power of our alliance partner, UAL.

**Environmental**

Our operations are covered by various local, national, and international environmental regulations. These regulations cover, among other things, gas emissions into the atmosphere, disposal of solid waste and aqueous effluents, aircraft noise, and other activities that result from the operation of aircraft and our aircraft comply with all environmental standards applicable to their operations as described in this annual report. Currently, we maintain an Environmental Management and Adequacy Program, or PAMA, in all our facilities, including our maintenance hangar and support facilities at the Tocumen International Airport, Administrative Offices at Costa del Este and Instruction Center at Clayton. This program was approved by the Panamanian National Environmental Authority, or *MiAmbiente*, in 2013, and includes actions like a recycling program, better use of natural resources, and final disposition of domestic water, among many others. Currently, the Copa Tocumen Airport PAMAs final report has been rendered to *MiAmbiente*, and we are waiting for formal resolution, which may allow us to monitoring and report our environmental follow-up assessments in an annual basis instead of each semester. Copa Airlines is an active signatory company of the Global Compact of the United Nations and its local chapter of the Global Compact Network Panama, and have, thus, published our Communication on Progress, or COP, since October 2001. This Global Compact agreement requires us to implement measures like maintaining a young fleet, incorporating new navigation technologies such as RNAV to reduce fuel consumption, installing winglets and scimitars in our planes to reduce fuel consumption, and recycling, among many others. From January to December 2017 we collected a total of 289.85 tons of recycling materials in



Panama's Copa facilities, which represents a total of approximately \$33,912.45 in savings resulting from not sending this waste to the landfill. During the same period, our recycling programs also included the reconversion of burned oil from vehicles and contaminated fuel drained from aircraft, for which we outsourced the collection of 8,550 gallons of hydrocarbons for use as alternative fuel for other industries. We also outsourced the collection of 459,850 gallons of oily water from aircraft cleaning and painting operations; the subsequent treatment of that water made it possible to recover 367,880 gallons of water which were then returned to nature. We have incinerated a total of 61,600 kilograms of chemical disposals from Aircraft Maintenance operations which reduced our green gases emissions levels.

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**Regulation**

***Panama***

*Authorizations and Certificates.* Panamanian law requires airlines providing commercial services in Panama to hold an Operation Certificate and an Air Transportation License/Certificate issued by the AAC. The Air Transportation Certificate specifies the routes, equipment used, capacity, and frequency of flights. This certificate must be updated every time Copa acquires new aircraft, or when routes and frequencies to a particular destination are modified.

Panamanian law also requires that the aircraft operated by Copa Airlines be registered with the Panamanian National Aviation Registrar kept by the AAC, and that the AAC certifies the airworthiness of each aircraft in the fleet.

The Panamanian government does not have an equity interest in our Company. Bilateral agreements signed by the Panamanian government have protected our operational position and route network, allowing us to have a significant hub in Panama to transport traffic within and between the Americas and the Caribbean. All international fares are filed and, depending on the bilateral agreement, are technically subject to the approval of the Panamanian government. Historically, we have been able to modify ticket prices on a daily basis to respond to market conditions. Copa Airlines status as a private carrier means that it is not required under Panamanian law to serve any particular route and is free to withdraw service from any of the routes it currently serves, subject to bilateral agreements. We are also free to determine the frequency of service we offer across our route network without any minimum frequencies imposed by the Panamanian authorities.

*Ownership Requirements.* The most significant restriction on our Company imposed by the Panamanian Aviation Act, as amended and interpreted to date, is that Panamanian nationals must exercise effective control over the operations of the airline and must maintain substantial ownership. These phrases are not defined in the Aviation Act itself and it is unclear how a Panamanian court would interpret them. The share ownership requirements and transfer restrictions contained in our Articles of Incorporation, as well as the structure of our capital stock described under the caption

Description of Capital Stock, are designed to ensure compliance with these ownership and control restrictions created by the Aviation Act. While we believe that our ownership structure complies with the ownership and control restrictions of the Aviation Act as interpreted by a recent decree by the Executive Branch, we cannot assure you that a Panamanian court would share our interpretation of the Aviation Act or the decree or that any such interpretations would remain valid for the entire time you hold our Class A shares.

Although the Panamanian government does not currently have the authority to dictate the terms of our service, the government is responsible for negotiating the bilateral agreements with other nations that allow us to fly to other countries. Several of these agreements require Copa to remain effectively controlled and substantially owned by Panamanian nationals in order for us to use the rights conferred by the agreements. Such requirements are analogous to the Panamanian Aviation Act described above that requires Panamanian control of our business.

*Antitrust Regulations.* In 1996, the Republic of Panama enacted antitrust legislation, which regulates industry concentration and vertical anticompetitive practices and prohibits horizontal collusion. The Consumer Protection and Free Trade Authority is in charge of enforcement and may impose fines only after a competent court renders an adverse judgment. The law also provides for direct action by any affected market participant or consumer, independently or through class actions. The law does not provide for the granting of antitrust immunity, as is the case in the United States. In February 2006, the antitrust legislation was amended to increase the maximum fines that may be assessed for violations to \$1,000,000 for violations and \$250,000 for minor infractions of antitrust law. In October 2007, the antitrust legislation was amended again to include new regulations.

***Colombia***

Even though the Colombian aviation market continues to be regulated by the Colombian Civil Aviation Administration, *Unidad Especial Administrativa de Aeronáutica Civil*, or *Aeronáutica Civil*, the government policies have become more liberal in recent years.

Colombia has expanded its open-skies agreements with several countries in the last years. In addition to Aruba and the Andean Pact nations of Bolivia, Ecuador and Peru, open-skies agreements have been negotiated with Costa Rica, El Salvador, Panama, and Dominican Republic. In the framework of liberalization between Colombia and Panama, any airline has the right to operate unlimited frequencies between any city pair of the two countries. As a result, Copa offers scheduled services between eight main cities in Colombia and Panama. In November 2010, Colombia signed an open-skies agreement with the United States, which took effect in January 2013. With respect to domestic aviation, airlines must present feasibility studies to secure specific route rights, and no airline may serve the city pairs with the most traffic unless that airline has at least five aircraft with valid airworthiness certificates. While *Aeronáutica Civil* has historically regulated the competition on domestic routes, in December 2012 it revoked a restriction requiring a maximum number of competing airlines on each domestic route.

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In October 2011, *Aeronáutica Civil* announced its decision to liberalize air fares in Colombia starting April 1, 2012, including the elimination of fuel surcharges. However, airlines are required to charge an administrative fee (*tarifa administrativa*) for each ticket sold on domestic routes within Colombia through an airline's direct channels. Passengers in Colombia are also entitled by law to compensation in the event of delays in excess of four hours, over-bookings and cancellations. Currently, the San Andrés, Bogotá, Pereira, Cali, Cartagena, Medellín, Bucaramanga, Cucuta, and Santa Marta airports, among others, are under private management arrangements. The government's decision to privatize airport administration in order to finance the necessary expansion projects and increase the efficiency of operations has increased airports fees and facility rentals at those airports.

*Authorization and Certificates.* Colombian law requires airlines providing commercial services in Colombia to hold an operation certificate issued by the *Aeronáutica Civil* which is automatically renewed every five years. Copa Colombia's operation certificate was automatically renewed in 2013.

*Safety Assessment.* On December 9, 2010, Colombia was re-certified as a Category 1 country under the FAA's IASA program.

*Ownership Requirements.* Colombian regulations establish that an airline satisfies the ownership requirements of Colombia if it is registered under the Colombian Laws and Regulations.

*Antitrust Regulations.* In 2009, an antitrust law was issued by the Republic of Colombia; however, commercial aviation activities remain under the authority of the *Aeronáutica Civil*.

*Airport Facilities.* The airports of the major cities in Colombia have been granted to concessionaries, who impose charges on the airlines for the rendering of airport services. The ability to contest these charges is limited, but contractual negotiations with the concessionaries are possible.

## ***United States***

Operations to the United States by non-U.S. airlines, such as Copa Airlines, are subject to Title 49 of the U.S. Code, under which the DOT, the FAA and the TSA exercise regulatory authority. The U.S. Department of Justice also has jurisdiction over airline competition matters under federal antitrust laws.

*Authorizations and Licenses.* The DOT has jurisdiction over international aviation with respect to air transportation to and from the United States, including regulation of related route authorities, the granting of which are subject to review by the President of the United States. The DOT exercises its jurisdiction with respect to unfair practices and methods of competition by airlines and related consumer protection matters as to all airlines operating to and from the United States. Copa Airlines is authorized by the DOT to engage in scheduled and charter air transportation services, including the transportation of persons, property (cargo) and mail, or combinations thereof, between points in Panama and points in the United States and beyond (via intermediate points in other countries). Copa Airlines holds the necessary authorizations from the DOT in the form of a foreign air carrier permit, an exemption authority and statements of authorization to conduct our current operations to and from the United States. The exemption authority was granted by the DOT in February 1998 and was due to expire in February 2000. However, the authority remains in effect by operation of law under the terms of the Administrative Procedure Act pending final DOT action on the application we filed to renew the authority on January 3, 2000. There can be no assurance that the DOT will grant the application. Our foreign air carrier permit has no expiration date.

Copa Airlines' operations in the United States are also subject to regulation by the FAA with respect to aviation safety matters, including aircraft maintenance and operations, equipment, aircraft noise, ground facilities, dispatch,

communications, personnel, training, weather observation, air traffic control and other matters affecting air safety. The FAA requires each foreign air carrier serving the United States to obtain operational specifications pursuant to 14 CFR Part 129 of its regulations and to meet operational criteria associated with operating specified equipment on approved international routes. We believe that we are in compliance in all material respects with all requirements necessary to maintain in good standing our operations specifications issued by the FAA. The FAA can amend, suspend, revoke or terminate those specifications, or can temporarily suspend or permanently revoke our authority if we fail to comply with the regulations, and can assess civil penalties for such failure. A modification, suspension or revocation of any of our DOT authorizations or FAA operating specifications could have a material adverse effect on our business. The FAA also conducts safety audits and has the power to impose fines and other sanctions for violations of airline safety regulations. We have not incurred any material fines related to operations. The FAA also conducts safety International Aviation Safety Assessment, or IASA, as to Panama's compliance with ICAO safety standards. Panama is currently considered a Category 1 country that complies with ICAO international safety standards. As a Category 1 country, no limitations are placed upon our operating rights to the United States. If the FAA should determine that Panama does not meet the ICAO safety standards, the FAA and DOT would restrict our rights to expand operations to the United States.

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*Security.* On November 19, 2001, the U.S. Congress passed, and the President signed into law, the Aviation and Transportation Security Act or the Aviation Security Act. This law federalized substantially all aspects of civil aviation security and created the TSA, an agency of the Department of Homeland Security, to which the security responsibilities previously held by the FAA were transitioned. The Aviation Security Act requires, among other things, the implementation of certain security measures by airlines and airports, such as the requirement that all passengers, their bags and all cargo be screened for explosives and other security-related contraband. Funding for airline and airport security required under the Aviation Security Act is provided in part by a \$2.50 per segment passenger security fees for flights departing from the United States, subject to a \$10 per roundtrip cap; however, airlines are responsible for costs incurred to meet security requirements beyond those provided by the TSA. The United States government is considering increases to this fee as the TSA's costs exceed the revenue it receives from these fees. Implementation of the requirements of the Aviation Security Act has resulted in increased costs for airlines and their passengers. Since the events of September 11, 2001, the U.S. Congress has mandated and the TSA has implemented numerous security procedures and requirements that have imposed and will continue to impose burdens on airlines, passengers and shippers.

*Passenger Facility Charges.* Most major U.S. airports impose passenger facility charges. The ability of airlines to contest increases in these charges is restricted by federal legislation, DOT regulations and judicial decisions. With certain exceptions, air carriers pass these charges on to passengers. However, our ability to pass through passenger facility charges to our customers is subject to various factors, including market conditions and competitive factors. Passenger facility charges are capped at \$4.50 per flight segment with a maximum of two PFCs charged on a one-way trip or four PFCs on a round trip, for a maximum of \$9 or \$18 total, respectively.

*Airport Access.* Two U.S. airports at which we operate, O'Hare International Airport in Chicago (O'Hare) and John F. Kennedy International Airport in New York, or JFK, were formerly designated by the FAA as high density traffic airports subject to arrival and departure slot restrictions during certain periods of the day. From time to time, the FAA has also issued temporary orders imposing slot restrictions at certain airports. Although slot restrictions at JFK were formally eliminated as of January 1, 2007, on January 15, 2008, the FAA issued an order limiting the number of scheduled flight operations at JFK during peak hours to address the over-scheduling, congestion and delays at JFK. The FAA is currently contemplating the implementation of a long-term congestion management rule at LaGuardia Airport, JFK and Newark Liberty International Airport, which would replace the order currently in effect at JFK. We cannot predict the outcome of this potential rule change on our costs or ability to operate at JFK.

On July 8, 2008, the DOT also issued a revised Airport Rates and Charges policy that allows airports to establish non-weight based fees during peak hours and to apportion certain expenses from reliever airports to the charges for larger airports in an effort to limit congestion.

*Noise Restrictions.* Under the Airport Noise and Capacity Act of 1990 and related FAA regulations, aircraft that fly to the United States must comply with certain Stage 3 noise restrictions, which are currently the most stringent FAA operating noise requirements. All of our Copa aircraft meet the Stage 3 requirement.

*Other Regulation.* U.S. laws and regulations have been proposed from time to time that could significantly increase the cost of airline operations by imposing additional requirements or restrictions on airlines. There can be no assurance that laws and regulations currently enacted or enacted in the future will not adversely affect our ability to maintain our current level of operating results.

## ***Other Jurisdictions***

We are also subject to regulation by the aviation regulatory bodies that set standards and enforce national aviation legislation in each of the jurisdictions to which we fly. These regulators may have the power to set fares, enforce environmental and safety standards, levy fines, restrict operations within their respective jurisdictions or any other powers associated with aviation regulation. We cannot predict how these various regulatory bodies will perform in the future, and the evolving standards enforced by any of them could have a material adverse effect on our operations.

### **C. Organizational Structure**

The following is an organizational chart showing Copa Holdings and its principal subsidiaries.

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\* Includes ownership by us held through wholly-owned holding companies organized in the British Virgin Islands. Copa Airlines is our principal airline operating subsidiary that operates out of our hub in Panama and provides passenger service in North, South and Central America and the Caribbean. Copa Airlines Colombia is our operating subsidiary that provides air travel from Colombia to Copa Airlines Hub of the Americas in Panama, and operates a low-cost business model within Colombia and various cities in the region. Oval Financial Leasing, Ltd. controls the special purpose vehicles that have a beneficial interest in the majority of our fleet.

### **D. Property, plants and equipment**

#### **Headquarters**

Our headquarters are located six miles away from Tocumen International Airport. We have leased six floors consisting of approximately 119,700 square feet of the building from *Desarollo Inmobiliario del Este, S.A.*, an entity controlled by the same group of investors that controls CIASA, under a ten-year lease that began in January 2015 at a rate of \$0.2 million per month.

#### **Other Property**

At Tocumen International Airport, we lease a maintenance hangar, operations offices in the terminal, counter space, parking spaces and other operational properties from the entity that manages the airport. We pay approximately \$165,720 per month for this leased property. Around Panama City, we also lease various office spaces, parking spaces and other properties from a variety of lessors, for which we pay approximately \$90,302 per month in the aggregate.

In each of our destination cities, we also lease space at the airport for check-in, reservations and airport ticket office sales, and we lease space for CTOs in 49 of those cities.

Copa Colombia leases most of its airport offices and CTOs. Owned properties only include one CTO and a warehouse close to the Bogota airport.

See also our discussion of [Aircraft](#) and [Airport Facilities](#) above.

#### **Item 4A. Unresolved Staff Comments**

None.



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### **Item 5. Operating and Financial Review and Prospects**

#### **A. Operating Results**

*You should read the following discussion in conjunction with our consolidated financial statements and the related notes and the other financial information included elsewhere in this annual report.*

We are a leading Latin American provider of airline passenger and cargo service through our two principal operating subsidiaries, Copa Airlines and Copa Colombia. Copa Airlines operates from its strategically located position in the Republic of Panama, and Copa Colombia provides air travel from Colombia to Copa Airlines Hub of the Americas in Panama and operates a low-cost business model within Colombia and various cities in the region.

Copa currently offers approximately 347 daily scheduled flights among 75 destinations in 31 countries in North, Central and South America and the Caribbean from its Panama City hub. Copa provides passengers with access to flights to more than 146 other destinations through code-share arrangements with our Star Alliance partners and other carriers including Air France, KLM, Iberia, Emirates, Gol, Tame and Aeromexico. Through its Panama City hub, Copa Airlines is able to consolidate passenger traffic from multiple points to serve each destination effectively.

Copa Airlines and Copa Colombia operate a modern fleet of 80 Boeing 737-Next Generation aircraft and 20 Embraer 190 aircraft. To meet growing capacity requirements we have firm orders, including purchase and lease commitments. As of December 31, 2017 the Company has two purchase contracts with Boeing: the first contract entails two firm orders of Boeing 737 Next Generation aircraft, to be delivered in the first half of 2018, the second contract entails 71 firm orders of Boeing 737 MAX, which will be delivered between 2018 and 2025.

We began our strategic alliance with Continental, now UAL, in 1998. Since then, we have conducted joint marketing and code-sharing arrangements. We believe that Copa's co-branding and joint marketing activities with UAL have enhanced our brand in Latin America, and that the relationship with UAL has afforded cost-related benefits, such as improved purchasing power in negotiations with aircraft vendors and insurers. In May 2016, after mutually beneficial negotiations, we signed an updated alliance agreement with UAL that will continue to support the company's performance and strategic development.

#### ***Factors Affecting Our Results of Operations***

##### ***Fuel***

In 2017 the average price of WTI crude oil, a benchmark widely used for crude oil prices that is measured in barrels and quoted in U.S. dollars, increased by 17.9% from \$43.1 per barrel to \$50.9 per barrel. For the year 2017, we maintained hedge positions representing 5% of our requirements through the use of jet fuel swap and zero cost collars. For 2018, although we have not hedged any part of our anticipated fuel needs, we continue to evaluate various hedging strategies and may enter into additional hedging agreements in the future, as any substantial and prolonged increase in the price of jet fuel will likely materially and negatively affect our business, financial condition and results of operation. In the past, we have managed to offset some of the increases in fuel prices with higher load factors, fuel surcharges and fare increases. In addition, our relatively young, winglet-equipped fleet also helps us mitigate the impact of higher fuel prices.

#### ***Regional Economic Environment***

Our historical financial results have been, and we expect them to continue to be, materially affected by the general level of economic activity and growth of per capita disposable income in North, South and Central America and the Caribbean, which have a material impact on discretionary and leisure travel (drivers of our passenger revenue) and the volume of trade between countries in the region (the principal driver of our cargo revenue). As an example, during 2016 passenger revenue totaled \$2.1 billion in 2016, a 1.5% decrease over passenger revenue of \$2.2 billion in 2015, mainly driven by a yield decrease of 9.2 percentage points to 12.06 cents in 2016 compared to 2015. This decrease was due to weaker Latin American currencies, especially during the first half of the year. In 2017 our passenger yield increased by 1.5% to 12.37 cents compared to 2016.

In Colombia, real GDP growth in Colombia at constant prices was approximately 1.7% in 2017, which represented a slower growth rate than in 2016 primarily because of lower oil prices. Average inflation of consumer prices in Colombia rose approximately 4.1% in 2017, according to the IMF.

