

As filed with the Securities and Exchange Commission on April 24, 2019

**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, 2018

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, 2018, there were outstanding 42,195,811 shares of common stock, without par value, of which 31,257,686 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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer", "accelerated filer" and "emerging growth company" in Rule 12b-2 of Exchange Act.:

Large Accelerated Filer Accelerated Filer
Non-accelerated Filer Emerging Growth Company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, 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 by the International Accounting Standards Board Other

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 consolidated 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” represents the average amount one passenger pays to fly one mile.

Market Data

This annual report contains certain statistical data regarding our airline routes, our competitive position, market share 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, 2018 and 2017, 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, 2018, 2017 and 2016. Our audited consolidated financial statements as of December 31, 2018 and for the years ended December 31, 2017 and 2016 have been restated to reflect the application of IFRS 15 (see note 5.1 to our annual consolidated financial statements).

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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 are intended to 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.

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, 2018, and for the years ended December 31, 2018, 2017 and 2016 have been derived from our audited consolidated financial statements included elsewhere in this annual report. The summary consolidated financial information for the years ended December 31, 2015 and 2014 have been derived from our audited consolidated financial statements for those years (not included herein), which have not been restated to reflect the application of IFRS 15.

	Year Ended December 31, (in thousands of dollars, except share and per share data and operating data)				
	2018	2017	2016	2015	2014
STATEMENT OF PROFIT OR LOSS DATA					
Operating revenue:					
Passenger revenue	2,587,389	2,444,251	2,148,501	2,185,465	2,638,392
Cargo and mail revenue	62,483	55,290	53,989	56,738	60,715
Other operating revenue	27,755	22,245	16,696	11,507	12,218
Total operating revenues	<u>2,677,627</u>	<u>2,521,786</u>	<u>2,219,186</u>	<u>2,253,710</u>	<u>2,711,325</u>
Operating expenses:					
Fuel	765,781	572,746	528,996	603,760	822,130
Wages, salaries, benefits and other employees expenses	443,287	415,147	370,190	373,631	376,193
Passenger servicing	104,346	99,447	86,329	84,327	90,457
Airport facilities and handling charges	186,422	171,040	159,771	148,078	141,594
Sales and distribution	210,158	200,256	193,837	188,961	193,038
Maintenance, materials and repairs	111,677	132,148	121,781	111,178	100,307
Depreciation, amortization and impairment	358,060	167,324	167,894	150,548	115,147
Flight operations	108,437	101,647	88,188	86,461	85,183
Aircraft rentals and other rentals	132,534	134,539	138,885	142,177	129,431
Cargo and courier expenses	10,075	7,375	6,099	6,471	7,601
Other operating and administrative expenses	101,812	96,087	92,215	105,484	118,746
Total operating expenses	<u>2,532,589</u>	<u>2,097,756</u>	<u>1,954,185</u>	<u>2,001,076</u>	<u>2,179,827</u>
Operating profit	<u>145,038</u>	<u>424,030</u>	<u>265,001</u>	<u>252,634</u>	<u>531,498</u>
Non-operating income (expense):					
Finance cost	(35,850)	(35,223)	(37,024)	(33,155)	(29,529)
Finance income	23,628	17,939	13,000	25,947	18,066
Gain (loss) on foreign currency fluctuations	(9,952)	6,145	13,043	(440,097)	(6,448)
Net change in fair value of derivatives	—	2,801	111,642	(11,572)	(117,950)
Other non-operating income (expense)	(239)	(2,337)	(3,982)	(1,632)	2,671
Total non-operating income (expense), net	<u>(22,413)</u>	<u>(10,675)</u>	<u>96,679</u>	<u>(460,509)</u>	<u>(133,190)</u>
Profit (loss) before taxes	122,625	413,355	361,680	(207,875)	398,308
Income tax expenses	(34,530)	(49,310)	(38,271)	(32,759)	(36,639)
Net profit (loss)	<u>88,095</u>	<u>364,045</u>	<u>323,409</u>	<u>(240,634)</u>	<u>361,669</u>

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STATEMENT OF FINANCIAL POSITION DATA

Total cash, cash equivalents and short-term investments	722,358	943,900	814,689	684,948	766,603
Accounts receivable, net	117,231	118,085	116,100	105,777	122,150
Total current assets	1,062,999	1,198,488	1,069,391	907,585	1,011,449
Purchase deposits for flight equipment	474,060	413,633	250,165	243,070	321,175
Total property and equipment	2,701,322	2,617,407	2,623,682	2,453,751	2,505,336
Total assets	4,087,250	4,044,961	3,846,113	3,518,574	4,079,612
Long-term debt	975,283	876,119	961,414	1,055,183	928,964
Total equity	1,840,679	1,895,126	(48,708)	1,390,520	2,075,108
Capital stock	108,594	101,449	93,440	85,845	81,811

CASH FLOW DATA

Net cash from operating activities	436,759	727,332	594,590	316,863	384,892
Net cash from (used in) investing activities	(149,596)	(578,159)	(179,909)	32,384	21,147
Net cash used in financing activities	(323,937)	(204,756)	(248,625)	(357,466)	(316,420)