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In previous years our yields in Venezuela were negatively impacted by exchange controls, along with high inflation and political uncertainty, which led us to restrict ticket sales for passengers paying in Venezuelan bolivars. Today, sales in Venezuela are very limited (0.1% of our total sales) and operational feasibility of Venezuela flights is closely monitored in order to deliver optimal profitability and avoid accumulations of Venezuelan strong bolivars. According to data from the IMF, Venezuela's GDP contracted by 4.5% in 2017. Exact data regarding inflation rates in Venezuela varies significantly, depending on the source.

On April 5, 2018, the government of Venezuela announced that it was temporarily suspending economic, financial and commercial relations with Panama, including certain companies and Panamanian citizens, for a period of 90 days. This announcement includes the operations of Copa Airlines in Venezuela. Copa Airlines has cancelled all of its flights between Panama and Venezuela for the next 90 days, effective immediately. For the year ended December 31, 2017, revenue from Copa Airlines' flights to Venezuela, including connecting traffic, represented about 5% of consolidated revenues and direct flights between Panama and Venezuela, excluding connections, represented about 2% of total available seat miles (ASMs). While it is too early to predict the ultimate impact of these restrictions, Copa Holdings does not expect any such cancellations to have other effects on Copa Holdings' consolidated operations.

According to data from The Preliminary Overview of the Economies of Latin America and the Caribbean, an annual United Nations publication prepared by the Economic Development Division, the economy of Latin America (including the Caribbean) increased by 1.6% in 2017 and is estimated to increase by 2.1% in 2018. In recent years, the Panamanian economy has outpaced the economic growth of the United States and of Latin America as a whole. Preliminary figures for 2017 indicate that the Panamanian economy grew by 5.8% (versus 5.2% in 2016), while headline inflation (as indicated by the consumer price index) rose by 1.5% in 2017. Additionally, the Colombian economy has experienced relatively stable growth. The Colombian gross domestic product grew by 2.7% in 2017 and an estimated 3.8% in 2018, while headline inflation (as indicated by the consumer price index) rose by 4.1% in 2017.

***Revenues***

We derive our revenues primarily from passenger transportation, which represented 97.4% of our revenues for the year ended December 31, 2017. In addition, 2.2% of our total revenues are derived from cargo and 0.4% from other revenues.

We recognize passenger revenue when transportation is provided. Passenger revenues reflect the capacity of our aircraft on the routes we fly, load factor and yield. Our capacity is measured in terms of available seat miles, or ASMs, which represents the number of seats available on our aircraft multiplied by the number of miles the seats are flown. Our usage is measured in terms of RPMs, which is the number of revenue passengers multiplied by the miles these passengers fly. Load factor, or the percentage of our capacity that is actually used by paying customers, is calculated by dividing RPMs by ASMs. Yield is the average amount that one passenger pays to fly one mile. We use a combination of approaches, taking into account yields, flight load factors and effects on load factors of connecting traffic, depending on the characteristics of the markets served, to arrive at a strategy for achieving the best possible revenue per available seat mile, balancing the average fare charged against the corresponding effect on our load factors.

We recognize cargo revenue when transportation is provided. Historically our other revenue consists primarily of commissions earned on tickets sold for flights on other airlines, special charges, charter flights, and services provided to other airlines.

Overall demand for our passenger and cargo services is highly dependent on the regional economic environment in which we operate, including the GDP of the countries we serve and the disposable income of the residents of those

countries. Approximately 40% of our passengers travel at least in part for business reasons, and the growth of intraregional trade greatly affects that portion of our business. The remaining 60% of our passengers are tourists or travelers visiting friends and family.

The following table sets forth our capacity, load factor and yields for the periods indicated.

	2017	2016	2015	2014	2013
Capacity (in available seat miles, in millions)	23,936	22,004	21,675	20,757	18,950
Load factor	83.2%	80.4%	75.2%	76.7%	76.7%
Yield (in cents)	12.37	12.18	13.40	16.58	17.45

***Seasonality***

Generally, our revenues from and the profitability of our flights peak during the northern hemisphere's summer season in July and August and again during the December and January holiday season. Given our high proportion of fixed costs, this seasonality is likely to cause our results of operations to vary from quarter to quarter.,

***Operating Expenses***

The main components of our operating expenses are aircraft fuel, wages, salaries, benefits and other employees expenses, sales and distribution and airport facilities and handling charges. A common measure of per unit costs in the airline industry is cost per available seat mile, or CASM, which is generally defined as operating expenses divided by ASMs.

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*Fuel.* The price we pay for aircraft fuel varies significantly from country to country primarily due to local taxes. While we purchase aircraft fuel at most of the airports to which we fly, we attempt to negotiate fueling contracts with companies that have a multinational presence in order to benefit from volume purchases. During 2017, as a result of the location of its hub, Copa purchased 56% of its aircraft fuel in Panama. Copa has 21 suppliers of aircraft fuel across its network. In some cases, we tanker fuel in order to minimize our cost, by fueling in airports where fuel prices are lowest. Our aircraft fuel expenses are variable and fluctuate based on global oil prices.

	<b>Aircraft Fuel Data</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Average price per gallon of jet fuel into plane (excluding hedge) (in U.S. dollars)	\$ 1.85	\$ 1.53	\$ 1.83
Gallons consumed (in millions)	307.0	284.3	277.1
Available seat miles (in millions)	23,936	22,004	21,675
Gallons per ASM (in hundredths)	1.28	1.29	1.28

*Wages, salaries and other employees' expenses.* Salary and benefit expenses have historically increased at the rate of inflation and by the growth in the number of our employees. In some cases, we have adjusted the salaries of our employees to correspond to changes in the cost of living in the countries where these employees work. We do not increase salaries based on seniority.

*Passenger servicing.* Our passenger servicing expenses consist of expenses for liability insurance, baggage handling, catering, and in-flight entertainment. These expenses are generally directly related to the number of passengers we carry or the number of flights we operate. Passenger servicing expenses provide us with a directional measurement of cost variances.

*Airport facilities and handling charges.* Our airport facility and handling charges consist of take-off, landing and aircraft parking charges, baggage handling, and airport security charges. These charges are mainly driven by the number of flights we operate.

*Sales and distribution.* Our sales and distribution expenses are driven mainly by passenger revenues, indirect channel penetration performance, agreed commission rates, as opposed to ASM growth and from payments to global distribution systems (GDS), such as Amadeus and Sabre. Our commission expenses consist primarily of payments for ticket sales made by travel agents and commissions paid to credit card companies. Travel agents receive base commissions, not including back-end incentive programs, ranging from 0% to 6.7% depending on the country. During the last few years we have reduced our commission expense per available seat mile as a result of an industry-wide trend of paying lower commissions to travel agencies and by increasing the proportion of our sales made through direct channels. We expect this trend to continue as more of our customers become accustomed to purchasing through call centers and through the internet. While increasing direct sales may increase the commissions we pay to credit card companies, we expect that the savings from the corresponding reduction in travel agency commissions will more than offset this increase. In recent years, base commissions paid to travel agents have decreased significantly. At the same time, we have encouraged travel agencies to move from standard base commissions to incentive compensation based on sales volume and fare types. In addition, the GDS or reservation systems tend to raise their rates periodically, but we expect that if we are successful in encouraging our customers to purchase tickets through our direct sales channels, these costs will decrease as a percentage of our operating costs. A portion of our reservations and sales expenses is also comprised of our licensing payments for the SHARES reservation and check-in management software we use, which is not expected to change significantly from period to period.

*Maintenance, materials and repairs.* Our maintenance, materials and repairs expenses consist of aircraft repair expenses and charges related to the line maintenance of our aircraft, including maintenance materials, and aircraft return costs. As the age of our fleet increases and our warranties expire, our maintenance expenses will increase. We conduct line maintenance internally and outsource most heavy maintenance to independent third-party contractors. In 2015, we restructure the original contract negotiated with GE Engine Services in 2003 for the repair and maintenance of our CFM-56 engines which power our Boeing 737 Next Generation fleet. Our engine maintenance costs are also aided by the sea-level elevation of our hub and the use of winglets which allow us to operate the engines on our Boeing 737 Next Generation aircraft with lower thrust, thus putting less strain on the engines. In 2011, we negotiated a maintenance agreement with GE Engine Services for the repair and maintenance of our CF-34 engines.

*Depreciation and amortization.* These expenses correspond primary to the depreciation of aircraft owned by the company.

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*Flight operations.* These expenses are generally directly related to the number of flights we operate, with a component attributed to fixed costs relating to facility rental expenses.

*Aircraft rentals and other rentals.* Our aircraft rental expenses are generally fixed by the terms of our operating lease agreements. We currently have 30 operating leases, 25 of which are operating leases with fixed rates not subject to fluctuations in interest rates; the remaining five operating leases are tied to LIBOR. Our aircraft rent expense also includes rental payments related to any wet-leasing of freighter aircraft to supplement our cargo operations.

*Cargo and courier expenses.* Cargo and Courier expenses consist of expenses related to handling of cargo and courier and are driven by the volume of cargo transported.

*Other operating and administrative expenses.* Other expenses include our frequent flyer program, publicity and promotion expenses, expenses related to our cargo operations, technology related initiatives and miscellaneous other expenses.

## ***Taxes***

We pay taxes in the Republic of Panama and in other countries in which we operate, based on regulations in effect in each respective country. Our revenues come principally from foreign operations, and according to the Panamanian Fiscal Code income from these foreign operations are not subject to income tax in Panama.

The Panamanian Fiscal Code for the airline industry states that tax is based on net income earned for traffic whose origin or final destination is the Republic of Panama. The applicable tax rate is currently 25%. Dividends from our Panamanian subsidiaries, including Copa, are separately subject to a 10% percent withholding tax on the portion attributable to Panamanian sourced income and a 5% withholding tax on the portion attributable to foreign sourced income. Additionally, a 7% value added tax is levied on tickets issued in Panama for travel commencing in Panama and going abroad, irrespective of where such tickets were ordered.

We are also subject to local tax regulations in each of the other jurisdictions where we operate, the great majority of which are related to the taxation of our income. In some of the countries to which we fly, we do not pay any income taxes because we do not generate income under the laws of those countries either because they do not have income taxes or due to treaties or other arrangements those countries have with Panama. In the remaining countries, we pay income tax at rates ranging from 22% to 34% of our income attributable to those countries. Different countries calculate our income in different ways, but they are typically derived from our sales in the applicable country multiplied by our net margin or by a presumed net margin set by the relevant tax legislation.

The determination of our taxable income in several countries is based on a combination of revenues sourced to each particular country and the allocation of expenses to that particular country. The methodology for multinational transportation company sourcing of revenue and expense is not always specifically prescribed in the relevant tax regulations, and therefore is subject to interpretation by both ourselves and the respective tax authorities. Additionally, in some countries, the applicability of certain regulations governing non-income taxes and the determination of our filing status are also subject to interpretation. We cannot estimate the amount, if any, of the potential tax liabilities that might result if the allocations, interpretations and filing positions we use in preparing our income tax returns were challenged by the tax authorities of one or more countries. If taxes were to increase, our financial performance and results of operations could be materially and adversely affected. Due to the competitive revenue environment, many increases in fees and taxes have been absorbed by the airline industry rather than being passed on to the passenger. Any such increases in our fees and taxes may reduce demand for air travel and thus our revenues.

Under a reciprocal exemption confirmed by a bilateral agreement between Panama and the United States, we are exempt from the U.S. source transportation income tax derived from the international operation of aircraft.

Our income tax expense totaled approximately \$48.0 million in 2017, \$38.3 million in 2016 and \$32.8 million in 2015.

***Critical Accounting Policies and Estimates***

The preparation of our consolidated financial statements in conformity with IFRS as issued by the IASB requires our management to adopt accounting policies and make estimates and judgments to develop amounts reported in our consolidated financial statements and related notes. We strive to maintain a process to review the application of our accounting policies and to evaluate the appropriateness of the estimates required for the preparation of our consolidated financial statements. We believe that our estimates and judgments are reasonable; however, actual results and the timing of recognition of such amounts could differ from those estimates. In addition, estimates routinely require adjustments based on changing circumstances and the receipt of new or better information.



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Our critical accounting policies and estimates are described below as those that are reflective of significant judgments and uncertainties and potentially result in materially different results under different assumptions and conditions. For a discussion of these and other accounting policies, see notes 3 and 4 to our annual consolidated financial statements.

*Goodwill.* Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed of the acquired subsidiary at the date of acquisition. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's CGU or group of CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized.

The Company performed its annual impairment test in September 2017 and the recoverable amount was estimated at \$3.9 billion, an amount far in excess of the \$20.4 million of goodwill recorded.

*Provision for return condition.* The Company records a maintenance provision to accrue for the cost that will be incurred in order to return certain aircraft to their lessors in the agreed-upon condition. The methodology applied to calculate the provision requires management to make assumptions, including the future maintenance costs, discount rate, related inflation rates and aircraft utilization. Any difference in the actual maintenance cost incurred and the amount of the provision is recorded in maintenance expense in the period. The effect of any changes in estimates, including changes in discount rates, inflation assumptions, cost estimates or lease expiries, is also recognized in maintenance expense in the period.

*Accounting for Property and Equipment.* Property and equipment, including rotatable parts, are recorded at cost and are depreciated to estimated residual values over their estimated useful lives using the straight-line method.

Major maintenance events, including major engine overhauls, are capitalized and depreciated over the period until the next major event. All other replacement spares and costs relating to maintenance of fleet assets are charged to the consolidated statement of profit or loss on consumption or as incurred.

Pre-delivery deposits refer to prepayments made based on the agreements entered into with the Boeing Company for the purchase of aircraft and include interest and other finance charges incurred during the manufacture of aircraft. Interest costs incurred on borrowings that fund progress payments on assets under construction, including pre-delivery deposits to acquire new aircraft, are capitalized and included as part of the cost of the assets through the earlier of the date of completion or aircraft delivery.

The residual values, useful lives, and methods of depreciation of property and equipment are reviewed at each financial year-end and adjusted prospectively through depreciation and amortization expense, as required by the IFRS.

We evaluate annually whether there is an indication that our property, plant and equipment may be impaired. Factors that would indicate potential impairment may include, but are not limited to technological obsolescence, significant decreases in the market value of long-lived asset(s), a significant change in physical condition or useful life of long-lived asset(s), and operating or cash flow losses associated with the use of long-lived asset(s). We have not identified any impairment related to our existing aircraft fleet.

*Revenue recognition - Expired tickets.* The Company recognizes estimated fare revenue for tickets that are expected to expire based on departure date (unused tickets), based on historical data and experience. Estimating the expected expiration tickets requires management's judgment, among other things, the historical data and experience is an

indication of future customer behavior.

*Frequent Flyer Program.* On July 1, 2015, the Company launched its frequent flyer program, whose objective is to reward customer loyalty through the earning of miles whenever program members make certain flights. The miles or points earned can be exchanged for flights on Copa or any of the other Star Alliance partners' airlines.

When a passenger elects to receive Copa's frequent flyer miles in connection with a flight, the Company recognizes a portion of the ticket sales as revenue when the air transportation is provided and recognizes a deferred liability (Frequent flyer deferred revenue) for the portion of the ticket sale representing the value of the related miles as a multiple-deliverable revenue arrangement, in accordance with *International Financial Reporting Interpretation Committee (IFRIC) 13: Customer loyalty programs*. To determine the amount of revenue to be deferred, the Company estimates and allocates the fair value of the miles that were essentially sold along with the airfare, based on a weighted average ticket value, which incorporates the expected redemption of miles including factors such as redemption pattern, cabin class, loyalty status and geographic region.

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Furthermore, the Company estimates miles earned by members which will not be redeemed for an award before they expire (breakage). A statistical model that estimates the percentage of points that will not be redeemed before expiration is utilized to estimate breakage. The breakage and the fair value of the miles are reviewed annually.

The Company calculates the short and long-term portion of the frequent flyer deferred revenue, using a model that includes estimates based on the members' redemption rates projected by management due to clients' behavior.

Currently, when a member of another carrier frequent flyer program redeems miles on a Copa Airlines or Copa Colombia flights, those carriers pay to the Company a per mile rate. The rates paid by them depend on the class of service, the flight length, and the availability of the reward.

In addition, the Company sells miles to non-airline businesses with which it has marketing agreements. The main contracts to sell miles relate to co-branded credit card relationships with major banks in the region. The Company determined the selling prices of miles according to a negotiated rate.

*Lease accounting.* The Company enters into lease contracts on some of the aircraft it operates. The Company assesses, based on the terms and conditions of the arrangements, whether or not substantially all risks and rewards of ownership of the aircraft it leases have been transferred/retained by the lessor to determine the appropriate accounting classification of the contracts as an operating or finance lease.

Finance lease assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments made under finance leases are apportioned between the finance cost and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability; these are recognized as finance cost in the consolidated statement of profit or loss. Lease agreements that do not transfer the risks and benefits to us are classified as operating leases. Operating leases are accounted as a rental, and the minimum lease expense is recognized through the straight line method.

Lease accounting is critical for us because it requires an extensive analysis of the lease agreements in order to classify and measure the transactions in our financial statements and significantly impacts our financial position and results of operations. Changes in the terms of our outstanding lease agreements and the terms of future lease agreements may impact the accounting for the lease transactions and our future financial position and results of operations.

*Deferred taxes.* Deferred taxes are recognized for tax losses, tax credits, and temporary differences between tax bases and carrying amounts for financial reporting purposes of our assets and liabilities. Recognition and measurement of deferred taxes is a critical accounting policy for us because it requires a number of assumptions and is based on our best estimate of our projections related to future taxable profit. In addition, because the preparation of our business plan is subject to a variety of market conditions, the results of our operations may vary significantly from our projections and as such, the amounts recorded as deferred tax assets may be impacted significantly in the future.

## ***Recently Issued Accounting Pronouncements***

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

IFRS 9, *Financial Instruments*

IFRS 15, *Revenue from Contracts with Customers*

IFRS 16, *Leases*

IFRS 17, *Insurance Contracts*

Amendment to IFRS 2, *Share based payments*

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**Table of Contents**Amendment to IFRS 4, *Insurance contracts*Amendment to IFRS 9, *Financial instruments*Amendment to IAS 28, *Investments in Associates and Joint Ventures*Amendment to IAS 40, *Investment property*IFRIC 22, *Foreign currency transactions and advance consideration*IFRIC 23, *Uncertainty over income tax treatments*

Annual Improvements Cycle 2014-2016

For a discussion of these improvements to IFRS, see note 6 to our annual consolidated financial statements.

**Results of Operation**

The following table shows each of the line items in our statement of profit or loss for the periods indicated as a percentage of our total operating revenues for that period:

	2017	2016	2015
<b>Operating revenues:</b>			
Passenger revenue	97.4%	97.0%	97.0%
Cargo and mail revenue	2.2%	2.4%	2.5%
Other operating revenue	0.4%	0.6%	0.5%
Total operating revenues	100.0%	100.0%	100.0%
Operating expenses:			
Fuel	22.7%	20.9%	26.8%
Wages, salaries, benefits and other employees expenses	16.4%	16.7%	16.6%
Passenger servicing	3.9%	3.9%	3.7%
Airport facilities and handling charges	6.8%	7.2%	6.6%
Sales and distribution	7.9%	8.7%	8.4%
Maintenance, materials and repairs	4.9%	5.5%	4.9%
Depreciation and amortization	6.5%	7.2%	6.0%
Flight operations	4.0%	4.0%	3.8%
Aircraft rentals and other rentals	5.3%	6.3%	6.3%
Cargo and courier expenses	0.3%	0.3%	0.3%
Other operating and administrative expenses	3.8%	4.2%	4.7%
Total operating expenses	82.6%	87.6%	88.1%

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Operating income	17.4%	12.4%	11.9%
Non-operating income (expense):			
Finance cost	-1.4%	-1.7%	-1.5%
Finance income	0.7%	0.6%	1.2%
Gain (loss) on foreign currency fluctuations	-0.2%	0.6%	-19.5%
Net change in fair value of derivatives	0.1%	5.0%	-0.5%
Other non-operating income (expense)	-0.1%	-0.2%	-0.1%
Total non-operating income (expense)	-0.9%	4.4%	-20.4%
Income/(loss) before income taxes	0.0%	0.0%	0.0%
Income taxes	-16.5%	-16.8%	8.5%
Net profit (loss)	14.6%	15.1%	-10.0%

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**Table of Contents*****Year 2017 Compared to Year 2016***

Our consolidated net profit in 2017 totaled \$370.0 million, a 10.6% increase from net profit of \$334.5 million in 2016. In addition, we had consolidated operating profit of \$440.1 million in 2017, a 59.4% increase over operating profit of \$276.1 million in 2016. Our consolidated operating margin in 2017 was 17.4% an increase of 5.0 percentage point versus 2016.