OTHER FINANCIAL DATA

Underlying net profit ⁽¹⁾	276,719	361,244	190,244	210,342	486,181
Adjusted EBITDA ⁽²⁾	492,907	597,963	553,598	(50,119)	524,918
Aircraft rentals	113,327	116,449	120,841	122,217	112,082
Operating margin ⁽³⁾	5.4%	16.8%	11.9%	11.2%	19.6%
Weighted average shares used in computing net income per share (basic)	42,468,402	42,418,773	42,358,091	43,861,084	44,381,265
Weighted average shares used in computing net income per share (diluted)	42,468,402	42,418,773	42,363,171	43,868,864	44,393,054
Earnings (Loss) per share (basic)	2.07	8.59	7.64	(5.49)	8.15
Earnings (Loss) per share (diluted)	2.07	8.59	7.63	(5.49)	8.15
Dividends per share paid	3.48	2.52	2.04	3.36	3.84
Total number of shares at end of period	42,195,811	42,123,766	42,050,481	41,955,227	43,988,423

OPERATING DATA

Revenue passengers carried ⁽⁴⁾	15,168	14,201	12,870	11,876	11,681
Revenue passenger miles ⁽⁵⁾	21,529	19,914	17,690	16,309	15,913
Available seat miles ⁽⁶⁾	25,817	23,936	22,004	21,675	20,757
Load factor ⁽⁷⁾	83.4%	83.2%	80.4%	75.2%	76.7%
Total block hours ⁽⁸⁾	444,851	419,610	388,058	388,355	376,903
Average daily aircraft utilization ⁽⁹⁾	12.0	11.5	10.6	10.8	11.0
Average passenger fare	170.6	172.1	166.9	184.0	225.9
Yield ⁽¹⁰⁾	12.02	12.27	12.15	13.40	16.58
Passenger revenue per ASM ⁽¹¹⁾	10.02	10.21	9.76	10.08	12.71
Operating revenue per ASM ⁽¹²⁾	10.37	10.54	10.09	10.40	13.06
Operating expenses per ASM (CASM) ⁽¹³⁾	9.81	8.76	8.88	9.23	10.50
Departures	132,498	126,963	123,098	122,588	121,310
Average daily departures	363.0	347.8	337.3	335.9	332.4
Average number of aircraft	106.0	100.4	99.9	98.3	93.8
Airports served at period end	80	75	73	73	69
On-Time Performance ⁽¹⁴⁾	89.8%	86.8%	88.4%	90.6%	90.5%
Stage Length ⁽¹⁵⁾	1,321	1,282	1,213	1,236	1,213

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- (1) Underlying net profit represents net income (loss) minus the sum of Embraer 190 impairment, fuel hedge mark-to-market gain/(loss), and devaluation and translation losses in Venezuela and Argentina. Underlying net profit is presented because the Company uses this measure to determine annual dividends. However, underlying net profit should not be considered in isolation, as a substitute for net profit (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 profit (loss) to underlying net profit for the specified periods.

	2018	2017	2016	2015	2014
Net profit (loss)	88,095	364,045	323,409	(240,634)	361,669
Fuel hedge Mark to market loss/(gain)	—	(2,801)	(111,642)	11,572	117,950
Venezuela Devaluation	—	—	(21,543)	432,503	6,562
Argentina Devaluation	—	—	—	6,901	—
Impairment of non-financial assets	188,624	—	—	—	—
Underlying net profit	276,719	361,244	190,224	210,342	486,181

- (2) Adjusted EBITDA represents net income (loss) plus the sum of interest expense, income taxes, depreciation, amortization and impairment minus finance 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 profit (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 profit (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.

	2018	2017	2016	2015	2014
Net profit (loss)	88,095	364,045	323,409	(240,634)	361,669
Finance cost	35,850	35,223	37,024	33,155	29,529
Income taxes	34,530	49,310	38,271	32,759	36,639
Depreciation, amortization and impairment	358,060	167,324	167,894	150,548	115,147
Finance income	(23,628)	(17,939)	(13,000)	(25,947)	(18,066)
Adjusted EBITDA	492,907	597,963	553,598	(50,119)	524,918

- (3) Operating margin represents operating profit 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.

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, therefore, 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 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, at the expected fares, 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, 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. For example, in 2018 we experienced a decrease of 1.9% in passenger revenue per available seat mile (PRASM) compared to 2017, mainly due to currency devaluation and the deteriorating demand environment in Brazil and Argentina. 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. The Company cancelled flights between Panama and Venezuela during April 2018, as a result of a temporary suspension of diplomatic and commercial relations between the two countries. 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;

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- 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.

The cost of financing our aircraft may increase, which could negatively impact our business.

We have historically been able to achieve favorable financing terms through commercial and US Export-Import bank guaranteed loans, sale-leasebacks and operating leases. In recent years, due to the fact that U.S. Export-Import Bank guaranteed loans have not been available, 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”). As of December 31, 2018, we had \$776.8 million of outstanding indebtedness under JOLCO financing arrangements.