***Operating revenue***

Our consolidated revenue totaled \$2.5 billion in 2017, a 13.8% increase over operating revenue of \$2.2 billion in 2016, due to an increase in passenger revenue. This increase was driven by a 1.5% increase in passenger yield, and a 2.8 percentage point increase in load factor, compared to 2016.

*Passenger revenue.* Passenger revenue totaled \$2.5 billion in 2017, a 14.3% increase over passenger revenue of \$2.2 billion in 2016. This increase was driven by a 1.5% increase in passenger yield, and a 2.8 percentage point increase in load factor, compared to 2016.

*Cargo and mail revenue.* Cargo and mail revenue totaled \$55.3 million in 2017, a 2.4% increase from cargo and mail revenue of \$54.0 million in 2016, driven by an increase in courier services, compared to 2016.

*Other operating revenue.* Other operating revenue totaled \$9.8 million in 2017, a 22.4% decrease from other revenue of \$12.7 million in 2016 driven by a decrease in revenues from services to other airlines.

***Operating expenses***

Our consolidated operating expenses totaled \$2.1 billion in 2017, a 7.3% increase over operating expenses of \$1.9 billion in 2016. This resulted from an increase in fuel and wages, salaries, benefits and other employees expenses.

An overview of the major variances on a consolidated basis follows:

*Fuel.* Aircraft fuel totaled \$572.7 million in 2017, an 8.3% increase from aircraft fuel of \$529.0 million in 2016, primary due to a 8.0% higher fuel consumption.

*Wages, salaries and other employees expenses.* Salaries and benefits totaled \$415.1 million in 2017, a 12.1% increase over salaries and benefits of \$370.2 million in 2016, mainly driven by variable compensation, full year effects on salary adjustments and headcount increases to support additional capacity.

*Passenger servicing.* Passenger servicing totaled \$99.4 million in 2017 compared to \$86.3 million in 2016. This represented a 15.2% increase driven by passenger traffic growth and an effective rate per passenger related to longer flights.

*Airport facilities and handling charges.* Airport facilities and handling charges totaled \$171.0 million in 2017, a 7.1% increase of \$159.8 million in 2016. This increase was driven mainly by a 3.1% departures increase and higher effective rates related to airport services.

*Sales and Distribution.* Sales and distribution totaled \$200.4 million in 2017, a 3.3% increase compared to \$194.0 million in 2016, due to 14.3% higher passenger revenue, offset by lower commission rates.

*Maintenance, materials and repairs.* Maintenance, materials and repairs totaled \$124.7 million in 2017, a 2.4% increase over maintenance, materials and repairs of \$121.8 million in 2016. This increase was primarily a result of more components and maintenance expenses due to 8.4% more hours flown, offset by fewer aircraft leased returns.

*Depreciation and amortization.* Depreciation totaled \$164.3 million in 2017, a 3.2% increase over \$159.3 million in 2016, mainly as a result of additional aircraft delivery and maintenance events capitalized.

*Flight operations.* Flight operations amounted to \$101.6 million in 2017, a 15.3% increase compared to \$88.2 million in 2016, mainly due to 8.1% more block hours and higher overflight rates.

*Aircraft rentals and other rentals.* Aircraft rental expense amounted to \$134.5 million in 2017, a 3.1% decrease from \$138.9 million reported in 2016. This decrease was primarily a result of fewer leased aircraft.



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*Cargo and courier expenses.* Cargo and courier expenses amounted to \$7.4 million in 2017, a 20.9% increase compared to \$6.1 million in 2016, mainly due to a higher volume transported in courier services.

*Other operating and administrative expenses.* Other expenses totaled \$96.1 million in 2017, a 4.2% increase from \$92.2 million in 2016, mainly due to more expenses in professional services and consultancies.

***Total Non-operating Income (Expense)***

Non-operating expense totaled \$22.0 million in 2017, as compared to non-operating income of \$96.7 million in 2016 mainly due to fewer mark to market contracts (a net change in fair values of derivatives).

*Finance cost.* Finance cost totaled \$35.2 million in 2017, an 4.9% decrease over finance cost of \$37.0 million in 2016, as a result of a lower average debt balance and a lower factoring interest rate offset by higher flows.

*Finance income.* Finance income totaled \$17.9 million in 2017, a 38.0% decrease over finance income of \$13.0 million in 2016 due to higher investments.

*Net change in fair value of derivatives.* In 2017 the net change in fair value of derivatives decreased from \$111.6 million in 2016 to \$2.8 million in 2017 as a result of fewer mark to market contracts.

*Other non-operating expense.* Other non-operating expense totaled \$2.3 million in 2017, compared to \$4.0 million in 2016, mainly due to less maintenance scrap during 2017.

***Year 2016 Compared to Year 2015***

Our consolidated net profit in 2016 totaled \$334.5 million, a substantial increase from a net loss of \$225.0 million in 2015. In 2015, we recognized a Venezuelan currency translation and transactional loss of \$432.5 million. In addition, we had consolidated operating profit of \$276.1 million in 2016, a 2.9% increase over operating profit of \$268.3 million in 2015. Our consolidated operating margin in 2016 was 12.4%, an increase of 0.5 percentage points versus 2015.

***Operating revenue***

Our consolidated revenue totaled \$2.2 billion in 2016, a 1.4% decrease over operating revenue of \$2.3 billion in 2015. This was mainly a result of a decrease in passenger revenue, driven by a 9.1% decrease in passenger yield in 2016 compared to 2015.

*Passenger revenue.* Passenger revenue totaled \$2.1 billion in 2016, a 1.4% or \$30.3 million decrease over passenger revenue of \$2.2 billion in 2015. This decrease was mainly driven by a 9.1% drop in passenger yield compared to 2015 offset by a 5.1 percentage point increase in load factor. Passenger yield decreased to 12.18 cents in 2016, from 13.40 in 2015, mainly due to weaker Latin American currencies, especially during the first half of the year.

*Cargo and mail revenue.* Cargo, and mail revenue totaled \$54.0 million in 2016, a 4.8% decrease from cargo and mail revenue of \$56.7 million in 2015. This decrease was primarily the result of less volume of cargo due to higher passenger load factors during the second half of 2016, offset by better average rate per kilogram.

*Other operating revenue.* Other operating revenue totaled \$12.7 million in 2016, a 10.3% increase from other operating revenue of \$11.5 million in 2015. This increase was primarily related to maintenance income and incentives

received from airport authorities for new routes.

***Operating expenses***

Our consolidated operating expenses totaled \$1.9 billion in 2016, a 2.0% decrease over operating expenses of \$2.0 billion in 2015, a result of lower all-in average fuel price per gallon of jet fuel.

An overview of the major variances on a consolidated basis follows:

*Fuel.* Fuel totaled \$529.0 million in 2016, a 12.4% decrease from aircraft fuel of \$603.8 million in 2015. This decrease was primarily a result of 14.6% decrease in the all-in average fuel price per gallon of jet fuel (\$1.86 in 2016 compared to \$2.17 in 2015) offset by a 2.6% higher fuel consumption, and is net of a realized fuel hedge loss of \$93.7 million in 2016, as compared to a realized fuel hedge loss of \$95.2 million in 2015.

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*Wages, salaries and other employees' expenses.* Wages salaries and benefits totaled \$370.2 million in 2016, a 0.9% decrease over salaries and benefits of \$373.6 million in 2015. This was primarily a result of a decrease in variable crew related expenses, offset by an increase in variable compensation accruals and full-year effects of inflation adjustments slightly offset by foreign exchange rates.

*Passenger servicing.* Passenger servicing totaled \$86.3 million in 2016 compared to \$84.3 million in 2015. This represented a 2.4% increase driven mainly by passenger traffic growth offset by efficiencies related to meals, beverages and supplies onboard.

*Airport facilities and handling charges.* Airport facilities and handling charges totaled \$159.8 million in 2016, an increase of 7.9% over \$148.1 million in 2015. This increase was driven mainly by an increase of departures and higher effective rates related to airport services.

*Sales and distribution.* Sales and distribution totaled \$194.0 million in 2016, a 2.7% increase from sales and distribution expenses of \$189.0 million in 2015. This increase was primarily because of higher volumes of net bookings, offset by a lower base of sales through indirect channels (BSP) and lower commission rates compared to 2015.

*Maintenance, materials and repairs.* Maintenance, materials and repairs totaled \$121.8 million in 2016, a 9.5% increase over maintenance, materials and repairs of \$111.2 million in 2015. This increase was primarily a result of aircraft lease returns, and increased provisions for future lease returns.

*Depreciation and amortization.* Depreciation totaled \$159.3 million in 2016, an 18.1% increase over \$134.9 million in 2015, mainly as a result of adjusting the fleet's useful life assumption from 30 to 27 years, the full-year effect of additional aircraft and maintenance events from 2015 and one additional delivery in 2015.

*Flight operations.* Flight operations amounted to \$88.2 million in 2016, a 2.0% increase compared to \$86.6 million in 2015, mainly as a result of less overflights expenses and exchange rate devaluation on non-USD denominated costs mainly in Mexico and Venezuela.

*Aircraft rentals and other rentals.* Aircraft rentals and other rentals expenses amounted to \$138.9 million in 2016, a 2.3% decrease from \$142.2 million in 2015. This decrease is attributable to two leased aircraft returns and by fewer parts exchanges in 2016.

*Cargo and courier expenses.* Cargo and courier expenses totaled \$6.1 million in 2016, a 5.7% decrease from cargo and courier expenses of \$6.5 million in 2015. This decrease was mainly driven by less cargo volume during 2016, compared to 2015.

*Other operating and administrative expenses.* Other operating and administrative expenses totaled \$92.2 million in 2016, a 12.6% decrease from \$105.5 million in 2015. This decrease was mainly driven by less discretionary spending mostly related to general and administrative expenses.

***Total Non-operating Income (Expense)***

Non-operating income totaled \$96.7 million in 2016, an increase from a net non-operating expense of \$460.5 million in 2015. This was mainly recognition of a Venezuelan currency translation and transactional loss of \$432.5 million during 2015.

*Finance cost.* Finance cost totaled \$37.0 million in 2016, an 11.7% increase over finance cost of \$33.2 million in 2015, primarily resulting from a higher average interest rate during the period, offset by lower total debt. The average effective interest rate on our debt increased by 0.1 basis points, from 2.6% during 2015 to 2.7% during 2016. At the end of 2016, 59.3% of our outstanding debt was fixed at an average effective rate of 3.3%.

*Finance income.* Finance income totaled \$13.0 million in 2016, a 49.9% decrease over finance income of \$25.9 million in 2015. This came as a result of recognition of a Venezuelan currency translation and transactional loss of \$432.5 million during 2015, which affected our interest income related to our Venezuela funds.

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**B. Liquidity and Capital Resources**

Our cash, cash equivalents, and short-term investments at December 31, 2017 increased by \$129.2 million, to \$943.9 million. As part of our financing policy, we expect to continue to finance our liquidity needs with cash from operations. We forecast our cash requirements weekly. As of the date hereof, our current unrestricted cash exceeds our forecasted cash requirements to carry out operations, including payment of debt service for fiscal year 2018.

Our cash, cash equivalent and short-term investment position represented 37.3% of our revenues for the year ended December 31, 2017; 22.2% of our total assets and 44.7% of our total equity as of December 31, 2017, which we believe provides us with a strong liquidity position.

In recent years, we have been able to meet our working capital requirements through cash from our operations. Our capital expenditures, which consist primarily of aircraft purchases, are funded through a combination of our cash from operations and long-term financing. From time to time, we finance pre-delivery payments related to our aircraft with short or medium-term financing in the form of commercial bank loans and/or bonds privately placed with commercial banks. In our opinion, the Company's working capital is sufficient for the Company's present requirements.

Copa Airlines has lines of credit for a total of \$212.3 million, in which it has committed lines of credit totaling \$20.0 million, including one line of credit for \$15 million and one overdraft line of credit of \$5 million with Banco General. Copa Airlines also has uncommitted lines of credit for a total of \$192.3 million, including one line of credit of \$100.0 million with Bladex, one line of credit of \$77.3 million with Citibank, and one line of credit of \$15 million with Banco Nacional de Panama. These lines of credit have been put in place to bridge liquidity gaps and for other potential contingencies.

***Operating Activities***

We rely primarily on cash flows from operations to provide working capital for current and future operations. Net cash flows provided by operating activities for the year ended December 31, 2017 were \$727.3 million, an increase of \$132.7 million over the \$594.6 million in 2016. Our principal source of cash is receipts from ticket sales to customers, which for the year ended December 31, 2017 increased by \$336.0 million over receipts in the year 2016.

Net cash flows provided by operating activities for the year ended December 31, 2016 were \$594.6 million, an increase of \$277.7 million over \$316.9 million in 2015. Our principal source of cash is receipts from ticket sales to customers, which for the year ended December 31, 2016 increased by \$71.8 million over receipts in the year 2015. In addition, our cash outflows decreased overall in 2016 due to a decrease in cash payments for operational expenses of \$67.5 million mainly related to fuel purchases, a decrease in collateral cash of \$76.0 million related to fuel hedge contracts coming to term, a net increase in our accounts payable of \$48.3 million related to the timing of certain payments at year-end, a decrease in passenger expenses of \$3.4 million, and an increase in administrative expenses of \$3.5 million mainly relating to salaries and benefits.

***Investing Activities***

Net cash flow used in investing activities was \$578.2 million in 2017 compared to a net cash flow used in investing activities of \$179.9 million in 2016 and net cash flow from investing activities of \$32.4 million in 2015. During 2017, we made capital expenditures of \$81.1 million, which consisted of expenditures related to the net of acquisition of property and equipment and advance payments on aircraft purchase contracts, compared to \$50.9 million in 2016 and \$82.8 million in 2015. In 2017, the Company used 287.1 million in acquiring investments compared to \$67.1 million in 2016 and \$52.1 million from net proceeds on investments in 2015.

***Financing Activities***

Net cash flow used in financing activities were \$204.8 million in 2017 compared to net cash flows used in financing activities of \$248.6 million in 2016 and \$357.5 million in 2015. During 2017, \$147.8 million of proceeds from borrowings were offset by the repayment of \$246.3 million in debt and \$106.8 million in dividends paid. During 2016, \$164.4 million of proceeds from financing were offset by the repayment of \$327.0 million in debt and \$86.1 million in dividends declared. During 2015, \$130.0 million of proceeds from borrowing were offset by the repayment of \$221.9 million in long-term debt, \$147.6 million in dividends paid and \$118.0 million in repurchases of treasury shares.

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We have financed the acquisition of 40 Boeing 737-Next Generation aircraft through syndicated loans provided by international financial institutions with the support of partial guarantees issued by the Export-Import Bank of the United States, or Ex-Im, with repayment profiles of 12 years. The Ex-Im guarantees support 80% of the net purchase price and are secured with a first priority mortgage on the aircraft in favor of a security trustee on behalf of Ex-Im. The documentation for each loan follows standard market forms for this type of financing, including standard events of default. Our Ex-Im supported financings amortize on a quarterly basis, are denominated in dollars and originally bear interest at a floating rate linked to LIBOR. Our Ex-Im guarantee facilities typically offer an option to fix the applicable interest rate. We have exercised this option with respect to \$231.9 million as of December 31, 2017 at an average weighted interest rate of 3.27%. \$140.1 million bears interest at a floating weighted average interest rate of 1.89% representing a spread of 20 bps over the 3 month LIBOR of December 31, 2017. At December 31, 2017, the total amount outstanding under our Ex-Im-supported financings totaled \$372 million.

We have effectively extended the maturity of certain of our Boeing aircraft financing to 15 years through the use of a Stretched Overall Amortization and Repayment, or SOAR, structure which provides serial draw-downs calculated to result in a 100% loan accreting to a recourse balloon at the maturity of the Ex-Im guaranteed loan. The SOAR portions of our facilities require us to maintain certain financial covenants, including an EBITDAR to fixed-charge ratio, a long-term obligation to EBITDAR ratio and a minimum unrestricted cash balance. To comply with the first ratio, our EBITDA plus aircraft rent expense, or EBITDAR, for the prior year must be at least 2.0 times our fixed-charge expenses (including interest, commission, fees, discounts and other finance payments) for that year. To comply with the second ratio, our long-term obligations must be no more than six times EBITDAR. Third, our cash, cash equivalents and short-term investment balance should be at least \$50.0 million. We also pay a commitment fee on the unutilized portion of our SOAR loans.

In February 2011, participants from the member states of the Organization for Economic Co-operation and Development, or OECD, including the Export-Import Bank of the United States, agreed to a new common approach with respect to aircraft purchase financing, or the 2011 Aircraft Sector Understanding. The 2011 Aircraft Sector Understanding unifies the terms, conditions and procedures governing large and regional aircraft exports and in particular attempts to reduce the subsidies from which we benefit by setting forth increased minimum guarantee premium rates, lower loan-to-value ratios and more restrictive repayment terms, all based on the borrowers credit risk classification. These developments are likely to increase our financing costs and may negatively affect our results of operation. Nevertheless, in recent years the Company has diversified its financing sources and obtained access to very competitive financing terms. In fact, as of 2013 our aircraft deliveries have been financed through a mix of sale-leasebacks and Japanese Operating Leases with Call Options or JOLCO.

JOLCO is a Japanese-sourced lease transaction that provides for 100% financing, and is typically used to finance new aircraft and has a minimum lease term of 10 years. In a JOLCO, the aircraft is purchased by a Japanese equity investor. The Japanese equity investor funds approximately 20-30% of the acquisition cost of the aircraft and becomes the owner of the aircraft via a Special Purpose Entity. An international bank with on-shore lending capabilities provides the balance of the aircraft purchase price (approximately 70-80%) via a senior secured mortgage loan. JOLCOs have a call option, which lessees often expect the lessor to exercise. Under IFRS, these transactions are accounted for as financial leases. In 2015, 2016 and 2017 we financed 13 Boeing 737-800 aircraft through JOLCO.

Our Embraer aircraft have all been financed via commercial loans. During 2008, we secured a senior term loan facility in the amount of \$100.0 million for the purchase of four Embraer 190 aircraft. The loans have a term of twelve years. During 2008, we utilized all of this facility. Under the 2008 loan agreement we are required to comply with certain financial covenants. The first covenant requires our EBITDAR for the prior year to be at least 2.5 times our fixed-charge expenses (including interest, commission, fees, discounts and other finance payments) for that year. The second covenant requires a total liability plus operating leases minus operating cash to tangible net worth ratio of less

than 5.5 to 1. The third covenant requires our tangible net worth to be at least \$160.0 million. The last covenant requires us to maintain a minimum of \$75.0 million in available cash, cash equivalents and short-term investments.

We complied with all required covenants in 2017.

*Capital resources.* We finance our aircraft through long-term debt and operating lease financings. Although we expect to finance future aircraft deliveries with a combination of similar debt arrangements and financing leases, we may not be able to secure such financing on attractive terms. To the extent we cannot secure financing, we may be required to modify our aircraft acquisition plans or incur higher than anticipated financing costs. We expect to meet our operating obligations as they become due through available cash and internally generated funds, supplemented as necessary by short-term or medium term credit lines.



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As of December 31, 2017 the Company has two purchase contracts with Boeing: the first contract entails two firm orders of Boeing 737 Next Generation aircraft, to be delivered in the first half of 2018, and the second contract entails 71 firm orders of Boeing 737 MAX aircraft, which will be delivered between 2018 and 2025. The firm orders have an approximate value \$9.5 billion based on aircraft list prices, including estimated amounts for contractual price escalation and pre-delivery deposits. We meet our pre-delivery deposit requirements for our Boeing 737 aircraft by using cash from operations, or by using short or medium-term borrowing facilities and/or vendor financing for deposits required between three years and six months prior to delivery.

We maintain available facilities for letters of credit with several banks with outstanding balances of \$25.5 million and \$26.6 million at December 31, 2017 and 2016, respectively. These letters of credit are pledged mainly for operating lessors, maintenance providers and airport operators.

At December 31, 2017 Copa Airlines has lines of credit for a total of \$212.3 million, in which it has committed lines of credit totaling \$20.0 million, including one line of credit for \$15.0 million and one overdraft line of credit of \$5.0 million with Banco General. Copa Airlines also has uncommitted lines of credit for a total of \$192.3 million, including one line of credit of \$100.0 million with Bladex, one line of credit of \$77.3 million with Citibank, and one line of credit of \$15.0 million with Banco Nacional de Panama. These lines of credit have been put in place to bridge liquidity gaps and for other potential contingencies.

### **C. Research and Development, Patents and Licenses, etc.**

We believe that the Copa brand has strong value and indicates superior service and value in the Latin American travel industry. We have registered the trademarks Copa , Copa Airlines and Wingo with the trademark offices in Panama, the United States, and the majority of the countries in which we operate. We license certain brands, logos and trade uniforms under the trademark license agreement with UAL related to our alliance. We will have the right to continue to use our current logos on our aircraft for up to five years after the end of the alliance agreement term. Copa Colombia , Copa Airlines Colombia and Wingo are registered names and trademarks in Colombia, Panama, Ecuador, Venezuela, Mexico, Dominican Republic, and Guatemala.

We operate many software products under licenses from our vendors, including our passenger services system, booking engine, revenue management software and our cargo management system. Under our agreements with Boeing, we also use a large amount of Boeing s proprietary information to maintain our aircraft. The loss of these software systems or technical support information from our vendors could negatively affect our business.

### **D. Trend Information**

Since the latter half of 2016 and continuing in 2017, we have been able to deliver high load factors and year-over-year yield improvement, resulting in a significant unit revenue expansion, mainly due to stable and improving macro-economic factors in the region. We are optimistic this trend will continue into 2018.

We intend to continue developing initiatives to improve our operations, including a continued focus on on-time performance and our completion factor. Additionally, we continue to seek further integration of Copa Airlines and Copa Colombia s network through code-sharing and fleet interchange agreements.

**E. Off-Balance Sheet Arrangements**

Our only off-balance sheet arrangements are operating leases, which are summarized in the contractual obligations table in F. Tabular disclosure of Contractual Obligations below. We are responsible for all maintenance, insurance and other costs associated with operating these aircraft; however, we have not made any residual value or other guarantees to our lessors.

We have no other off-balance sheet arrangements.

**F. Tabular Disclosure of Contractual Obligations**

Our non-cancelable contractual obligations at December 31, 2017 included the following:

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	At December 31,				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	(in thousands of dollars)				
Aircraft and engine purchase commitments	9,559,294	816,245	3,765,103	3,193,642	1,784,304
Aircraft operating leases	400,835	111,568	170,656	99,654	18,957
Other operating leases	107,440	14,988	44,966	29,977	17,509
Short-term debt and long-term debt(1)	1,174,580	298,462	381,637	89,143	405,338
<b>Total</b>	<b>11,242,149</b>	<b>1,241,263</b>	<b>4,362,362</b>	<b>3,412,416</b>	<b>2,226,108</b>

(1) Includes actual interest and estimated interest for floating-rate debt based on December 31, 2017 rates.

Most contract leases include renewal options. Non-aircraft related leases have renewable terms of one year, and their respective amounts included in the table above have been estimated through 2019, but we cannot estimate amounts with respect to those leases for later years. Our leases do not include residual value guarantees.

**G. Safe harbor**

Not applicable.

**Item 6. Directors, senior management and employees****A. Directors and Senior Management**

Currently, our Board of Directors is comprised of eleven members. The number of directors elected each year varies. Messrs. Pedro Heilbron, Ricardo A. Arias, Alvaro Heilbron, Carlos A. Motta, John Gebo, Roberto Artavia and Andrew Levy were each re-elected for two-year terms at our annual shareholders' meeting held in 2016, while Messrs. Stanley Motta, Jose Castañeda Velez, Jaime Arias and Josh Connor were re-elected as directors for two-year terms at our annual shareholders' meeting held in 2017.

The following table sets forth the name, age and position of each member of our Board of Directors as of March 31, 2018. A brief biographical description of each member of our Board of Directors follows the table:

Name	Position	Age
Pedro Heilbron	Chief Executive Officer and Director	60
Stanley Motta	Chairman and Director	73
Alvaro Heilbron	Director	53
Jaime Arias	Director	84
Ricardo Alberto Arias	Director	79
Carlos A. Motta	Director	46
John Gebo	Director	48
Jose Castañeda Velez	Director	74
Roberto Artavia Loria	Director	59
Andrew Levy	Director	49
Josh Connor	Director	44

**Mr. Pedro Heilbron.** See Executive Officers.

**Mr. Stanley Motta** has been one of the directors of Copa Airlines since 1986 and a director of Copa Holdings since it was established in 1998. Since 1990, he has served as the President of Motta Internacional, S.A. an international importer and distributor of consumer goods. Mr. Motta is father of Mr. Carlos A. Motta. He serves on the boards of directors of Motta Internacional, S.A., BG Financial Group, S.A., ASSA Compañía de Seguros, S.A., Televisora Nacional, S.A., Inversiones Bahía, Ltd. and GBM Corporation. Mr. Motta is a graduate of Tulane University.

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**Mr. Alvaro Heilbron** was elected as director of Copa Holdings in 2012. Mr. Heilbron is the brother of Mr. Pedro Heilbron, our chief executive officer. He is an Executive Director at Editora del Caribe, S.A. and a director at Panama Star Tours, S.A. Mr. Heilbron holds a BS in Business Administration from George Washington University, and a Post-Graduate degree in Management from INCAE Business School. Mr. Heilbron also served as Vice-President of Commercial for Copa Airlines between the years of 1988 and 1999.

**Mr. Jaime Arias** has been one of the directors of Copa Airlines since 1983 and a director of Copa Holdings since it was established in 1998. He is a founding partner of Galindo, Arias & Lopez. Mr. Arias holds a BA from Yale University, a JD from Tulane University and completed legal studies at the University of Paris, Sorbonne. He serves on the boards of directors of Televisora Nacional, S.A., ASSA Compañía de Seguros, S.A., Empresa General de Inversiones, S.A., Petroleos Delta, S.A., BAC International Bank, Inc., Direct Vision, S.A. and Promed, S.A.

**Mr. Ricardo Arias** has been one of the directors of Copa Airlines since 1985 and a director of Copa Holdings since it was established in 1998. He is a founding partner of Galindo, Arias & Lopez. Mr. Arias is the former Panamanian ambassador to the United Nations. Mr. Arias holds a BA in international relations from Georgetown University, an LL.B. from the University of Puerto Rico and an LL.M. from Yale Law School. He serves on the boards of directors of Banco General, S.A. and Empresa General de Inversiones, S.A., which is the holding company that owns Banco General, S.A. Mr. Arias is also listed as a principal or alternate director of several subsidiary companies of Banco General, S.A. and Empresa General de Inversiones, S.A. Mr. Arias is a former Director and President of the Panamanian Stock Exchange.

**Mr. Carlos A. Motta** was elected as a director of Copa Holdings in 2014. He has held several positions within Motta Internacional, S.A. and is currently a director and part of the executive committee. He is the son of Mr. Stanley Motta. Mr. Motta serves on the board of Inversiones Bahia, Copa Holdings, Motco Inc., Latamel SLU, Cable Onda, Fundación Alberto C. Motta, and IFF Panama (Panama Film Festival) among others. He is on the international advisory board of the IAE Business School, Universidad Austral in Buenos Aires, Argentina, and is a member of Young Presidents Organization (YPO) and Entrepreneurs Organization (EO). Mr. Motta received a bachelor's degree in marketing from Boston College and an MBA from Thunderbird (The American Graduate School of International Management) in 2000.

**Mr. John Gebo** was elected as a director of Copa Holdings in 2015. He is Senior Vice President of Alliances for United Airlines. Prior to his current position, Mr. Gebo was United's Senior Vice President of Financial Planning and Analysis. Mr. Gebo joined United in 2000, and has held positions of increasing responsibility. Prior to joining United, Mr. Gebo worked at General Motors Corporation in manufacturing engineering. Mr. Gebo received his bachelor's degree in mechanical engineering from the University of Texas and his master's degree in business administration from the University of Michigan. Mr. Gebo is also Vice Chairman of the board of directors of the Alliant Credit Union.

**Mr. Jose Castañeda Velez** is one of the independent directors of Copa Holdings. He is currently a director on the boards of MMG Bank Corporation and MMG Trust S.A. Previously, Mr. Castañeda Velez was the chief executive officer of Banco Latinoamericano de Exportaciones, S.A. BLADEX and has held managerial and officer level positions at Banco Río de la Plata, Citibank, N.A., Banco de Credito del Peru and Crocker National Bank. He is a graduate of the University of Lima.

**Mr. Roberto Artavia Loria** is one of the independent directors of Copa Holdings. He is Chairman of Viva Trust and Viva Services, President of the Fundacion Latinoamérica Posible in Panama and Costa Rica, Board Member and visiting professor of INCAE Business School, and Director of MarViva Foundation in Panama. Mr. Artavia Loria is also an advisor to the governments of five countries in Latin America, and a strategic advisor to Purdy Motor, S.A.,

the Panama Canal Authority, Coyoil Free Zone and Business Park, Grupo Nación and FUNDESA, among other organizations in the region. Mr. Artavia Loria also serves on the board of directors of the World Resources Institute and the Foundation for Management Education in Central America, both in Washington, Compañía Cervecería de Nicaragua, OBS Americas in Costa Rica, and the IDC of Guatemala.

**Mr. Andrew Levy** currently serves as CFO at UAL. Previously, he was President, Chief Operating Officer and a member of the Board of Directors of Allegiant Travel Company. He joined Allegiant in early 2001, and during his tenure, his executive responsibilities included strategy, planning, finance, commercial, people and operations. Mr. Levy became President in 2009, served as Chief Financial Officer from 2007 to 2010, and was its Treasurer from 2001 through 2010. Mr. Levy started his airline career in 1994 at ValuJet Airlines, Inc. and then joined Savoy Capital, an investment, banking and advisory firm specializing in the airline industry in 1996. He holds a Juris Doctor degree from Emory University School of Law and a BA degree in Economics from Washington University in St. Louis.

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**Mr. Josh Connor** is one of the independent directors of Copa Holdings. He is the founding partner of the investment firm Connor Capital SB. He was a Managing Director and the Head of the Industrials Banking Group at Barclays until July 2015, and was a member of the firm's Operating Committee. Prior to joining Barclays in 2011, he was with Morgan Stanley for 15 years and was the Co-Head of Morgan Stanley's Transportation & Infrastructure Investment Banking Group, a member of the firm's Investment Banking Management Committee, and was on the Board of Trustees for the Morgan Stanley Foundation. He has a BA degree in Economics from Williams College, is on the Board of Directors of Frontier Airlines, is a strategic adviser to Oaktree Capital Management's Infrastructure Fund, and is a Trustee of the Pingry School.

The following table sets forth the name, age and position of each of our executive officers as of March 31, 2018. A brief biographical description of each of our executive officers follows the table.

<b>Name</b>	<b>Position</b>	<b>Age</b>
Pedro Heilbron	Chief Executive Officer and Director	60
José Montero	Chief Financial Officer	48
Daniel Gun	Senior Vice-President of Operations	50
Dennis Cary	Senior Vice-President of Commercial and Planning	54
Vidalía de Casado	Vice-President of Human Resources	61
Julio Toro	Vice-President of Technology	44
Ahmad Zamany	Vice-President of Technical Operations	60
Bolívar Domínguez	Vice-President of Flight Operations	43
Timothy Manoles	Loyalty Vice-President	58
Edwin Garcia	Vice-President of Airports	46
Christophe Didier	Vice-President of Sales	54
Christopher Amenechi	Vice-President of Pricing and Revenue Management	52
Eduardo Lombana	Chief Executive Officer of Copa Colombia	56

**Mr. Pedro Heilbron** has been our Chief Executive Officer since 1988. He received an MBA from George Washington University and a BA from College of the Holy Cross. Mr. Heilbron is the brother of Mr. Alvaro Heilbron, a member of our Board of Directors.

**Mr. Jose Montero** has been our Chief Financial Officer since March 2013. He started his career with Copa Airlines in 1993 and has held various technical, supervisory, and management positions including Manager of Flight Operations, Director of System Operations Control Center (SOCC), and, between 2004 and 2013, Director of Strategic Planning. He has a BS in Aeronautical Studies from Embry Riddle University and an MBA from Cornell University.

**Mr. Daniel Gunn** has been our Senior Vice-President of Operations since February 2009. Prior to this Mr. Gunn had served as Vice-President of Commercial and Planning and Vice-President of Planning and Alliances. Prior to joining Copa in 1999, he spent five years with American Airlines holding positions in Finance, Real Estate and Alliances. Mr. Gunn received a BA in Business & Economics from Wheaton College and an MBA from the University of Southern California.

**Mr. Dennis Cary** has been our Senior Vice-President of Commercial and Planning, since April 2015. Prior to joining Copa Airlines, Mr. Cary held Senior Vice-President position in various industries, including aviation. Mr. Cary served as Senior Vice-President, Chief Marketing and Customer Officer at United Airlines, and several other top management positions in United Airlines and American Airlines. Mr. Cary graduated from California State University, Northridge with a bachelor's degree in Computer Sciences and holds an MBA from Duke University.



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**Ms. Vidalia de Casado** has been our Vice-President of Human Resources since January 2016. Prior to this, she was our Vice-President of On-Board Services. She joined Copa in 1989, serving as Passenger Services Manager from 1989 to 1995 and Vice-President of Passenger Services from 1995 to 2010. Prior to joining Copa, she spent seven years as Human Resource and Service Director with Air Panama Internacional, S.A. Ms. de Casado received a BS in Business from *Universidad Latina* and an MBA from the University of Louisville.

**Mr. Julio Toro** has been our Vice-President of Technology since October 2015. He joined Copa in May 2011 as Director of the Project Management Office. Before joining Copa, he served as Operations Manager and Vice-President of Information Systems for Cable & Wireless Panama. He received a BS in Electrical Engineering from Texas A&M University, a Master in Renewable Energy from *Universidad Tecnológica*, and an MBA jointly issued by New York University Stern School of Business, London School of Economics and Political Science, and HEC Paris School of Management.

**Mr. Ahmad Zamany** joined Copa Airlines in August of 2010 as Vice-President of Technical Operations, ultimately responsible for the maintenance, engineering and technical purchasing of the Company. Mr. Zamany started his aviation career with Pan Am and has held several key roles with other carriers. He was previously with Atlas Air & Polar Air Cargo as Vice President of Technical Operations, and Gemini Air Cargo as Senior Vice President and Chief Operating Officer. Mr. Zamany graduated from Parks College of Saint Louis University with a bachelor's degree in Aeronautics concentrated in Aircraft Maintenance Engineering in 1985.

**Captain Bolivar Dominguez G.** has been our Vice President of Flight Operations since December 2017. He began his career with Copa Airlines in 2000 as a Copilot in the Boeing 737-200, and throughout his career within the Company, he has held roles of increased responsibility, such as Head of Training on the Embraer fleet, Director of System Operations Control Center (SOCC), and most recently Chief Pilot. Bolivar holds an Airline Transport Pilot License, with Type Ratings on the Boeing 727, Embraer 190, and Boeing 737, and received a BS in Industrial Engineering from *Universidad Latina* and a MBA from the University of Louisville.

**Mr. Timothy Manoles** has been our Loyalty Vice-President since October 2016. Prior to joining Copa, he was a senior Partner, Vice President for The Lacek Group, a specialty loyalty marketing agency of Ogilvy and Mather. He has over 30 years of experience in loyalty marketing having led engagements and helped devise, negotiate and manage strategic alliances with a variety of recognized category leaders, including Northwest Airlines, Delta Airlines, US Bank, Polo Ralph Lauren, American Express Travel, Disney, Cox Communications, Swissôtel, American Family Insurance, Foundation Health Systems, American Family Insurance, and Ford Motor Company. He holds a degree in economics from Westmont College, California, and in management information systems from the University of Minnesota.

**Mr. Edwin Garcia** joined Copa Airlines in April 2013 and has been our Vice-President of Airports since November 2014. Edwin is a seasoned executive with more than 18 years of experience in airport and airline operations. Prior to joining Copa Airlines he held several leading positions in United Airlines based in Chicago, Denver and Los Angeles. He also served honorably and was educated in the United States Marine Corps.

**Mr. Christophe Didier** has been our Vice-President of Sales since September 2016. Prior to joining Copa Airlines, Mr. Didier held several sales and marketing positions in the airline industry since 1990, including Air France, Delta Air Lines and Etihad Airways, based in Europe and the Americas. He served as Delta's Vice-President for Latin America and the Caribbean during Delta's significant expansion in the region, merger with Northwest Airlines and Transatlantic joint venture implementation with Air France / KLM. Mr. Didier, a French and Brazilian National, holds a Master in Management from ESCP Europe business school based in Paris and speaks English, Spanish, Portuguese and French.

**Mr. Christopher Amenechi** has been our Vice-President of Pricing and Revenue Management since May 2016. Prior to joining Copa, Mr. Amenechi was Vice-President of Revenue Management and Porter Escapes at Porter Airlines in Toronto, Canada. He also served as Vice President of E-Commerce and Merchandising at United Airlines where he held several top management positions over a 20 year career. Mr. Amenechi graduated from Embry Riddle Aeronautical University, Daytona Beach with a bachelor's degree in Aeronautical Engineering and a Masters in Aviation Management.

**Mr. Eduardo Lombana** joined the Company in May 2005 as Chief Operating Officer and was appointed as Chief Executive Officer of Copa Colombia as of February 2012. He served three years at Avianca as Vice-President of Network, responsible for revenue management, network planning and revenue accounting during the company's bankruptcy turn over. Prior to that, he served as VicePresident of Flight Operations for ACES before it merged with Avianca. Mr. Lombana holds a BS in Aviation Technology and an AS in Aviation Maintenance Technology from Embry Riddle Aeronautical University.

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The business address for all of our senior management is c/o Copa Airlines, Avenida Principal y Avenida de la Rotonda, Urbanización Costa del Este, Complejo Business Park, Torre Norte, Parque Lefevre Panama City, Panama.

**B. Compensation**

In 2017, we paid an aggregate of approximately \$5.1 million in cash compensation to our executive officers.