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 and/or opening new hubs.

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, newer 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 narrow-body aircraft and may bypass our hub. Competitors are also opening new international hubs, especially in Brazil. Competitive services, which bypass our hub in Panama, may be more convenient and possibly less expensive than our services 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 Aerorepublica, S.A., utilizes four of our 737-700s, each configured with 142 seats in a single class cabin. By the end of 2019, we expect to swap the four 737-700s with 737-800s, each configured with 186 seats in a single class cabin; we also expect to transfer a fifth 737-800 with potential base in Panama. 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.

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We may not realize benefits from our strategic alliances and other commercial relationships, including from our recently announced joint business agreement with United Airlines, Inc. (“UAL”) and Avianca Holdings (“Avianca”).

We maintain a number of strategic alliances and other commercial relationships in many of the jurisdictions in which we operate. For example, we have been a Star Alliance member since June 2012, and we renewed our strategic alliance with UAL in May 2016. In addition, on November 30, 2018, we disclosed that we have entered into a three-way joint business agreement (“JBA”) with UAL and Avianca that is intended to cover our combined network between the United States and Latin America (except Brazil). We, UAL and Avianca intend to apply for regulatory approval of the JBA and an accompanying grant of antitrust immunity from the U.S. Department of Transportation and other relevant agencies. However, we can provide no assurances as to whether or when the parties will receive such approvals, and we do not plan to fully implement the JBA until we have received such approvals. The purpose of these alliances and relationships is to increase revenues by enhancing our network and offering our customers services that we could not otherwise offer. However, the intended benefits may not be realized, or may not outweigh the technological and other costs associated with any alliance or relationship. In addition, if any of our strategic alliances or commercial relationships deteriorates, or is terminated, our business, financial condition and operational results could be adversely affected.

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

Our business, financial condition and operational results 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 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, the 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 rights 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.

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The growth of our operations to the United States and the benefits of our code-sharing arrangements with 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 this inspection, each country is given an International Aviation Safety Assessment, or "IASA", rating. In connection with its most recent assessment in 2018 and since April 2004, IASA has rated Panama as a Category 1 country, 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 was not downgraded. A 2017 ICAO study found no significant safety deficiencies in Panama. 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 could affect our code-share arrangement with UAL.

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. Most 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 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 2019. Due to the magnitude of the construction required for this new Terminal 2, 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, power outages and increased security measures. Delays affect 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, or do tankering, until fuel levels are reestablished. 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. Nevertheless, new fuel storage capacity, consisting of three 1 million-gallon tanks, is expected to be added to existing storage capacity during 2019. This would increase airport storage capacity from 1.5 million to 4.5 million gallons, which represents approximately five days of fuel availability at current consumption levels.

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.

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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, 2018, our finance cost, in combination with aircraft and other rental expense under operating leases, totaled \$168.4 million. At December 31, 2018, approximately 60.6% 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.

As of December 31, 2018, the Company had one purchase contract with Boeing which entails 67 firm orders of Boeing 737 MAX aircraft, agreed to be delivered between 2019 and 2025. The aircraft under this contract have an approximate value of \$8.8 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.

If we fail to successfully 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, 2018 we operated a fleet of 86 Boeing aircraft and 19 Embraer 190 aircraft. In 2019, we expect to take delivery of nine additional Boeing 737 MAX 9 aircraft.

In the future, we expect to continue incorporating new aircraft into our fleet. This 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 new fleet as the aircraft matures. In particular, we cannot predict the reliability of the Boeing 737 MAX aircraft, powered by, Leap 1B engines, from CFM International, which first entered commercial service in May 2017. The LEAP engine was developed by Safran Aircraft Engines and GE through their joint company, CFM International, to power the next generation of single-aisle commercial jets. The LEAP-1B has been selected by Boeing as the exclusive powerplant for the new 737 MAX single-aisle jetliner.

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Following the Ethiopian Airlines accident involving a Boeing 737 MAX 8 aircraft on March 10, 2019, we temporarily suspended operations of our 6 Boeing 737 MAX 9 aircraft, after authorities in Panama and other countries grounded worldwide the 737 MAX fleet, during the investigation into the cause of the accident. We had been covering most of our regular operation, with other aircraft in our fleet, with minor cancellations and delays. Any technical issues with our aircraft would increase our maintenance expenses and could cause flight cancellations and other disruptions in our services.

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.

For example, as a result of the Company's continuing fleet optimization and efficiency efforts, in October 2018 the Company signed a letter of intent with Azorra Aviation for the sale of up to six Embraer 190 aircraft, five of which are expected to exit the fleet in 2019. In connection with the transaction, we recognized an impairment charge in respect of our entire Embraer 190 fleet and related spare parts. This impairment generated a one-time non-cash loss of \$188.6 million, which was recorded in the fourth quarter of 2018.

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 operational and financial results.