At the Compensation Committee meeting held in February 2011, the Chairman announced that members of our Board of Directors that are not officers of either Copa or UAL would receive an increase of \$15,000 per year to \$40,000 per year plus expenses incurred to attend our Board of Directors meetings. In addition, members of committees of the Board of Directors receive additional compensation per committee meeting. All of the members of our Board of Directors and their spouses receive benefits to travel on Copa flights as well.

***Incentive Compensation Program***

In 2005, the Compensation Committee of our Board of Directors eliminated the then-existing Long Term Retention Plan and approved a one-time non-vested stock bonus award program for certain executive officers or the Stock Incentive Plan. Non-vested stock delivered under the Stock Incentive Plan may be sourced from treasury stock or authorized un-issued shares. In accordance with this program, the Compensation Committee of our Board of Directors had granted restricted stock awards to our senior management and to certain named executive officers and key employees. Normally, these shares vest over three to five years in yearly installments equal to one-third of the awarded stock on each anniversary of the grant date or in yearly installments equal to 15% of the awarded stock on each of the first three anniversaries of the grant date, 25% on the fourth anniversary and 30% on the fifth anniversary.

The following table shows shares granted

	2017	2016	2015
Shares	36,229	291,872	36,291
Fair value	\$ 107.29	\$ 59.94 to \$63.3	\$ 81.40 to \$115.10
Contractual life	3 years	3 to 5 years	3 to 5 years

In March 2007, the Compensation Committee of our Board of Directors granted, for the first time, 35,657 equity stock options to certain named executive officers, which vest over three years in yearly installments equal to one-third of the awarded stock on each of the three anniversaries of the grant date. The exercise price of the options is \$53.14, which was the market price of the Company's stock at the grant date. The stock options have a contractual term of 10 years.

The weighted-average fair value of the stock options at the grant date was \$22.3, and was estimated using the Black-Scholes option-pricing model assuming an expected dividend yield of 0.58%, expected volatility of approximately 37.8% based on historical volatility, weighted average risk-free interest rate of 4.6%, and an expected term of six years calculated under the simplified method.

The Compensation Committee plans to make additional equity-based awards under the plan from time to time, including additional non-vested stock and stock option awards. While the Compensation Committee will retain discretion to vary the exact terms of future awards, we anticipate that future employee non-vested stock and stock option awards granted pursuant to the plan will generally vest over a three-year period and the stock options will carry a ten year term.

The total compensation cost recognized for non-vested stock and option awards was \$7.4 million, \$7.5 million, \$4.0 million, \$4.7 million, and \$6.0 million in 2017, 2016, 2015, 2014, and 2013, respectively, and was recorded as a component of Wages, salaries and other employees benefits within Operating Expense.

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During the first quarter of 2018, the Compensation Committee of the Company's Board of Directors approved three awards. Awards under these plans will grant approximately 39,761 shares of non-vested stock, which will vest over a period of three to five years. The Company estimates the fair value of these awards to be approximately \$5.4 million and the 2018 compensation cost for these plans will be \$2.5 million.

Please also see Item 6D. Employees for a description of the bonus plan implemented by the Company.

### **C. Board Practices**

Our Board of Directors currently meets quarterly. Additionally, informal meetings with UAL are held on an ongoing basis, and are supported by annual formal meetings of an Alliance Steering Committee, which directs and reports on the progress of the Copa and UAL Alliance. Our Board of Directors is focused on providing our overall strategic direction and as a result is responsible for establishing our general business policies and for appointing our executive officers and supervising their management.

Currently, our Board of Directors is comprised of eleven members. The number of directors elected each year varies. Messrs. Pedro Heilbron, Ricardo A. Arias, Alvaro Heilbron, Carlos A. Motta, John Gebo, Roberto Artavia and Andrew Levy were each re-elected for two-year terms at our annual shareholders' meeting held in 2016, while Messrs. Stanley Motta, Jose Castañeda Velez, Jaime Arias and Josh Connor were re-elected as directors for two-year terms at our annual shareholders' meeting held in 2017.

Pursuant to contractual arrangements with us and CIASA, UAL is entitled to designate one of our directors. Currently, Mr. John Gebo is the UAL-appointed director.

None of our Directors has entered into any service contract with the Company or its subsidiaries.

### ***Committees of the Board of Directors***

**Audit Committee.** The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight

responsibilities by reviewing:

the integrity of financial reports and other financial information made available to the public or any regulator or governmental body;

the effectiveness of our internal financial control and risk management systems;

the effectiveness of our internal audit function, and the independent audit process including the appointment, retention, compensation, and supervision of the independent auditor; and

the compliance with laws and regulations, as well as the policies and ethical codes established by management and the Board of Directors.

The Audit Committee is also responsible for implementing procedures for receiving, retaining and addressing complaints regarding accounting, internal control and auditing matters, including the submission of confidential, anonymous complaints from employees regarding questionable accounting or auditing matters.

Messrs. Roberto Artavia, Jose Castañeda and Josh Connor, all independent non-executive directors under the applicable rules of the New York Stock Exchange, are the current members of the committee, which is chaired by Mr. Roberto Artavia. All members are financially literate and have been determined to be financial experts by the Board of Directors.

**Compensation Committee.** Our Compensation Committee is responsible for the selection process of the Chief Executive Officer and the evaluation of all executive officers (including the CEO), recommending the level of compensation and any associated bonus. The charter of our Compensation Committee requires that all its members shall be non-executive directors, of which at least one member will be an independent director under the applicable rules of the New York Stock Exchange. Messrs. Stanley Motta, Jaime Arias and Jose Castañeda are the members of our Compensation Committee, and Mr. Stanley Motta is the Chairman of the Compensation Committee.

**Nominating and Corporate Governance Committee.** Our Nominating and Corporate Governance Committee is responsible for developing and recommending criteria for selecting new directors, overseeing evaluations of the Board of Directors, its members and committees of the Board of Directors and handling other matters that are specifically delegated to the Nominating and

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Corporate Governance Committee by the Board of Directors from time to time. Our charter documents require that there be at least one independent member of the Nominating and Corporate Governance Committee until the first shareholders' meeting to elect directors after such time as the Class A shares are entitled to full voting rights. Messrs. Ricardo Arias, Carlos A. Motta, Alvaro Heilbron and Roberto Artavia are the members of our Nominating and Corporate Governance Committee, and Mr. Ricardo Arias is the Chairman of the Nominating and Corporate Governance Committee.

**Independent Directors Committee.** Our Independent Directors Committee is created by our Articles of Incorporation and consists of any directors that the Board of Directors determines from time to time meet the independence requirements of the NYSE rules applicable to audit committee members of foreign private issuers. Our Articles of Incorporation provide that there will be no fewer than three independent directors at all times, subject to certain exceptions. Under our Articles of Incorporation, the Independent Directors Committee must approve:

any transactions in excess of \$5 million between us and our controlling shareholders;

the designation of certain primary share issuances that will not be included in the calculation of the percentage ownership pertaining to the Class B shares for purposes of determining whether the Class A shares should be converted to voting shares under our Articles of Incorporation; and

the issuance of additional Class B shares or Class C shares to ensure Copa Airlines' compliance with aviation laws and regulations.

The Independent Directors Committee shall also have any other powers expressly delegated by the Board of Directors. Under the Articles of Incorporation, these powers can only be changed by the Board of Directors acting as a whole upon the written recommendation of the Independent Directors Committee. The Independent Directors Committee will only meet regularly until the first shareholders' meeting at which the Class A shareholders will be entitled to vote for the election of directors and afterwards at any time that Class C shares are outstanding. All decisions of the Independent Directors Committee shall be made by a majority of the members of the committee. See Item 10B. Memorandum and Articles of Association Description of Capital Stock.

Messrs. Josh Connor, Roberto Artavia, and Jose Castañeda, all independent non-executive directors under the applicable rules of the New York Stock Exchange, are the current members of the committee.

## **D. Employees**

We believe that our growth potential and the achievement of our results-oriented corporate goals are directly linked to our ability to attract, motivate and maintain the best professionals available in the airline business. In order to help retain our employees, we encourage open communication channels between our employees and management. Our CEO meets quarterly with all of our Copa employees in Panama in town hall-style meetings during which he explains the Company's performance and encourages feedback from attendees. A similar presentation is made by our senior executives at each of our foreign stations. Our compensation strategy reinforces our determination to retain talented and highly motivated employees and is designed to align the interests of our employees with our shareholders through profit-sharing.

Approximately 75.2% of the Company's employees are located in Panama, while the remaining 24.8% are distributed among our foreign stations. Copa's employees can be categorized as follows:

	<b>December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Pilots	1,290	1,183	1,275
Flight attendants	2,204	2,043	1,965
Mechanics	512	477	529
Customer service agents, reservation agents, ramp and others	2,919	2,954	3,427
Management and clerical	2,120	2,076	2,106
 Total employees	 9,045	 8,733	 9,302

Our profit-sharing program reflects our belief that our employees will remain dedicated to our success if they have a stake in that success. We identify key performance drivers within each employee's control as part of our annual objectives plan, or Path to Success. Typically, we pay bonuses in the first quarter of the year based on our performance during the preceding calendar year. For members of management, 75% of the bonus amount is based on our performance as a whole and 25% is based on the achievement of individual goals. Bonuses for non-management employees are based on the Company's performance and payment is typically a



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multiple of the employee's weekly salary. The bonus payments are approved by our compensation committee. We typically make accruals each month for the expected annual bonuses, which are reconciled to actual payments at their dispersal within the first half of the following year.

We provide training for all of our employees, including technical training for our pilots, dispatchers, flight attendants and other technical staff. In addition, we provide recurrent customer service training to frontline staff, as well as leadership training for managers. We currently have four flight simulators at our training facility in Panama's City of Knowledge. In 2005, we leased a Level B flight simulator for Boeing 737-Next Generation training that served 80% of our initial training, transition and upgrade training, and 100% of our recurrent training needs relating to that aircraft. During 2007, we upgraded this simulator to provide 100% of our initial training. We leased a similar flight simulator for Embraer 190 until April 2017, when we decided to buy this simulator to serve our initial and recurrent training needs. In 2010, Copa bought a second 737-Next Generation Full Flight Simulator, or FFS, Level D. The Level D qualification is the highest certification provided by the Federal Aviation Administration (FAA) to any Flight Training Device. Another important acquisition in 2011 was the second B737 Virtual Procedure Trainer (VPT), which complements the new FFS training. In October 2012, the lease on our first B737 Next Generation simulator expired and we bought a new FFX technology training device accompanied by a new Virtual Procedure Trainer (VPT). In 2014, Copa bought a new Boeing 737-800 Full Flight Simulator (FFS-X) compliant with regulatory Qualification Level D, and two new B737-800 Cockpit Procedure Trainers (CPTs) compliant with regulatory Qualification FTD Level 4 to provide 100% of our initial, recurrent, transition and upgrade training needs. We bought a new Boeing 737 MAX Full Flight Simulator compliant with regulatory qualification Level D to provide 100% of our training needs which is expected to be available for use at the end of 2018.

Approximately 62.9% of the Company's 9,045 employees are unionized. Our employees currently belong to nine union organizations; five covering employees in Panama and four covering employees in Colombia, in addition to union organizations in other countries to which we fly. Copa Airlines has traditionally had good relations with its employees and all the unions, and expects to continue to enjoy good relations with its employees and the unions in the future.

The five unions covering employees in Panama include: the pilots' union (UNPAC); the flight attendants' union (SIPANAB); the mechanics' union (SITECMAP); the passenger service agents' union (UGETRACO), and the industry union (SIELAS), which represents ground personnel, messengers, drivers, passenger service agents, counter agents and other non-executive administrative staff.

Copa entered into collective bargaining agreements with the pilots' union in July 2017, the industry union in December 2017, the mechanics' union in late first quarter 2018 and will enter negotiations with the flight attendants' union in early third quarter of 2018. Collective bargaining agreements in Panama are typically between three and four-year terms.

The four unions covering employees in Colombia are: the pilots' union (ACDAC), the flight attendants' union (ACAV), the industry union in Colombia (SINTRATAC), and the Mechanics Union in Colombia (ACMA).

Copa entered into collective bargaining with ACDAC and ACAV in January, 2018; both of which are expected to end towards the end of the first quarter of 2018. Additionally, SINTRATAC and Copa entered into collective bargaining agreement in December 2017 for terms of four years until December 2021. Negotiations with ACMA were resolved by arbitration on December 31, 2015, extending the validation every 6 months from this date, until June 30, 2017. As of December 31, 2017, ACMA has not presented a new bill of petition.

Typically, collective bargaining agreements in Colombia have terms of two to three years. Although Copa Colombia usually settles many of its collective bargaining agreement negotiations through arbitration proceedings, it has traditionally experienced good relations with its unions.

In addition to the unions in Panama and Colombia, the Company's employees in Brazil are covered by industry union agreements that cover all airline industry employees in the country, employees in Uruguay are covered by an industry union, and airport employees in Argentina are affiliated with an industry union (UPADEP).

#### **E. Share Ownership**

The members of our Board of Directors and our executive officers as a group own less than one percent of our Class A shares. See Item 7A. Major Shareholders.

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For a description of stock options granted to our Board of Directors and our executive officers, see Compensation Incentive Compensation Program.

**Item 7. Major Shareholders and Related Party Transactions****A. Major Shareholders**

The following table sets forth information relating to the beneficial ownership of our Class A shares as of December 31, 2017 by each person known to us to beneficially own 5% or more of our common shares and all our directors and officers as a group. Class A shares are limited voting shares entitled only to vote in certain specified circumstances. See Item 10B. Additional Information Memorandum and Articles of Association Description of Capital Stock.

<b>Class A Shares Beneficially Owned</b>		
	<b>Shares</b>	<b>(%)<sup>(1)</sup></b>
CIASA <sup>(2)</sup>	0	0.0%
Executive officers and directors as a group (24 persons)	99,557	0.3%
Others	31,086,084	99.7%
<b>Total</b>	<b>31,185,641</b>	

(1) Based on a total of 31,185,641 Class A shares outstanding.

(2) CIASA owns 100% of the Class B shares of Copa Holdings representing 26.0% of our total capital stock. In June 2006, Continental reduced its ownership of our total capital stock from 27.3% to 10.0%. In May 2008, Continental sold down its remaining shares in the public market.

CIASA currently owns 100% of the Class B shares of Copa Holdings, representing 100% of the voting power of our capital stock. CIASA is controlled by a group of Panamanian investors representing several prominent families in Panama. This group of investors has historically acted together in a variety of business activities both in Panama and elsewhere in Latin America, including banking, insurance, real estate, telecommunications, international trade and commerce and wholesale. Members of the Motta, Heilbron and Arias families and their affiliated companies beneficially own approximately 90% of CIASA's shares. Our Chief Executive Officer, Mr. Pedro Heilbron, and several of our directors, including Messrs. Stanley Motta, Carlos A. Motta, Mr. Alvaro Heilbron, Mr. Jaime Arias and Mr. Ricardo Alberto Arias, and their immediate families as a group, beneficially owned approximately 78% of CIASA's shares, as of March 31, 2017. Such individual shareholders of CIASA have entered into a shareholders agreement that restricts transfers of CIASA shares to non-Panamanian nationals. Mr. Stanley Motta exercises effective control of CIASA.

In March 2010, CIASA converted a portion of its Class B shares into 1.6 million non-voting New York Stock Exchange-listed Class A shares and sold such Class A shares in an SEC-registered public offering. As a result, CIASA's ownership decreased from 29.2% to 25.1% of our capital stock. CIASA's current ownership is 26.0% of our capital stock. In the event CIASA seeks to reduce its ownership below 10% of our total share capital, our independent directors may decide to issue special voting shares solely to Panamanian nationals to maintain the ownership requirements mandated by the Panamanian Aviation Act.

The address of CIASA is Corporación de Inversiones Aéreas, S.A., c/o Compañía Panameña de Aviación, S.A., Boulevard Costa del Este, Avenida Principal y Avenida de la Rotonda, Urbanización Costa del Este, Complejo Business Park, Torre Norte, Parque Lefevre, Panama City, Panama.

It is not practicable for us to determine the number of Class A shares beneficially owned in the United States. As of March 31, 2018, we had 144 registered record holders of our Class A shares.

## **B. Related Party Transactions**

### ***Registration Rights Agreement***

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Under the registration rights agreement, as amended by the supplemental agreement, CIASA continues to have the right to make one demand on us with respect to the registration and sale of our common stock held by them. The registration expenses incurred in connection with a demand registration requested after the date hereof, which expenses exclude underwriting discounts and commissions, will be paid ratably by each security holder participating in such offering in proportion to the number of their shares that are included in the offering.

***Agreements with our controlling shareholders and their affiliates***

Our directors and controlling shareholders have many other commercial interests within Panama and throughout Latin America. We have commercial relationships with several of these affiliated parties from which we purchase goods or services, as described below. In each case we believe our transactions with these affiliated parties are consistent with market rates and terms.

***Banco General, S.A.***

We have a strong commercial banking relationship with Banco General, S.A., a Panamanian bank partially owned by our controlling shareholders. We have obtained financing from Banco General under short to medium-term financing arrangements for part of the commercial loan tranche of one of the Company's Export-Import Bank facilities. We also maintain general lines of credit and time deposit accounts with Banco General. Interest received from Banco General amounted to \$3.0 million, \$1.3 million and \$1.3 million in 2017, 2016 and 2015, respectively. There have not been any material interest payments for the last three years. There was no outstanding debt balance at December 31, 2017, 2016 or 2015. These amounts are included in Current maturities of long-term debt and Long-term debt in the consolidated statement of financial position.

***ASSA Compañía de Seguros, S.A.***

Panamanian law requires us to maintain our insurance policies through a local insurance company. We have contracted with ASSA, an insurance company controlled by our controlling shareholders, to provide substantially all of our insurance. ASSA has, in turn, reinsured almost all of the risks under those policies with insurance companies around the world. The payments to ASSA totaled \$8.5 million in 2017, \$7.1 million in 2016, and \$9.2 million in 2015.

***Petróleos Delta, S.A.***

During 2005, we entered into a contract with Petróleos Delta, S.A. to supply our jet fuel needs. The price agreed to under this contract is based on the two-week average of the U.S. Gulf Coast Waterborne Mean index plus local taxes, certain third-party handling charges and a handling charge to Petróleos Delta, S.A. The contract term is two years and the last contract subscribed was in June 2016. While our controlling shareholders do not hold a controlling equity interest in Petróleos Delta, S.A., several of our directors are also board members of Petróleos Delta, S.A. Payments to Petróleos Delta totaled \$290.2 million in 2017, \$229.9 million in 2016 and \$248.9 million in 2015.

***Desarrollo Inmobiliario del Este, S.A.***

During January 2006, we moved into headquarters located six miles away from Tocumen International Airport. We lease six floors consisting of approximately 121,686 square feet of the building from Desarrollo Inmobiliario del Este, S.A., an entity controlled by the same group of investors that controls CIASA. This lease was renewed in 2015 for 10 more years at a rate of approximately \$0.3 million per month. Payments to Desarrollo Inmobiliario del Este, S.A. totaled \$3.6 million, \$3.8 million and \$3.0 million in 2017, 2016 and 2015, respectively.

***Galindo, Arias & Lopez***

Most of our legal work is carried out by the law firm Galindo, Arias & Lopez. Messrs. Jaime Arias and Ricardo Alberto Arias, partners of Galindo, Arias & Lopez, are indirect shareholders of CIASA and serve on our Board of Directors. Payments to Galindo, Arias & Lopez totaled \$0.4 million, \$0.3 million and \$0.3 million, in 2017, 2016 and 2015, respectively.

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### ***Cable Onda, S.A.***

The Company is responsible for providing television and internet broadcasting services in Panama. A member of the Company's Board of Directors is shareholder of Cable Onda, S.A. Payments to Cable Onda, S.A. totaled \$1.4 million and \$1.6 million in 2017 and 2016, respectively.