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 boarding, revenue management, baggage handling accounting and cargo distribution. Other systems are designed to decrease distribution costs through internet reservations and to maximize cargo distributions, crew utilization and flight scheduling. 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, our digital channels rely on advanced technology and, as this technology is updated, older technology 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.

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 un sanctioned 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

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compromised by a malicious third-party penetration of our security measures, 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 throughout 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 data network. If our security or 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.

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, capacity additions by competitors, 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.

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 2018, approximately 55.3% of our expenses and 44.7% of our revenues were denominated in U.S. dollars, respectively (2017: 59.8% and 43.7%, respectively). A significant part of our revenue is denominated in foreign currencies, including the Brazilian real, Colombian peso and Argentinian peso, which represented 22.7%, 11.3% and 7.2%, respectively (2017: 16.5%, 11.4% and 7.8% 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. For example, weakening currencies in Brazil and Argentina impacted yields in the third and fourth quarter of fiscal 2018. 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 against 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.

Changes in accounting standards could adversely affect our financial results.

The IASB, or other regulatory authorities, periodically introduce modifications to financial accounting and reporting standards or issue new financial accounting and reporting standards under which we prepare our consolidated financial statements. These changes can materially affect the way we present our financial condition and results of operations. We may also be required to retroactively apply new or revised standards, which would require us to restate previous financial statements.

Effective from January 1, 2019, we are required to adopt the new accounting standard IFRS 16 Leases (“IFRS 16”).

IFRS 16 requires significant changes that will affect the accounting treatment for all lease contracts where we act as lessee, other than certain short-term leases and leases of low-value assets. We estimate that the initial application of IFRS 16 will result in the recognition of additional assets and liabilities in a range of approximately \$390 million to \$430 million, this calculation excluded the impact that would occur if the lease return conditions are included in the ROU (Right of Use) asset and lease liability for which the Company have not yet completed evaluation.

The actual impacts of adopting the standard on January 1, 2019 may change because the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

See note 6 to our annual consolidated financial statements for more information on the main impacts expected from the initial adoption of IFRS 16.

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Our maintenance costs will increase as our fleet ages.

The average age of our fleet was approximately 8.5 years as of December 31, 2018. 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 63.2% of our 9,450 employees are unionized. There are currently four unions covering our employees based in Panama: the pilots' union; the flight attendants' union; the mechanics' 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 in May 2018 and the flight attendants' union in October 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. 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.

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 2018, approximately 67.2% 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.

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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 airport 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 a fleet of Boeing 737-700/800 Next Generation aircraft powered by CFM 56-7B engines from CFM International, Embraer 190, powered by CF 34-10 engines from General Electric, and Boeing 737MAX 9, powered by, Leap 1B engines, from 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, including in connection with the Boeing 737 MAX aircraft that have been temporarily grounded by global aviation requirements, 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, Boeing 737 MAX 9 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, Leap 1B 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.

Our business would be impacted if a design defect or mechanical problem with any of the types of aircraft, engines 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. Following the Ethiopian Airlines accident involving a Boeing 737 MAX 8 aircraft, we temporarily suspended operations of our six Boeing 737 MAX 9 aircraft during the investigation into the cause of the accident, as regulatory authorities around the world grounded the aircraft. 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. Starting 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, including certain of our competitors, such as LAN-TAM, Avianca-Taca, American-US Airways and Delta-Northwest. As a result, they 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 LCC business model appears to be gaining acceptance in the Latin American aviation industry. 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 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, LATAM and Viva Air represent a significant portion of the domestic market in Colombia and have access to greater resources as a result of their larger size. Therefore, Copa faces stronger competition now than in recent years, and its prior results may not be indicative of its future performance.

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 30.2% of operating expenses in 2018, 27.3% of operating expenses in 2017 and 27.1% in 2016. 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. 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.

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As of December 31, 2018, the Company was not a party to any outstanding fuel hedge contracts, and has adopted a new strategy of remaining unhedged, while regularly reviewing its policies based on market conditions and others factors. For 2019, 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.

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. 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, or a change in Panamanian regulations, 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.

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.

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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.

For example, the ICAO has issued the first edition of the Carbon Offsetting and Reduction Scheme for International Aviation (“CORSIA”) to address the increase in total CO₂ emissions from international aviation. As Colombia and Panama are member states of ICAO, the Civil Aviation Authorities (“CAAs”) of Panama and Colombia are developing new regulations to implement CORSIA. They expect to make these regulations public at the end of the first quarter of 2019. Under CORSIA, airplane operators must annually report the fuel consumption of their international commercial operations and the corresponding CO₂ emissions (domestic operations are excluded from these requirements). The first report must be presented no later than May 2020. Copa Airlines and AeroRepública have already presented to their CAAs the Emission Monitoring Plan (“EMP”) required by CORSIA.

In addition to encouraging CO₂ emissions reductions, CORSIA will require airline operators to offset CO₂ emissions through payments to authorized carbon banks, which will invest in environmental projects to reduce the global carbon footprint. Copa Airlines and AeroRepública will not be subject to the emissions offsetting requirements until 2027, because Panama and Colombia are not participating in the voluntary first phase of CORSIA.

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 2019 the Panamanian and Colombian economies are expected to grow by 6.8% and 3.5%, 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 \$34.5 million, \$49.3 million and \$38.3 million in the years ended December 31, 2018, 2017 and 2016, respectively, which represented an effective income tax rate of 28.2%, 11.9% and 10.6%, 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 passenger and cargo 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, 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. The Company cancelled flights between Panama and Venezuela during April 2018, as a result of a temporary suspension of diplomatic and commercial relations between the two countries. For the year ended December 31, 2018, revenue from the Company's flights to Venezuela, including connecting traffic, represented about 5.8% of consolidated revenues and direct flights between Panama and Venezuela. During the same period, sales in local currency in Venezuela represented 0.1% 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.

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 director’s 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 “Item 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 25.9% 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 director’s 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 director’s 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 follow-on

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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, 2018 CIASA owned 25.9% of Copa Holdings' total capital stock.

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, 2018, the average daily trading volume for our Class A shares as reported by the NYSE was approximately 531,602 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 offer passenger, cargo and mail transportation services to and from Cuba. For the year ended December 31, 2018, our transported passengers to and from Cuba represented approximately 4.5% of our total passengers. Our operating revenues from Cuban operations during the year ended December 31, 2018 represented approximately 2.3% of our total consolidated operating revenues for such year. Our assets located in Cuba are not significant.

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) administers and enforces economic and trade sanctions based on U.S. foreign policy against Cuba, and groups opposed to the Cuban regime may seek to use U.S. sanctions 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 the future of U.S. economic sanctions against Cuba and the impact such sanctions will have on our operations, particularly if the United States impose additional relevant sanctions. Additionally, on March 4, 2019, the U.S. Department of State announced that the U.S. government would issue only a limited suspension of Title III of the Cuban Liberty and Democratic Solidarity (Libertad) Act of 1996 (popularly known as the Helms-Burton Act) for an additional 30 days. Title III of Helms-Burton, which has been suspended since 1996, provides a cause of action for U.S. nationals to bring claims against any person who traffics in property expropriated by the Cuban Government. Both the possibility that the U.S. government decides to no longer suspend Title III of Helms-Burton and the scope of any potential claims are uncertain. If Title III of Helms-Burton comes into force, companies such as ours with commercial dealings in Cuba could face claims for damages.

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.

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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 ratification each quarter. 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".

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 25.9% 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

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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

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, 2018 held 25.9% 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 105 aircraft at December 31, 2018. 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 80 destinations in 32 countries. We plan to continue our expansion, which includes increasing our fleet, over the next several years. In 2018, we took delivery of our first four Boeing 737 MAX 9 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.

In addition, on November 30, 2018, we disclosed that we have entered into a three-way joint business agreement ("JBA") with UAL and Avianca that is intended to cover our combined network between the United States and Latin America (except Brazil). We, UAL and Avianca intend to apply for regulatory approval of the JBA and an accompanying grant of antitrust immunity from the U.S. Department of Transportation and other relevant agencies. However, we can provide no assurances as to whether or when the parties will receive such approvals, and we do not plan to implement the JBA until we have received such approvals.

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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. 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. Also, the SEC maintains an internet site (www.sec.gov) that contains reports, proxy and information statements and other information about the Company that the Company has filed electronically with the SEC.

Capital Expenditures

During 2018, our capital expenditures were \$183.1 million, which consisted primarily of advance payments on aircraft purchase contracts, offset by reimbursement of advance payments on aircraft purchase contracts. During 2017, our capital expenditures were \$272.4 million, which consisted primarily of advance payments on aircraft purchase contracts, offset by reimbursement of advance payments on aircraft purchase contracts. During 2016, our capital expenditures were \$106.7 million, which consisted primarily of the acquisition of property and equipment, offset by reimbursement of advance payments on aircraft purchase contracts.

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. As of December 31, 2018 we operate a fleet of 105 aircraft, 82 Boeing 737-Next Generation aircraft, 19 Embraer 190 aircraft and four Boeing 737 MAX 9 aircraft to meet our growing capacity requirements. The Company had one purchase contract with Boeing which entails 67 firm orders of Boeing 737 MAX aircraft, agreed to be delivered between 2019 and 2025.

Copa currently offers approximately 363 daily scheduled flights among 80 destinations in 32 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 \$2.7 billion in 2018 while our operating income also increased from \$25.0 million to \$145.0 million 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 in 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 6.54 ¢ in 2014, 6.45¢ in 2015, 6.48¢ in 2016, 6.37¢ in 2017 and 6.84¢ in 2018. 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 Boeing 737-MAX, 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 67 Boeing 737 MAX aircraft to be delivered between 2019 and 2025. We believe that our modern fleet contributes to our on-time performance and high completion factor (percentage of scheduled flights not cancelled).
- *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, 2018, Copa's statistic for on-time performance, according to DOT standard methodology of arrivals within 14 minutes of scheduled arrival time, was 89.8% 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 2018 we were recognized by OAG as the most on-time airline in the world, and by Flight Stats, for the sixth 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. In January 2019, we were recognized by OAG as the most on-time airline in the world. 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.