### ***Panama Air Cargo Terminal***

Provides cargo and courier services in Panama, an entity controlled by the same group of investors that controls CIASA. Payments to Panama Air Cargo Terminal totaled \$4.9 million in 2017.

### ***Other Transactions***

We also purchase most of the alcohol and some of the other beverages served on our aircraft from Motta Internacional, S.A. and Global Brands, S.A., both of which are controlled by our controlling shareholders. We do not have any formal contracts for these purchases, but pay wholesale prices based on price lists periodically submitted by those importers and comparisons to other options in the marketplace. We paid these entities approximately \$1.71 million in 2017, \$1.71 million in 2016 and \$1.3 million in 2015.

## **C. Interests of Experts and Counsel**

Not applicable.

## **Item 8. Financial Information**

### **A. Consolidated Statements and Other Financial Information**

See Item 3A. Key Information Selected Financial Data and Item 18. Financial Statements.

### ***Legal Proceedings***

In the ordinary course of our business, we are party to various legal actions, which we believe are incidental to the operation of our business. While legal proceedings are inherently uncertain, we believe that the outcome of the proceedings to which we are currently a party is not likely to have a material adverse effect on our financial position, results of operations and cash flows.

### ***Dividends and Dividend Policy***

The payment of dividends on our shares is subject to the discretion of our Board of Directors. Under Panamanian law, we may pay dividends only out of retained earnings and capital surplus. So long as we do not default on our payments under our loan agreements, there are no covenants or other restrictions on our ability to declare and pay dividends. Our Articles of Incorporation provide that all dividends declared by our Board of Directors will be paid equally with respect to all of the Class A and Class B shares. See Item 10B. Additional Information Memorandum and Articles of Association Description of Capital Stock Dividends.

In February 2016, the Board of Directors approved a change to the dividend policy to limit aggregate annual dividends to an amount equal to 40% of the prior year's annual consolidated underlying net income, to be distributed in equal quarterly installments subject to board approvals. Our Board of Directors may, in its sole discretion and for any

reason, amend or discontinue the dividend policy. Our Board of Directors may change the level of dividends provided for in this dividend policy or entirely discontinue the payment of dividends. Future dividends with respect to shares of our common stock, if any, will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, provisions of applicable law and other factors that our Board of Directors may deem relevant.

<b>Dividend for Fiscal Year:</b>	<b>Payment Date</b>	<b>Total Dividend Payment (U.S. Dollars)</b>	<b>Cash Dividend per Share</b>
2017	December 15, 2017	\$ 32 million	0.75
2017	September 12, 2017	\$ 32 million	0.75
2017	June 15, 2017	\$ 22 million	0.51
2017	March 13, 2017	\$ 22 million	0.51
2016	December 15, 2016	\$ 22 million	0.51
2016	September 13, 2016	\$ 22 million	0.51
2016	June 16, 2016	\$ 21 million	0.51
2016	March 16, 2016	\$ 21 million	0.51
2015	December 15, 2015	\$ 37 million	0.84
2015	September 15, 2015	\$ 37 million	0.84



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2015	June 15, 2015	\$ 37 million	0.84
2015	March 16, 2015	\$ 37 million	0.84
2014	December 15, 2014	\$ 43 million	0.96
2014	September 15, 2014	\$ 43 million	0.96
2014	June 16, 2014	\$ 42 million	0.96
2014	March 17, 2014	\$ 43 million	0.96

**B. Significant Changes**

None

**Item 9. The Offer and Listing****A. Offer and Listing Details**

Our Class A shares have been listed on the New York Stock Exchange, or NYSE, under the symbol **CPA** since December 14, 2005. The following table sets forth, for the periods indicated, the high and low prices for the Class A shares on the NYSE for the periods indicated.

	<b>Low</b>	<b>High</b>
<b>2013</b>		
<b>Annual</b>	96.38	161.36
<b>2014</b>		
<b>Annual</b>	87.00	162.83
<b>2015</b>		
<b>Annual</b>	39.03	121.25
<b>2016</b>		
<b>Annual</b>	42.61	97.00
First Quarter	42.61	72.00
Second Quarter	48.57	70.88
Third Quarter	50.36	90.75
Fourth Quarter	83.26	97.00
<b>2017</b>		
<b>Annual</b>	90.85	138.72
First Quarter	90.85	112.80
Second Quarter	107.90	125.78
Third Quarter	116.54	134.25
Fourth Quarter	120.22	138.72
October	120.22	131.70
November	121.09	138.69
December	131.14	138.72
<b>2018</b>		
<b>Annual</b>	122.03	138.72
First Quarter	122.03	141.34
January	130.37	141.34
February	122.03	141.00
March	126.33	140.33



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### **B. Plan of Distribution**

Not applicable.

### **C. Markets**

Our Class A shares have been listed on the NYSE under the symbol `CPA` since December 14, 2005. Our Class B shares are not listed on any exchange and are not publicly traded. We are subject to the NYSE corporate governance listing standards. The NYSE requires that corporations with shares listed on the exchange comply with certain corporate governance standards. As a foreign private issuer, we are only required to comply with certain NYSE rules relating to audit committees and periodic certifications to the NYSE. The NYSE also requires that we provide a summary of the significant differences between our corporate governance practices and those that would apply to a U.S. domestic issuer. Please refer to `Item 16 G. Corporate Governance` for a summary of the significant differences between our corporate governance practices and those that would typically apply to a U.S. domestic issuer under the NYSE corporate governance rules.

### **D. Selling Shareholders**

Not applicable.

### **E. Dilution**

Not applicable.

### **F. Expenses of the Issue**

Not applicable.

## **Item 10. Additional Information**

### **A. Share Capital**

Not applicable.

### **B. Memorandum and Articles of Association**

Copa Holdings was formed on May 6, 1998 as a corporation (*sociedad anónima*) duly incorporated under the laws of Panama with an indefinite duration. The Registrant is registered under Public Document No. 3.989 of May 5, 1998 of the Notary Number Eight of the Circuit of Panama and recorded in the Public Registry Office, Microfilm (Mercantile) Section, Microjacket 344962, Film Roll 59672, Frame 0023.

### ***Objects and Purposes***

Copa Holdings is principally engaged in the investment in airlines and aviation-related companies and ventures, although our Articles of Incorporation grant us general powers to engage in any other lawful business, whether or not related to any of the specific purposes set forth in the Articles of Incorporation (See Article 2 of the Company's Articles of Incorporation).

***Description of Capital Stock***

The following is a summary of the material terms of Copa Holding's capital stock and a brief summary of certain significant provisions of Copa Holding's Articles of Incorporation. This description contains all material information concerning the common stock but does not purport to be complete. For additional information regarding the common stock, reference is made to the Articles of Incorporation, a copy of which has been filed as an exhibit to this Form 20-F.

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For purposes of this section only, reference to our or the Company shall refer only to Copa Holdings and references to Panamanians shall refer to those entities or natural persons that are considered Panamanian nationals under the Panamanian Aviation Act, as it may be amended or interpreted.

### ***Common Stock***

Our authorized capital stock consists of 80 million shares of common stock without par value, divided into Class A shares, Class B shares and Class C shares. As of December 31, 2017, we had 33,776,480 Class A shares issued and 31,185,641 Class A shares outstanding; 10,938,125 Class B shares issued and outstanding, and no Class C shares outstanding. Class A and Class B shares have the same economic rights and privileges, including the right to receive dividends, except as described in this section.

### ***Class A Shares***

The holders of the Class A shares are not entitled to vote at our shareholders meetings, except in connection with the following specific matters:

a transformation of Copa Holdings into another corporate type;

a merger, consolidation or spin-off of Copa Holdings;

a change of corporate purpose;

voluntarily delisting Class A shares from the NYSE;

approving the nomination of Independent Directors nominated by our board of directors Nominating and Corporate Governance Committee; and

any amendment to the foregoing special voting provisions adversely affecting the rights and privileges of the Class A shares.

At least 30 days prior to taking any of the actions listed above, we must give notice to the Class A and Class B shareholders of our intention to do so. If requested by shareholders representing at least 5% of our outstanding shares, the Board of Directors shall call an extraordinary shareholders meeting to approve such action. At the extraordinary shareholders meeting, shareholders representing a majority of all of the outstanding shares must approve a resolution authorizing the proposed action. For such purpose, every holder of our shares is entitled to one vote per share. See Shareholders Meetings.

The Class A shareholders will acquire full voting rights, entitled to one vote per Class A share on all matters upon which shareholders are entitled to vote, if in the future our Class B shares ever represent fewer than 10% of the total number of shares of our common stock and the Independent Directors Committee shall have determined that such

additional voting rights of Class A shareholders would not cause a triggering event referred to below. In such event, the right of the Class A shareholders to vote on the specific matters described in the preceding paragraph will no longer be applicable. The 10% threshold described in the first sentence of this paragraph will be calculated without giving effect to any newly issued shares sold with the approval of the Independent Directors Committee.

At such time, if any, as the Class A shareholders acquire full voting rights, the Board of Directors shall call an extraordinary shareholders meeting to be held within 90 days following the date as of which the Class A shares are entitled to vote on all matters at our shareholders meetings. At the extraordinary shareholders meeting, the shareholders shall vote to elect all 11 members of the Board of Directors in a slate recommended by the Nominating and Governance Committee. The terms of office of the directors that were serving prior to the extraordinary shareholders meeting shall terminate upon the election held at that meeting.

### ***Class B Shares***

Every holder of Class B shares is entitled to one vote per share on all matters for which shareholders are entitled to vote. Class B shares will be automatically converted into Class A shares upon the registration of transfer of such shares to holders which are not Panamanian as described below under Restrictions on Transfer of Common Stock; Conversion of Class B Shares.

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***Class C Shares***

Upon the occurrence and during the continuance of a triggering event described below in Aviation Rights Protections, the Independent Directors Committee of our Board of Directors, or the Board of Directors as a whole if applicable, are authorized to issue Class C shares to the Class B holders pro rata in proportion to such Class B holders' ownership of Copa Holdings. The Class C shares will have no economic value and will not be transferable except to Class B holders, but will possess such voting rights as the Independent Directors Committee shall deem necessary to ensure the effective control of the Company by Panamanians. The Class C shares will be redeemable by the Company at such time as the Independent Directors Committee determines that such a triggering event shall no longer be in effect. The Class C shares will not be entitled to any dividends or any other economic rights.

***Restrictions on Transfer of Common Stock; Conversion of Class B Shares***

The Class B shares may only be held by Panamanians, and upon registration of any transfer of a Class B share to a holder that does not certify that it is Panamanian, such Class B share shall automatically convert into a Class A share. Transferees of Class B shares will be required to deliver to us written certification of their status as a Panamanian as a condition to registering the transfer to them of Class B shares. Class A shareholders will not be required or entitled to provide such certification. If a Class B shareholder intends to sell any Class B shares to a person that has not delivered a certification as to Panamanian nationality and immediately after giving effect to such proposed transfer the outstanding Class B shares would represent less than 10% of our outstanding stock (excluding newly issued shares sold with the approval of our Independent Directors Committee), the selling shareholder must inform the Board of Directors at least ten days prior to such transfer. The Independent Directors Committee may determine to refuse to register the transfer if the Committee reasonably concludes, on the basis of the advice of a reputable external aeronautical counsel, that such transfer would be reasonably likely to cause a triggering event as described below. After the first shareholders' meeting at which the Class A shareholders are entitled to vote for the election of our directors, the role of the Independent Directors described in the preceding sentence shall be exercised by the entire Board of Directors acting as a whole.

Also, the Board of Directors may refuse to register a transfer of stock if the transfer violates any provision of the Articles of Incorporation.

***Tag-along Rights***

Our Board of Directors shall refuse to register any transfer of shares in which CIASA proposes to sell Class B shares pursuant to a sale at a price per share that is greater than the average public trading price per share of the Class A shares for the preceding 30 days to an unrelated third-party that would, after giving effect to such sale, have the right to elect a majority of the Board of Directors and direct our management and policies, unless the proposed purchaser agrees to make, as promptly as possible, a public offer for the purchase of all outstanding Class A shares and Class B shares at a price per share equal to the price per share paid for the shares being sold by CIASA. While our Articles of Incorporation provide limited rights to holders of our Class A shares to sell their shares at the same price as CIASA in the event that a sale of Class B shares by CIASA results in the purchaser having the right to elect a majority of our board, there are other change of control transactions in which holders of our Class A shares would not have the right to participate, including the sale of interests by a party that had previously acquired Class B shares from CIASA, the sale of interests by another party in conjunction with a sale by CIASA, the sale by CIASA of control to more than one party, or the sale of controlling interests in CIASA itself.

***Aviation Rights Protections***

As described in Regulation Panama, the Panamanian Aviation Act, including the related decrees and regulations, and the bilateral treaties between Panama and other countries that allow us to fly to those countries require that Panamanians exercise effective control of Copa and maintain significant ownership of the airline. The Independent Directors Committee has certain powers under our Articles of Incorporation to ensure that certain levels of ownership and control of Copa Holdings remain in the hands of Panamanians upon the occurrence of certain triggering events referred to below.

In the event that the Class B shareholders represent less than 10% of the total share capital of the Company (excluding newly issued shares sold with the approval of our Independent Directors Committee) and the Independent Directors Committee determines that it is reasonably likely that Copa's or Copa Holdings' legal ability to engage in the aviation business or to exercise its international route rights will be revoked, suspended or materially inhibited in a manner that would materially and adversely affect the Company, in each case as a result of such non-Panamanian ownership (each a triggering event), the Independent Directors Committee may take either or both of the following actions:



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authorize the issuance of additional Class B shares to Panamanians at a price determined by the Independent Directors to reflect the current market value of such shares or

authorize the issuance to Class B shareholders such number of Class C shares as the Independent Directors Committee, or the Board of Directors if applicable, deems necessary and with such other terms and conditions established by the Independent Directors Committee that do not confer economic rights on the Class C shares.

### ***Dividends***

The payment of dividends on our shares is subject to the discretion of our Board of Directors. Under Panamanian law, we may pay dividends only out of retained earnings and capital surplus. Our Articles of Incorporation provide that all dividends declared by our Board of Directors will be paid equally with respect to all of the Class A and Class B shares. Our Board of Directors has adopted a dividend policy that provides for the payment of equal quarterly dividends, which amounts up to 40% of the previous year's consolidated underlying net income to Class A and Class B shareholders. Our Board of Directors may, in its sole discretion and for any reason, amend or discontinue the dividend policy. Our Board of Directors may change the level of dividends provided for in this dividend policy or entirely discontinue the payment of dividends.

### ***Shareholder Meetings***

#### ***Ordinary Meetings***

Our Articles of Incorporation require us to hold an ordinary annual meeting of shareholders within the first five months of each fiscal year. The ordinary annual meeting of shareholders is the corporate body that elects the Board of Directors, approves the annual financial statements of Copa Holdings and approves any other matter that does not require an extraordinary shareholders' meeting. Shareholders representing at least 5% of the issued and outstanding common stock entitled to vote may submit proposals to be included in such ordinary shareholders meeting, provided the proposal is submitted at least 45 days prior to the meeting.

#### ***Extraordinary Meetings***

Extraordinary meetings may be called by the Board of Directors when deemed appropriate. Ordinary and extraordinary meetings must be called by the Board of Directors when requested by shareholders representing at least 5% of the issued shares entitled to vote at such meeting. Only matters that have been described in the notice of an extraordinary meeting may be dealt with at that extraordinary meeting.

#### ***Vote required***

Resolutions are passed at shareholders meetings by the affirmative vote of a majority of those shares entitled to vote at such meeting and present or represented at the meeting.

#### ***Notice and Location***

Notice to convene the ordinary annual meeting or extraordinary meeting is given by publication in at least one national newspaper in Panama and at least one national newspaper widely read in New York City not less than 30 days in advance of the meeting. We intend to publish such official notices in a national journal recognized by the NYSE.

Shareholders meetings are to be held in Panama City, Panama unless otherwise specified by the Board of Directors.

***Quorum***

Generally, a quorum for a shareholders meeting is established by the presence, in person or by proxy, of shareholders representing a simple majority of the issued shares eligible to vote on any actions to be considered at such meeting. If a quorum is not present at the first meeting and the original notice for such meeting so provides, the meeting can be immediately reconvened on the same day and, upon the meeting being reconvened, shareholders present or represented at the reconvened meeting are deemed to constitute a quorum regardless of the percentage of the shares represented.

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### ***Proxy Representation***

Our Articles of Incorporation provide that, for so long as the Class A shares do not have full voting rights, each holder, by owning our Class A shares, grants a general proxy to the Chairman of our Board of Directors or any person designated by our Chairman to represent them and vote their shares on their behalf at any shareholders' meeting, provided that due notice was made of such meeting and that no specific proxy revoking or replacing the general proxy has been received from such holder prior to the meeting in accordance with the instructions provided by the notice.

### ***Other Shareholder Rights***

As a general principle, Panamanian law bars the majority of a corporation's shareholders from imposing resolutions which violate its articles of incorporation or the law, and grants any shareholder the right to challenge, within 30 days, any shareholders' resolution that is illegal or that violates its articles of incorporation or by-laws, by requesting the annulment of said resolution and/or the injunction thereof pending judicial decision. Minority shareholders representing at least 5% of all issued and outstanding shares have the right to require a judge to call a shareholders' meeting and to appoint an independent auditor to examine the corporate accounting books, the background of the Company's incorporation or its operation.

Shareholders have no pre-emptive rights on the issue of new shares.

Our Articles of Incorporation provide that directors will be elected in staggered two-year terms, which may have the effect of discouraging certain changes of control.

### ***Listing***

Our Class A shares are listed on the NYSE under the symbol CPA. The Class B shares and Class C shares will not be listed on any exchange unless the Board of Directors determines that it is in the best interest of the Company to list the Class B shares on the Panama Stock Exchange.

### ***Transfer Agent and Registrar***

The transfer agent and registrar for our Class A shares is Mellon Investor Services LLC. Until the Board of Directors otherwise provides, the transfer agent for our Class B shares and any Class C shares is Galindo, Arias & Lopez, who maintains the share register for each class in Panama. Transfers of Class B shares must be accompanied by a certification of the transferee that such transferee is Panamanian.

### ***Summary of Significant Differences between Shareholders' Rights and Other Corporate Governance Matters Under Panamanian Corporation Law and Delaware Corporation Law***

Copa Holdings is a Panamanian corporation (*sociedad anónima*). The Panamanian corporation law was originally modeled after the Delaware General Corporation Law. As such, many of the provisions applicable to Panamanian and Delaware corporations are substantially similar, including (1) a director's fiduciary duties of care and loyalty to the corporation, (2) a lack of limits on the number of terms a person may serve on the board of directors, (3) provisions allowing shareholders to vote by proxy and (4) cumulative voting if provided for in the articles of incorporation. The following table highlights the most significant provisions that materially differ between Panamanian corporation law and Delaware corporation law.

**Panama**

**Delaware**

**Directors**

*Conflict of Interest Transactions.* Transactions involving a Panamanian corporation and an interested director or officer are initially subject to the approval of the board of directors.

At the next shareholders meeting, shareholders will then have the right to disapprove the board of directors decision and to decide to take legal actions against the directors or officers who voted in favor of the transaction.

*Conflict of Interest Transactions.* Transactions involving a Delaware corporation and an interested director of that corporation are generally permitted if:

(1) the material facts as to the interested director's relationship or interest are disclosed and a majority of disinterested directors approve the transaction;

(2) the material facts are disclosed as to the interested director's relationship or interest and the stockholders approve the transaction; or

**Table of Contents****Panama****Delaware**

*Terms.* Panamanian law does not set limits on the length of the terms that a director may serve. Staggered terms are allowed but not required.

*Number.* The board of directors must consist of a minimum of three members, which could be natural persons or legal entities.

*Authority to Take Actions.* In general, a simple majority of the board of directors is necessary and sufficient to take any action on behalf of the board of directors.

(3) the transaction is fair to the corporation at the time it is authorized by the board of directors, a committee of the board of directors or the stockholders.

*Terms.* The Delaware General Corporation Law generally provides for a one-year term for directors. However, the directorships may be divided into up to three classes with up to three-year terms, with the years for each class expiring in different years, if permitted by the articles of incorporation, an initial by-law or a by-law adopted by the shareholders.

*Number.* The board of directors must consist of a minimum of one member.

*Authority to Take Actions.* The articles of incorporation or by-laws can establish certain actions that require the approval of more than a majority of directors.

**Shareholder Meetings and Voting Rights**

*Quorum.* The quorum for shareholder meetings must be set by the articles of incorporation or the by-laws. If the articles of incorporation and the notice for a given meeting so provide, if a quorum is not met a new meeting can be immediately called and a quorum shall consist of those present at such new meeting.

*Action by Written Consent.* Panamanian law does not permit shareholder action without formally calling a meeting.

*Quorum.* For stock corporations, the articles of incorporation or bylaws may specify the number to constitute a quorum but in no event shall a quorum consist of less than one-third of shares entitled to vote at a meeting. In the absence of such specifications, a majority of shares entitled to vote shall constitute a quorum.

*Action by Written Consent.* Unless otherwise provided in the articles of incorporation, any action required or permitted to be taken at any annual meeting or special meeting of stockholders of a corporation may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action to be so taken, is signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and noted.

### **Other Shareholder Rights**

*Shareholder Proposals.* Shareholders representing 5% of the issued and outstanding capital of the corporation have the right to require a judge to call a general shareholders meeting and to propose the matters for vote.

*Appraisal Rights.* Shareholders of a Panamanian corporation do not have the right to demand payment in cash of the judicially determined fair value of their shares in connection with a merger or consolidation involving the corporation. Nevertheless, in a merger, the majority of shareholders could approve the total or partial distribution of cash, instead of shares, of the surviving entity.

*Shareholder Proposals.* Delaware law does not specifically grant shareholders the right to bring business before an annual or special meeting. If a Delaware corporation is subject to the SEC's proxy rules, a shareholder who has continuously owned at least \$2,000 in market value, or 1% of the corporation's securities entitled to vote for at least one year, may propose a matter for a vote at an annual or special meeting in accordance with those rules.

*Appraisal Rights.* Delaware law affords shareholders in certain cases the right to demand payment in cash of the judicially-determined fair value of their shares in connection with a merger or consolidation involving their corporation. However, no appraisal rights are available if, among other things and subject to certain exceptions, such shares were listed on a national securities exchange or such shares were held of record by more than 2,000 holders.

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**Panama**

**Delaware**

*Shareholder Derivative Actions.* Any shareholder, with the consent of the majority of the shareholders, can sue on behalf of the corporation, the directors of the corporation for a breach of their duties of care and loyalty to the corporation or a violation of the law, the articles of incorporation or the by-laws.

*Shareholder Derivative Actions.* Subject to certain requirements that a shareholder make prior demand on the board of directors or have an excuse not to make such demand, a shareholder may bring a derivative action on behalf of the corporation to enforce the rights of the corporation against officers, directors and third parties. An individual may also commence a class action suit on behalf of himself and other similarly-situated stockholders if the requirements for maintaining a class action under the Delaware General Corporation Law have been met. Subject to equitable principles, a three-year period of limitations generally applies to such shareholder suits against officers and directors.

*Inspection of Corporate Records.* Shareholders representing at least 5% of the issued and outstanding shares of the corporation have the right to require a judge to appoint an independent auditor to examine the corporate accounting books, the background of the Company's incorporation or its operation.

*Inspection of Corporate Records.* A shareholder may inspect or obtain copies of a corporation's shareholder list and its other books and records for any purpose reasonably related to a person's interest as a shareholder.

**Anti-Takeover Provisions**

Panamanian corporations may include in their articles of incorporation or by-laws classified board and super-majority provisions.

Delaware corporations may have a classified board, super-majority voting and shareholders' rights plan.

Panamanian corporation law's anti-takeover provisions apply only to companies that are:

Unless Delaware corporations specifically elect otherwise, Delaware corporations may not enter into a business combination, including mergers, sales and leases of assets, issuances of securities and similar transactions, with an interested stockholder, or one that beneficially owns 15% or more of a corporation's voting stock, within three years of such person becoming an interested shareholder unless:

(1) registered with the Superintendence of the Securities Market (*Superintendencia del Mercado de Valores, or SMV*) for a period of six months before the public offering,

(2) have over 3,000 shareholders, and

(3) have a permanent office in Panama with full time employees and investments in the country for more than \$1,000,000.

These provisions are triggered when a buyer makes a public offer to acquire 5% or more of any class of shares with a market value of at least \$5,000,000. In sum, the buyer must deliver to the corporation a complete and accurate statement that includes

(1) the name of the Company, the number of the shares that the buyer intends to acquire and the purchase price;

(2) the identity and background of the person acquiring the shares;

(3) the source and amount of the funds or other goods that will be used to pay the purchase price;

(4) the plans or project the buyer has once it has acquired the control of the Company;

(5) the number of shares of the Company that the buyer already has or is a beneficiary of and those owned by any of its directors, officers, subsidiaries, or partners or the same, and any transactions made regarding the shares in the last 60 days;

(6) contracts, agreements, business relations or negotiations regarding securities issued by the Company in which the buyer is a party;

(7) contracts, agreements, business relations or negotiations between the buyer and any director, officer or beneficiary of the securities; and

(8) any other significant information. This declaration will be accompanied by, among other things, a copy of the buyer's financial statements.

(1) the transaction that will cause the person to become an interested shareholder is approved by the board of directors of the target prior to the transactions;

(2) after the completion of the transaction in which the person becomes an interested shareholder, the interested shareholder holds at least 85% of the voting stock of the corporation not including shares owned by persons who are directors and also officers of interested shareholders and shares owned by specified employee benefit plans; or

(3) after the person becomes an interested shareholder, the business combination is approved by the board of directors of the corporation and holders of at least 66.67% of the outstanding voting stock, excluding shares held by the interested shareholder.



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If the board of directors believes that the statement does not contain all required information or that the statement is inaccurate, the board of directors must send the statement to the SMV within 45 days from the buyer's initial delivery of the statement to the SMV. The SMV may then hold a public hearing to determine if the information is accurate and complete and if the buyer has complied with the legal requirements. The SMV may also start an inquiry into the case, having the power to decide whether or not the offer may be made.

Regardless of the above, the board of directors has the authority to submit the offer to the consideration of the shareholders. The board should only convene a shareholders' meeting when it deems the statement delivered by the offeror to be complete and accurate. If convened, the shareholders' meeting should take place within the next 30 days. At the shareholders' meeting, two-thirds of the holders of the issued and outstanding shares of each class of shares of the corporation with a right to vote must approve the offer and the offer is to be executed within 60 days from the shareholders' approval. If the board decides not to convene the shareholders' meeting within 15 days following the receipt of a complete and accurate statement from the offeror, shares may then be purchased. In all cases, the purchase of shares can take place only if it is not prohibited by an administrative or judicial order or injunction.

The law also establishes some actions or recourses of the sellers against the buyer in cases the offer is made in contravention of the law.

**Delaware****Previously Acquired Rights**

In no event can the vote of the majority shareholders deprive the shareholders of a corporation of previously-acquired rights. Panamanian jurisprudence and doctrine has established that the majority shareholders cannot amend the articles of incorporation and deprive minority shareholders of previously-acquired rights nor impose upon them an agreement that is contrary to those articles of incorporation.

Once a share is issued, the shareholders become entitled to the rights established in the articles of incorporation and such rights cannot be taken away, diminished or

No comparable provisions exist under Delaware law.

extinguished without the express consent of the shareholders entitled to such rights. If by amending the articles of incorporation, the rights granted to a class of shareholders is somehow altered or modified to their disadvantage, those shareholders will need to approve the amendment unanimously.

**C. Material Contracts**

***1998 Aircraft General Terms Agreement between The Boeing Company and Copa Airlines***

In 1998, Copa entered into an agreement with Boeing for the purchase of aircraft, installation of buyer furnished equipment provided by Copa, customer support services and product assurance. In addition to the aircraft supplied, the Boeing Company will provide maintenance training and flight training programs, as well as operations engineering support. The agreement is still in effect and has been amended several times since then, most recently in March 2015.

***Purchase Agreement between Empresa Brasileira de Aeronautica, S.A. and Copa Airlines***

In 2003 and 2006, Copa entered into a purchase agreement with Empresa Brasileira de Aeronautica, S.A (Embraer) for the purchase of aircraft, customer support services and technical publications. This agreement is still in effect.

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***Engine Services Agreements between GE Engine Services, LLC and Copa Holdings, S.A.***

Since May 2011, we have entered into three separate Rate per Engine Flight Hour Engine Services Agreements with GE Engine Services, LLC, pursuant to which GE shall be the exclusive provider of maintenance, repair and overhaul services to our CF-34 and CFM-56 aircraft engines. Most maintenance services are performed at a certain rate per engine flight hour incurred by our engines. These rates were set based on our predicted operating parameters and will be adjusted in case of variation of those parameters. Unless terminated, the agreement with respect to the CF-34 engines will continue through September 30, 2022 while the agreements with respect to the CFM-56 engines expire on December 31, 2016 and April 30, 2026, respectively, in each case unless renewed upon the parties' mutual agreements. Either party may terminate the agreement in the event of insolvency of the other party or upon a material breach by the other party which remains uncured. Any material breach by us of this agreement could, at the option of GE, trigger a cross-default of all our other contracts with GE. GE may also terminate this agreement if the number of engines covered decreases below the prescribed minimum. Upon termination of the agreement for any reason, we shall pay GE for all services or work performed by GE up to the time of such termination.

***MAX Aircraft purchase Agreement between the Boeing Company and Copa Airlines.***

In April 2015, Copa finalized negotiations with the Boeing Company for the purchase of 737 MAX airplanes. These negotiations started in 2013, and the agreement has been amended several times since then, most recently in October 2015.

**D. Exchange Controls**

There are currently no Panamanian restrictions on the export or import of capital, including foreign exchange controls, and no restrictions on the payment of dividends or interest, nor are there limitations on the rights.

**E. Taxation**

***United States***

The following summary describes the material United States federal income tax consequences of the ownership and disposition of our Class A shares as of the date hereof. The discussion set forth below is applicable to United States Holders (as defined below) that beneficially own our Class A shares as capital assets for United States federal income tax purposes (generally, property held for investment). This summary does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

a bank;

a dealer in securities or currencies;

a financial institution;

a regulated investment company;

a real estate investment trust;

an insurance company;

a tax-exempt organization;

a person holding our Class A shares as part of a hedging, integrated or conversion transaction, a constructive sale or a straddle;

a trader in securities that has elected the mark-to-market method of accounting for your securities;

a person liable for alternative minimum tax;

a person who owns 10% or more of our voting stock;

a partnership or other pass-through entity (or investor there in) for United States federal income tax purposes; or

a person whose functional currency is not the United States dollar.

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The discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the Code), and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be replaced, revoked or modified so as to result in United States federal income tax consequences different from those discussed below.

***If you are considering the purchase, ownership or disposition of our Class A shares, you should consult your own tax advisors concerning the United States federal income tax consequences to you in light of your particular situation as well as any consequences arising under state or local law or under the laws of any other taxing jurisdiction.***

As used herein, United States Holder means a beneficial owner of our Class A shares that is for United States federal income tax purposes:

an individual citizen or resident of the United States;

a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

an estate the income of which is subject to United States federal income taxation regardless of its source; or

a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

If a partnership holds our Class A shares, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. An investor who is a partner of a partnership holding our Class A shares should consult its own tax advisor.

***Taxation of Dividends***

Distributions on the Class A shares (including amounts withheld to reflect Panamanian withholding taxes, if any) will be taxable as dividends to the extent paid out of our current or accumulated earnings and profits, as determined under United States federal income tax principles. Such income (including withheld taxes) will be includable in your gross income as foreign-source ordinary income on the day actually or constructively received by you. Such dividends will not be eligible for the dividends received deduction allowed to corporations. Because we do not intend to keep earnings and profits in accordance with United States federal income tax principles, you should expect that distributions on the Class A shares will generally be treated as dividends.

With respect to non-corporate United States Holders, certain dividends received from a qualified foreign corporation may be subject to reduced rates of taxation. A foreign corporation generally is treated as a qualified foreign corporation with respect to dividends paid by that corporation on shares that are readily tradable on an established

securities market in the United States. United States Treasury Department guidance indicates that our Class A shares, which are listed on the NYSE, are currently readily tradable on an established securities market in the United States. There can be no assurance, however, that our Class A shares will be considered readily tradable on an established securities market at a later date. Non-corporate United States Holders that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as investment income pursuant to Section 163(d) (4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. You should consult your own tax advisors regarding the application of these rules to your particular circumstances.

Subject to certain conditions and limitations, Panamanian withholding taxes on dividends may be treated as foreign taxes eligible for credit against your United States federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid on the Class A shares generally will be treated as income from sources outside the United States and will generally constitute passive income. Further, in certain circumstances, if you:

have held Class A shares for less than a specified minimum period during which you are not protected from risk of loss, or

are obligated to make payments related to the dividends,

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you will not be allowed a foreign tax credit for foreign taxes imposed on dividends paid on the Class A shares, if any. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

### ***Passive Foreign Investment Company***

We do not believe that we are a passive foreign investment company (a PFIC) for United States federal income tax purposes (or that we were one in 2016), and we expect to operate in such a manner so as not to become a PFIC. If, however, we are or become a PFIC, you could be subject to additional United States federal income taxes on gain recognized with respect to the Class A shares and on certain distributions, plus an interest charge on certain taxes treated as having been deferred under the PFIC rules. Further, non-corporate United States Holders will not be eligible for reduced rates of taxation on any dividends received from us if we are a PFIC in the taxable year in which such dividends are paid or the preceding taxable year.

### ***Taxation of Capital Gains***

For United States federal income tax purposes, you will recognize taxable gain or loss on any sale or exchange of a Class A share in an amount equal to the difference between the amount realized for the Class A share and your tax basis in the Class A share. Such gain or loss will generally be capital gain or loss. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by you will generally be treated as United States source gain or loss.

### ***Information reporting and backup withholding***

In general, information reporting will apply to dividends in respect of our Class A shares and the proceeds from the sale, exchange or redemption of our Class A shares that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient such as a corporation. A backup withholding tax may apply to such payments if you fail to provide a taxpayer identification number or certification of other exempt status or fail to report in full dividend and interest income.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is timely furnished to the Internal Revenue Service.

### ***Panamanian Taxation***

The following is a discussion of the material Panamanian tax considerations to holders of Class A shares under Panamanian tax law, and is based upon the tax laws and regulations in force and effect as of the date hereof, which may be subject to change. This discussion, to the extent it states matters of Panamanian tax law or legal conclusions and subject to the qualifications herein, represents the opinion of Galindo, Arias & Lopez, our Panamanian counsel.

### ***Taxation of dividends***

Dividends paid by a corporation duly licensed to do business in Panama, whether in the form of cash, stock or other property, are subject to a 10% withholding tax on the portion attributable to Panamanian sourced income, and a 5% withholding tax on the portion attributable to foreign sourced income. Dividends paid by a holding company which correspond to dividends received from its subsidiaries for which the dividend tax was previously paid, are not subject

to any further withholding tax under Panamanian law.

Therefore, distributions on the Class A shares would not be subject to withholding tax to the extent that said distributions are attributable to dividends received from any of our subsidiaries for which the dividend tax was previously paid.

***Taxation of capital gains***

As long as the Class A shares are registered with the SMV and are sold through an organized market, Panamanian taxes on capital gains will not apply either to Panamanians or other countries' nationals. We have registered the Class A shares, with both the New York Stock Exchange and the SMV.

***Other Panamanian taxes***

There are no estate, gift or other taxes imposed by the Panamanian government that would affect a holder of the Class A shares, whether such holder were Panamanian or a national of another country.



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### **F. Dividends and Paying Agents**

Not applicable.

### **G. Statement by Experts**

Not applicable.

### **H. Documents on Display**

We are subject to the informational requirements of the U.S. Securities Exchange Act of 1934, which is also known as the Exchange Act. Accordingly, we are required to file reports and other information with the Commission, including annual reports on Form 20-F and reports on Form 6-K. You may inspect and copy reports and other information to be filed with the Commission at the Public Reference Room of the Commission at 100 F Street, N.W., Washington D.C. 20549, and copies of the materials may be obtained there at prescribed rates. The public may obtain information on the operation of the Commission's Public Reference Room by calling the Commission in the United States at 1-800-SEC-0330. In addition, the Commission maintains a website at [www.sec.gov](http://www.sec.gov), from which you can electronically access the registration statement and its materials.

As a foreign private issuer, we are not subject to the same disclosure requirements as a domestic U.S. registrant under the Exchange Act. For example, we are not required to prepare and issue quarterly reports. In 2016, the SEC approved a new rule and the NYSE published a new requirement for foreign private issuers to submit interim financials as of the end of and for the first two quarters of its fiscal year if they do not already furnish interim financials at least semi-annually. This new requirement will not affect us because we furnish our shareholders with annual reports containing financial statements audited by our independent auditors and make available to our shareholders quarterly reports containing unaudited financial data for the first three quarters of each fiscal year. We furnish such quarterly reports with the SEC within two months of each quarter of our fiscal year, and we file annual reports on Form 20-F within the time period required by the SEC, which is currently four months from December 31, the end of our fiscal year.

### **I. Subsidiary Information**

Not applicable.

### **Item 11. Quantitative and Qualitative Disclosures about Market Risk**

The risks inherent in our business are the potential losses arising from adverse changes to the price of fuel, interest rates and the U.S. dollar exchange rate. Please also refer to note 28 of our financial statements.

*Aircraft Fuel.* Our results of operations are affected by changes in the price and availability of aircraft fuel. To manage the price risk, we use crude oil swap agreements. Market risk is estimated as a hypothetical 10% increase in the December 31, 2017 cost per gallon of fuel. Based on projected 2017 fuel consumption, such an increase would result in an increase to aircraft fuel expense of approximately \$60.9 million in 2018. There are no hedged contracts for 2018.

*Interest.* Our earnings are affected by changes in interest rates due to the impact those changes have on interest expense from variable-rate debt instruments and operating leases and on interest income generated from our cash and investment balances. If interest rates average 10% more in 2018 than they did during 2017, our interest expense would increase by approximately \$1.4 million and the fair value of the debt would decrease by approximately \$1.3 million. If

interest rates average 10% less in 2018 than they did in 2017, our interest income from marketable securities would decrease by approximately \$1.4 million and the fair value of our debt would increase by approximately \$1.3 million. These amounts are determined by considering the impact of the hypothetical interest rates on our variable-rate debt and marketable securities equivalent balances at December 31, 2017.

*Foreign Currencies.* The majority of our obligations are denominated in U.S. dollars. Since Panama uses the U.S. dollar as legal tender, the majority of our operating expenses are also denominated in U.S. dollars, approximately 43.7% of revenues and 59.8% of expenses are in U.S. dollars. A significant part of our revenue is denominated in foreign currencies, including the Brazilian real, Colombian peso, and Argentinian peso, which represented 16.5%, 11.4%, and 7.8% of our revenue in 2017, respectively.