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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.

According to data from the International Air Transport Association, or “IATA”, Latin America comprised approximately 7.0% of international worldwide passengers flown in 2017 or 286 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 2017, 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 7.1%, and load factors on international flights to and from Central America were 82% on average.

The chart below details passenger traffic between regions in 2017:

	2017 IATA Traffic Results					
	Passenger Kms Flown		Available Seat Kms		Passenger Load Factor	
	(Millions)	Change (%)	(Millions)	Change (%)	Load Factor	Change (%)
North America—Central America / Caribbean	156,285	6.7	188,888	6.7	82.7%	0.0 p.p.
North America—South America	98,206	0.9	117,098	0.7	83.9%	0.1 p.p.
Within South America	44,942	10.5	54,992	8.2	81.7%	1.7 p.p.
Central America/Caribbean—South America	33,051	8.5	39,544	5.1	83.6%	2.6 p.p.
Within Central America	11,855	8.1	15,304	0.6	77.5%	5.3 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 2018. Preliminary figures indicate that real GDP increased by 4.60% in Panama and by 2.81% in Colombia, according to data of the World Economic and Financial Survey conducted by the International Monetary Fund or “IMF”.

	GDP (in US\$ billions)		GDP per Capita
	2018 Current Prices (US\$)	2018 Real GDP (% Growth)	2018 Current Prices (US\$)
Argentina	475	(2.6)	10,667
Brazil	1,909	1.4	9,127
Chile	300	4.0	16,143
Colombia	337	2.8	6,761
Mexico	1,199	2.2	9,614
Panama	66	4.6	15,877
USA	20,513	2.9	62,518

Source: International Monetary Fund, World Economic Outlook Database, October 2018

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Panama has benefited from a stable economy with moderate inflation and steady GDP growth. According to IMF estimates, from 2012 to 2018, Panama's real GDP grew at an average annual rate of 6.1%, while inflation averaged 2.3% per year. The IMF currently estimates Panama's population to be approximately 4.16 million in 2018, 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.

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 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 secondary Marcos Gelabert airport 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 49.834 million in 2018 according to the IMF, and has a land area of approximately 440,000 square miles. Colombia's GDP is estimated to be \$336.94 billion for 2018, and per capita income was approximately \$6.8 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, 2018, Copa provided regularly-scheduled flights to 80 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, Azul, Tame, Cubana 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 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.

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Revenue by Region

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

Region	Year Ended December 31,				
	2018	2017	2016	2015	2014
North America (1)	26.4%	24.1%	28.8%	24.8%	20.5%
South America	46.6%	48.6%	42.2%	45.7%	55.1%
Central America (2)	21.8%	22.1%	23.1%	23.3%	19.7%
Caribbean (3)	5.2%	5.2%	5.9%	6.2%	4.7%

(1) Includes USA, Canada, Mexico

(2) Includes Panama

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

Airline Operations

Passenger Operations

Passenger revenue accounted for approximately \$2,587.4 million in 2018, \$2,444.3 million in 2017, and \$2,148.5 million in 2016, representing 96.6%, 96.9%, and 96.8%, 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 one third 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 \$62.5 million in 2018, \$55.3 million in 2017, and \$54.0 million in 2016, representing 2.3%, 2.2%, and 2.4% 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.

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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.

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. 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 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, bankruptcy, termination of the services agreement for breach, termination of the frequent flyer participation agreement without entering into a successor agreement, certain competitive activities, certain changes of control of either of the parties and certain significant operational service failures.

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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Joint Business Agreement

Copa Airlines recently announced it has reached an agreement with UAL and Avianca for a JBA that, pending government approval, is expected to provide substantial benefits for customers, communities and the marketplace for air travel between the United States and 19 countries in Central and South America.

By integrating their complementary route networks into a collaborative revenue-sharing JBA, Copa, United and Avianca will offer customers many benefits, including:

- Integrated, seamless service in more than 12,000 city pairs.
- New nonstop routes.
- Additional flights on existing routes, and
- Reduced travel times.

The carriers expect the agreement to drive significant traffic growth at major gateway cities throughout Latin America, which the carriers believe should help bring new investment and create more economic development opportunities for their communities. Further, the carriers anticipate the JBA will provide customers with expanded codeshare flight options, competitive fares and a more streamlined travel experience.

Additionally, allowing the three carriers to serve customers as if they were a single airline is expected to enable the companies to better align their frequent flyer programs, coordinate flight schedules and look to improve the overall travel experience.

To enable the deep coordination required to deliver these benefits to consumers, communities and the marketplace, Copa, United and Avianca plan to apply for regulatory approval of the agreement and an accompanying grant of antitrust immunity from the DOT and other regulatory agencies. The parties plan to fully implement the JBA after receiving the necessary government approvals.

The JBA currently includes cooperation between the U.S. and Central and South America, excluding Brazil. With the recently concluded Open Skies agreement between the US and Brazil, the carriers are exploring the possibility of adding Brazil to the JBA.