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On January 1, 2015, given the change in its business strategy focused on international markets, Copa Colombia concluded that the most appropriate functional currency of the Company would be U.S. dollars. This reflects the fact that the majority of the airline's business is influenced by pricing in international markets, with a dollar economic environment. In the same way, the major operating expenses such as fuel, leasing, airport services and sales commissions are dollarized. Until December 31, 2014, the previous functional currency of the Company was the Colombian peso.

The following chart summarizes the Company's exchange risk exposure (assets and liabilities denominated in foreign currency) at December 31, 2017 and 2016:

	<b>As of December 31, 2017</b>	<b>As of December 31, 2016</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 25,189	\$ 51,718
Investments	277	276
Accounts receivables, net	75,769	69,670
Prepaid expenses	32,045	23,137
Other assets	29,459	46,631
<b>Total assets</b>	<b>\$ 162,739</b>	<b>\$ 191,432</b>
<b>Liabilities</b>		
Accounts payables suppliers and agencies	\$ 37,186	\$ 32,098
Accumulated taxes and expenses payables	50,922	37,435
Other liabilities	25,471	57,967
<b>Total liabilities</b>	<b>\$ 113,579</b>	<b>\$ 127,500</b>
<b>Net position</b>	<b>\$ 49,160</b>	<b>\$ 63,932</b>

**Item 12. Description of Securities Other than Equity Securities**

Not applicable.

**A. Debt securities**

Not applicable.

**B. Warrants and rights**

Not applicable.

**C. Other securities**

Not applicable.

**D. American depositary shares**

Not applicable.

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**PART II**

**Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None.

**Item 15. Controls and Procedures Disclosure controls and procedures**

**Disclosure controls and procedures**

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. We carried out an evaluation under the supervision of our Management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2017. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**Management's Annual Report on Internal Control over Financial Reporting**

The Management of Copa Holdings, S.A. or the Company, is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013).

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Based on this assessment, Management believes that, as of December 31, 2017, the Company's internal control over financial reporting is effective based on those criteria.

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**Attestation Report of the registered public accounting firm**

The effectiveness of our internal controls over financial reporting as of December 31, 2017 has been audited by Ernst & Young, the independent registered public accounting firm who also audited the Company's consolidated financial statements. Ernst & Young's attestation report of the effectiveness of the Company's internal control over financial reporting is included herein.

**Changes in internal control over financial reporting**

There has been no change in our internal control over financial reporting during 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**Report of Independent Registered Public Accounting Firm**

**To The Board of Directors and Shareholders**

**COPA HOLDINGS, S.A. and Subsidiaries**

**Opinion on Internal control over Financial Reporting**

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial position of the Company as of December 31, 2017 and 2016 and the related consolidated statements of profit or loss, comprehensive income (loss), changes in equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes, and our report dated April 18, 2018, expressed an unqualified opinion thereon.

**Basis for Opinion**

The Company management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

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

**Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards, as issued by the



International Accounting Standards Board, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

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

Ernst & Young Limited Corp.

A member practice of

Ernst & Young Global Limited

/s/ Ernst & Young

Panama City, Republic of Panama

April 18, 2018

**Table of Contents****Item 16. Reserved****Item 16A. Audit Committee Financial Expert**

Our Board of Directors has determined that Messrs. Jose Castañeda, Roberto Artavia and Josh Connor qualify as an audit committee financial experts as defined by current SEC rules and meet the independence requirements of the SEC and the NYSE listing standards. For a discussion of the role of our audit committee, see Item 6C. Board Practices Audit Committee.

**Item 16B. Code of Ethics**

Our Board of Directors has adopted a Code of Business Conduct and Ethics applicable to our directors, officers, employees and consultants. The Code of Business Conduct and Ethics can be found at [www.copaair.com](http://www.copaair.com) under the heading Investor Relations Corporate Governance. Information found on this website is not incorporated by reference into this document.

**Item 16C. Principal Accountant Fees and Services**

The following table sets forth by category of service the total fees for services performed by our independent registered public accounting firm Ernst & Young and its affiliates during the fiscal years ended December 31, 2017, 2016 and 2015:

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Audit Fees	\$ 1,025,000	\$ 1,150,000	\$ 835,200
Audit-Related Fees			
Tax Fees			4,889
All Other Fees			
<b>Total</b>	<b>\$ 1,025,000</b>	<b>\$ 1,150,000</b>	<b>\$ 840,089</b>

**Audit Fees**

Audit fees for 2017, 2016 and 2015 included the audit of our annual financial statements and internal controls, and the review of our quarterly reports.

**Audit-Related Fees**

There were no audit-related fees for 2017, 2016 or 2015.

**Tax Fees**

Tax fees for 2015 were \$4,889. There were no tax fees for 2017 or 2016.

**All Other Fees**

Other fees for 2017, 2016 and 2015 included amounts paid for permitted consulting services performed by Ernst & Young and pre-approved by our audit committee. There were no such fees in 2017, 2016 or 2015.

**Pre-Approval Policies and Procedures**

Our audit committee approves all audit, audit-related, tax and other services provided by Ernst & Young. Any services provided by Ernst & Young that are not specifically included within the scope of the audit must be pre-approved by the audit committee in advance of any engagement. Pursuant to Rule 201 of Regulation S-X, audit committees are permitted to approve certain fees for audit-related services, tax services and other services pursuant to a de minimis exception prior to the completion of an audit engagement. In 2016, none of the fees paid to Ernst & Young were approved pursuant to the de minimis exception.

**Item 16D. Exemptions from the Listing Standards for Audit Committees None**

None

**Table of Contents****Item 16E. Purchase of Equity Securities by the Issuer and Affiliated Purchasers**

The following table provides information related to the share repurchase program executed by month:

<b>Period</b>	<b>Total number of shares purchased</b>	<b>Average price paid per share</b>	<b>Total number of shares purchased as part of publicly announced program</b>	<b>Maximum number of shares that may be yet be purchased under the program</b>
<b>Program 2014 (EOMR)</b>				
December 2014	182,592	\$ 101.84	182,592	2,274,440
January 2015	139,196	\$ 104.13	321,788	2,084,941
February 2015	28,454	\$ 109.65	350,242	1,951,529
<b>ASR 2015</b>				
September 2015	500,000		850,242	
December 2015	1,460,250		2,310,492	
<b>Total</b>	<b>2,310,492</b>			

In November 2014, the Board of Directors of the Company approved a \$250 million share repurchase program. Purchases will be made from time to time, subject to market and economic conditions, applicable legal requirements, and other relevant factors.

During December of 2014 the Company repurchased 182,592 shares for a total amount of \$18.4 million.

In the first quarter of 2015, the Company repurchased 167,650 shares for a total amount of \$17.9 million.

During September 2015 the Company entered into an Accelerated Share Repurchase, or ASR, with Citibank for an approximate period of 3 months for a total amount of \$100 million. On December 15, 2015, Citibank delivered 1,960,250 shares to the Company, recognized at the settlement price of \$51.01 per share.

No transactions were made in 2016 or 2017.

**Item 16F. Changes in Registrant's Certifying Accountant**

None

**Item 16G. Corporate Governance**

Companies that are registered in Panama are required to disclose whether or not they comply with certain corporate governance guidelines and principles that are recommended by the Superintendencia of the Securities Market (*Superintendencia del Mercado de Valores, or SMV*). Statements below referring to Panamanian governance standards reflect these voluntary guidelines set by the SMV rather than legal requirements or standard national practices. Our

Class A shares are registered with the SMV, and we comply with the SMV's disclosure requirements.

**NYSE Standards**

***Director Independence.***

*Majority of board of directors must be independent.*  
§303A.01

**Our Corporate Governance Practice**

Panamanian corporate governance standards recommend that one in every five directors should be an independent director. The criteria for determining independence under the Panamanian corporate governance standards differs from the NYSE rules. In Panama, a director would be considered independent as long as the director does not directly or indirectly own 5% or more of the issued and outstanding voting shares of the Company, is not involved in the daily management of the Company and is not a spouse or related to the second degree by blood or marriage to the persons named above.

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**NYSE Standards**

***Executive Sessions.*** *Non-management directors must meet regularly in executive sessions without management.*

*Independent directors should meet alone in an executive session at least once a year. §303A.03*

***Nominating/Corporate Governance Committee.*** *Nominating/corporate governance committee of independent directors is required. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. §303A.04*

***Compensation Committee.*** *Compensation committee of independent directors is required, which must approve or make a recommendation to the board regarding executive officer compensation. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. §303A.05*

***Equity Compensation Plans.*** *Equity compensation plans require shareholder approval, subject to limited exemptions.*

***Code of Ethics.*** *Corporate governance guidelines and a code of business conduct and ethics is required, with disclosure of any waiver for directors or executive officers. §303A.10*

**Our Corporate Governance Practice**

Our Articles of Incorporation require us to have three independent directors as defined under the NYSE rules.

There are no mandatory requirements under Panamanian law that a company should hold, and we currently do not hold, such executive sessions.

Panamanian corporate governance standards recommend that registered companies have a nominating committee composed of three members of the board of directors, at least one of which should be an independent director, plus the chief executive officer and the chief financial officer. In Panama, the majority of public corporations do not have a nominating or corporate governance committee. Our Articles of Incorporation require that we maintain a Nominating and Corporate Governance Committee with at least one independent director until the first shareholders meeting to elect directors after such time as the Class A shares are entitled to full voting rights.

Panamanian corporate governance standards recommend that the compensation of executives and directors be overseen by the nominating committee but do not otherwise address the need for a compensation committee.

While we maintain a compensation committee that operates under a charter as described by the NYSE governance standards, currently only one of the members of that committee is independent.

Under Panamanian law, shareholder approval is not required for equity compensation plans.

Panamanian corporate governance standards do not require the adoption of specific guidelines as contemplated by the NYSE standards, although they do require that companies disclose differences between their practices and a list of specified practices recommended by the SMV.

We have not adopted a set of corporate governance guidelines as contemplated by the NYSE, although we will be required to comply with the disclosure requirement of the SMV.

Panamanian corporate governance standards recommend that registered companies adopt a code of ethics covering such topics as its ethical and moral principles, how to address conflicts of interest, the appropriate use of resources, obligations to inform of acts of corruption and mechanism to enforce the compliance with established rules of conduct.

**Item 16H. Mine Safety Disclosure**

None



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**PART III**

**Item 17. Financial Statements**

See Item 18. Financial Statements

**Item 18. Financial Statements**

See our consolidated financial statements beginning on page F-1.

**Item 19. Exhibits**

- 3.1\*\* English translation of the Amended Articles of Incorporation (*Pacto Social*) of the Registrant
- 10.1\*\* Aircraft Lease Agreement, dated as of October 1, 1998, between First Security Bank now Wells Fargo Bank Northwest, National association and Compañía Panameña de Aviación, S.A., in respect of Boeing Model 737-71Q Aircraft, Serial No. 29047
- 10.2 (2008) Filed as 10.1. Supplemental Agreement dated as of May 13, 2008 by and among Copa Holdings, S.A. Corporation de Inversiones Aereas, S.A. and Continental Airlines, Inc.
- 10.3\*\* Filed as 10.2. Letter Agreement dated as of November 6, 1998 amending Aircraft Lease Agreement, dated October 1, 1998, between First Security Bank now Wells Fargo Bank Northwest, National association and Compañía Panameña de Aviación, S.A., in respect of One Boeing Model 737-71Q Aircraft, Manufacturer s Serial No. 29047
- 10.4\*\* Filed as 10.3. Aircraft Lease Amendment Agreement dated as of May 21, 2003 to Aircraft Lease Agreement, dated October 1, 1998, between First Security Bank now Wells Fargo Bank Northwest, National association and Compañía Panameña de Aviación, S.A., in respect of Boeing Model 737-71Q Aircraft, Serial No. 29047
- 10.5\*\* Filed as 10.4. Aircraft Lease Agreement, dated as of October 1, 1998, between First Security Bank now Wells Fargo Bank Northwest, National association and Compañía Panameña de Aviación, S.A., in respect of Boeing Model 737-71Q Aircraft, Serial No. 29048
- 10.6\*\* Filed as 10.5. Letter Agreement dated as of November 6, 1998 amending Aircraft Lease Agreement, dated as of October 1, 1998, between First Security Bank now Wells Fargo Bank Northwest, National association and Compañía Panameña de Aviación, S.A., in respect of Boeing Model 737-71Q Aircraft, Serial No. 29048
- 10.7\*\* Filed as 10.6. Aircraft Lease Amendment Agreement dated as of May 21, 2003 to Aircraft Lease Agreement, dated October 1, 1998, between First Security Bank now Wells Fargo Bank Northwest, National association and Compañía Panameña de Aviación, S.A., in respect of Boeing Model 737-71Q Aircraft, Serial No. 29048
- 10.8\*\* Filed as 10.7. Aircraft Lease Agreement, dated as of November 18, 1998, between Aviation Financial Services Inc. and Compañía Panameña de Aviación, S.A., Boeing Model 737-700 Aircraft, Serial No. 28607
- 10.9\*\* Filed as 10.8. Letter Agreement No. 1 dated as of November 18, 1998 to Aircraft Lease Agreement, dated November 18, 1998, between Aviation Financial Services Inc. and Compañía Panameña de

Aviación, S.A., Boeing Model 737-700 Aircraft, Serial No. 28607

- 10.10\*\* Filed as 10.9. Letter Agreement No. 2 dated as of March 8, 1999 to Aircraft Lease Agreement, dated November 18, 1998, between Aviation Financial Services Inc. and Compañía Panameña de Aviación, S.A., Boeing Model 737-700 Aircraft, Serial No. 28607
- 10.11\*\* Filed as 10.10. Lease Extension and Amendment Agreement dated as of April 30, 2003, to Aircraft Lease Agreement, dated November 18, 1998, between Aviation Financial Services Inc. and Compañía Panameña de Aviación, S.A., Boeing Model 737-700 Aircraft, Serial No. 28607
- 10.12\*\* Filed as 10.11. Aircraft Lease Agreement, dated as of November 18, 1998, between Aviation Financial Services Inc. and Compañía Panameña de Aviación, S.A., Boeing Model 737-700 Aircraft, Serial No. 30049
- 10.13\*\* Filed as 10.12. Letter Agreement No. 1 dated as of November 18, 1998 to Aircraft Lease Agreement, dated November 18, 1998, between Aviation Financial Services Inc. and Compañía Panameña de Aviación, S.A., Boeing Model 737-700 Aircraft, Serial No. 30049

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- 10.14\*\* Filed as 10.13. Letter Agreement No. 2 dated as of March 8, 1999 to Aircraft Lease Agreement, dated November 18, 1998, between Aviation Financial Services Inc. and Compañía Panameña de Aviación, S.A., Boeing Model 737-700 Aircraft, Serial No. 30049
- 10.15\*\* Filed as 10.14. Lease Extension and Amendment Agreement dated as of April 30, 2003, to Aircraft Lease Agreement, dated November 18, 1998, between Aviation Financial Services Inc. and Compañía Panameña de Aviación, S.A., Boeing Model 737-700 Aircraft, Serial No. 30049
- 10.16\*\* Filed as 10.15. Aircraft Lease Agreement, dated as of November 30, 2003, between International Lease Finance corporation and Compañía Panameña de Aviación, S.A., Boeing Model 737-700 or 800 Aircraft, Serial No. 30676
- 10.17\*\* Filed as 10.16. Aircraft Lease Agreement, dated as of March 4, 2004, between International Lease Finance corporation and Compañía Panameña de Aviación, S.A., Boeing Model 737-700 or 800 Aircraft, Serial No. 32800
- 10.18\*\* Filed as 10.17. Aircraft Lease Agreement, dated as of December 23, 2004, between Wells Fargo Bank Northwest, N.A. and Compañía Panameña de Aviación, S.A., Boeing Model 737- 800 Aircraft, Serial No. 29670
- 10.19\*\* Filed as 10.18. Embraer 190LR Purchase Agreement DCT-006/2003 dated as of May 2003 between Embraer Empresa Brasileira de Aeronáutica S.A. and Regional Aircraft Holdings Ltd.
- 10.20\*\* Filed as 10.19. Letter Agreement DCT-007/2003 dated as of May, 2003 to Aircraft Purchase Agreement DCT-006/2003 dated as of May, 2003, between Embraer Empresa Brasileira de Aeronáutica S.A. and Regional Aircraft Holdings Ltd.
- 10.21\*\* Filed as 10.20. Letter Agreement DCT-008/2003 dated as of May, 2003 to Aircraft Purchase Agreement DCT-006/2003 dated as of May, 2003, between Embraer Empresa Brasileira de Aeronáutica S.A. and Regional Aircraft Holdings Ltd.
- 10.22\*\* Filed as 10.21. Aircraft General Terms Agreement, dated November 25, 1998, between The Boeing Company and Copa Holdings, S.A.
- 10.23\*\* Filed as 10.22. Purchase Agreement Number 2191, dated November 25, 1998, between The Boeing Company and Copa Holdings, S.A., Inc. relating to Boeing Model 737-7V3 & 737-8V3 Aircraft
- 10.24\*\* Filed as 10.23. Supplemental agreement No. 1 dated 2001 to Purchase Agreement Number 2191 between The Boeing Company and Copa Holdings, S.A.
- 10.25\*\* Filed as 10.24. Supplemental Agreement No. 2 dated as of December 21, 2001 to Purchase Agreement Number 2191 between The Boeing Company and Copa Holdings, S.A.
- 10.26\*\* Filed as 10.25. Supplemental Agreement No. 3 dated as of June 14, 2002 to Purchase Agreement Number 2191 between The Boeing Company and Copa Holdings, S.A.
- 10.27\*\* Filed as 10.26. Supplemental Agreement No. 4 dated as of December 20, 2002 to Purchase Agreement Number 2191 between The Boeing Company and Copa Holdings, S.A.
- 10.28\*\* Filed as 10.27. Supplemental Agreement No. 5 dated as of October 31, 2003 to Purchase Agreement Number 2191 between The Boeing Company and Copa Holdings, S.A.
- 10.29\*\* Filed as 10.28. Supplemental Agreement No. 6 dated as of September 9, 2004 to Purchase Agreement Number 2191 between The Boeing Company and Copa Holdings, S.A.
- 10.30\*\*

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Filed as 10.29. Supplemental Agreement No. 7 dated as of December 9, 2004 to Purchase Agreement Number 2191 between The Boeing Company and Copa Holdings, S.A.

10.31\*\* Filed as 10.30. Supplemental Agreement No. 8 dated as of April 15, 2005 to Purchase Agreement Number 2191 between The Boeing Company and Copa Holdings, S.A.

10.32\*\* Filed as 10.31. Maintenance Cost per Hour Engine Service Agreement, dated March 5, 2003, between G.E. Engine Services, Inc. and Copa Holdings, S.A.

10.33\*\* Filed as 10.32. English translation of Aviation Fuel Supply Agreement, dated July 18, 2005, between Petróleos Delta, S.A. and Compañía Panameña de Aviación, S.A.

10.34\*\* Filed as 10.33. Form of Amended and Restated Alliance Agreement between Continental Airlines, Inc. and Compañía Panameña de Aviación, S.A.

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10.35**	<u>Filed as 10.34. Form of Amended and Restated Services Agreement between Continental Airlines, Inc. and Compañía Panameña de Aviación, S.A.</u>
10.36**	<u>Filed as 10.35. Form of Second Amended and Restated Shareholders Agreement among Copa Holdings, S.A., Corporación de Inversiones Aéreas, S.A. and Continental Airlines, Inc.</u>
10.37**	<u>Filed as 10.36. Form of Guaranteed Loan Agreement</u>
10.38**	<u>Filed as 10.37. Form of Amended and Restated Registration Rights Agreement among Copa Holdings, S.A., Corporación de Inversiones Aéreas, S.A. and Continental Airlines, Inc.</u>