Once approved, the JBA will enable deep commercial and strategic cooperation that will apply exclusively in the itineraries between Latin America and the U.S. contemplated in the agreement, but each of the three airlines will remain independent companies.

Sales, Marketing and Distribution

Sales and Distribution. Approximately 65.3% of sales during 2018 were completed through travel agents, including OTAs and other airlines while approximately 34.7% were direct sales via our city ticket offices, or “CTOs”, call centers, airport counters or website. In recent years, travel agents’ 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. 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. Although the majority of our efforts are currently focused on digital channels, our advertising and promotional activities also include the use of television, print, radio and billboards, as well as targeted public relation events in the cities where we fly. 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, Spirit, JetBlue, Azul, Aeromexico, Viva Air, Volaris 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.

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 South and Central American countries it is clear that low-cost carriers are gaining acceptance in the Latin American aviation industry.

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, 2018, Copa operated a fleet consisting of 105 aircraft, including 14 Boeing 737-700 Next Generation aircraft, 68 Boeing 737-800 Next Generation aircraft, four Boeing 737 MAX 9 aircraft and 19 Embraer 190 aircraft. Copa's Boeing 737 MAX 9 aircraft have been temporarily grounded, pending the investigation of the cause of the Ethiopian Airlines accident involving a Boeing 737 MAX 8 aircraft. As of December 31, 2018, Copa had firm orders to purchase 67 Boeing 737 MAX aircraft to be delivered between 2019 and 2025. In October 2018 Copa signed a letter of intent with Azorra Aviation for the sale of up to six Embraer 190 aircraft, five of which are expected to exit the fleet in 2019. In connection with the transaction, Copa recognized an impairment charge in respect of its entire Embraer 190 fleet and related spare parts.

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The current composition of the Copa fleet as of December 31, 2018 is fully described below:

Average Term of Lease	Number of Aircraft			Remaining (Years)	Average Age (Years)	Seating Capacity
	Total	Owned	Leased			
Boeing 737 MAX	4	4	0	—	0.2	166
Boeing 737-700	14	12	2	2.3	16.6	124/142
Boeing 737-800	68	41	27	3.3	6.4	154/160
Embraer 190	19	19	0	—	11.7	94/100
Total	105	76	29	3.2	8.5	—

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	2019	2020	2021	2022	2023
737-700 ⁽¹⁾	14	16	14	14	14
737-800	68	65	61	56	50
737-MAX ⁽²⁾	13	22	34	46	58
Embraer 190 ⁽³⁾	14	13	13	13	13
Total Fleet	109	116	122	129	135

- (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 MAX family.
- (3) Include the sale of five E90 to Azorra Aviation.

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.

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. Following our growth strategy, we placed an order for 71 Boeing 737 MAX aircraft, four of which were delivered in 2018. 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 76 of our aircraft, including 19 Embraer 190s. In addition, we lease two of our Boeing 737-700s and 27 of our Boeing 737-800s under long-term operating lease agreements that have an average remaining term of 3.3 years. 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 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. The Boeing 737 MAX 9 aircraft feature 16 comfortable lie-flat seats in business class (Dreams) and a total of 166 seats.

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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. Our Boeing 737 MAX 9 aircraft are powered by two CFM International Leap 1B engines. We currently have 14 spare engines for service replacements and for periodic rotation through our fleet.

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 at Tocumen International Airport which allows us to perform up to three complete continuous lines of C-checks, as required. The new facility commenced operations in January 2019. In 2018, 18 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.

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 95 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.

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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 2019 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.
- 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 awarded the bid for the construction of a new south terminal, with an additional 20 gates and eight remote positions. Currently, this second terminal is under construction and is expected to open in 2019.
- 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 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 main foreign airlines that operate at Tocumen. In most of the other airports where we operate, airport support services are provided by external third parties.

We use a variety of facilities at Tocumen, including our maintenance hangars and our operations facilities in the airport terminal. In January 2019, we opened a new hangar next to our existing maintenance facility. This new hangar has an area of approximately 90,000 square feet and can accommodate up to three narrow body aircraft simultaneously.

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 footprint of more than 13,000 square feet, offering, improved facilities and additional value to our passengers.

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These passengers also have access to five other Copa Clubs in the region, which are strategically located in San José, Guatemala City, Santo Domingo, Medellín 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 Medellín, located at Jose Maria Cordova International Airport, has an area close to 2,800 square feet and a capacity of more than 70 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 increased significantly due to the strong U.S. dollar, the costs of refining jet fuel and the strength of the U.S. economy.

Aircraft Fuel Data	2018	2017	2016
Average price per gallon of jet fuel into plane (excluding hedge) (in U.S. dollars)	\$ 2.32	\$ 1.85	\$ 1.53
Gallons consumed (in millions)	328.1	307.0	284.3
Available seat miles (in millions)	25,817	23,936	22,004
Gallons per ASM (in hundredths)	1.27	1.28	1.29

In 2018, 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 27.6% from \$50.9 per barrel to \$64.9 per barrel. In 2018, we did not hedge any of our fuel needs, and we have not hedged any part of our fuel needs for 2019. 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 (“PAMA”), in all our facilities, including our maintenance hangar and support facilities at the Tocumen International Airport, Administrative Offices in Costa del Este and Training Center in Clayton. This program was approved by the Panamanian National Environmental Authority (“MiAmbiente”), in 2013, and includes actions such as a recycling program, better use of natural resources and final disposition of the unfiltered water used for aircraft maintenance, among many others. Currently, the Copa Tocumen Airport’s PAMA final report is

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presented to MiAmbiente on an annual basis to monitor and report our environmental follow-up assessments. Copa Airlines is an active signatory company of the Global Compact of the United Nations with its local chapter of the Global Compact Network Panama, and have, thus, published our Communication on Progress (“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 latest generation winglets in our planes to reduce fuel consumption and recycling, among many others.

From January to December 2018 we collected a total of 765.6 tons of recycling materials in Panama’s Copa facilities. In comparison to 2017, in 2018 our recycling program was increased by more than 200%, resulting in a significant reduction of waste sent to the landfill. During the same period, we recycled vehicle oil and fuel drained from aircraft, for which we outsourced the collection of 10,120 gallons of hydrocarbons for use as alternative fuel for other industries. We also outsourced the collection of 339,550 gallons of oil and/or water from aircraft cleaning and painting operations, and also from vehicle maintenance. The subsequent treatment of the collected water made it possible to recover 271,640 gallons of water which were then returned to nature. We have properly disposed of a total of 23,870 kilograms of chemical waste from Aircraft Maintenance operations. In comparison to 2017, in 2018 our environmental management reduced the generation of chemical waste and optimized the use of water during our operations.

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 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 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.

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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.

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

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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.

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.

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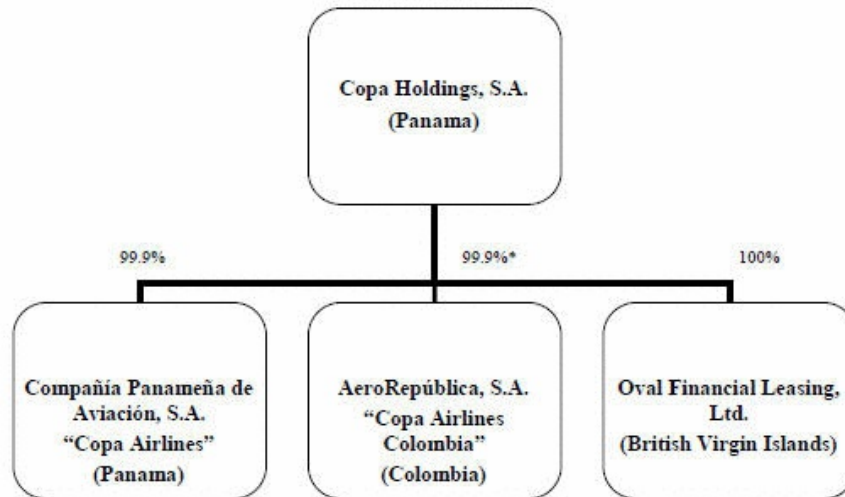
Other Regulation. U.S. laws and regulations have been proposed from time to time that could significantly increase the cost of airline operations by imposing additional requirements or restrictions on airlines. There can be no assurance that laws and regulations currently enacted or enacted in the future 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.



* 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 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, under a ten-year lease that began in January 2015 at a rate of \$0.2 million per month.

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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 \$164,386 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 \$104,949 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 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.

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 363 daily scheduled flights among 80 destinations in 32 countries in North, Central, 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 our Star Alliance partners and other carriers including Air France, KLM, Iberia, Emirates, Gol, Azul, Tame, Cubana and Aeromexico. Through its Panama City hub, Copa Airlines is able to consolidate passenger traffic from multiple points to serve each destination effectively.

As of December 31, 2018, Copa Airlines and Copa Colombia operate a modern fleet of 86 Boeing 737 aircraft and 19 Embraer 190 aircraft. To meet growing capacity requirements, we have firm orders, including purchase and lease commitments. The Company had one purchase contract with Boeing which entails 67 firm orders of Boeing 737 MAX aircraft, agreed to be delivered between 2019 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. In addition, on November 30, 2018, we disclosed that we have entered into a three-way joint business agreement (“JBA”) with UAL and Avianca that is intended to cover our combined network between the United States and Latin America (except Brazil). We, UAL and Avianca intend to apply for regulatory approval of the JBA and an accompanying grant of antitrust immunity from the DOT and other relevant agencies. However, we can provide no assurances as to whether or when the parties will receive such approvals, and we do not plan to implement the JBA until we have received such approvals.

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Factors Affecting Our Results of Operations

Fuel

In 2018, 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 27.6% from \$50.9 per barrel to \$64.9 per barrel. In 2018, we did not hedge any of our fuel needs. For 2019 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, passenger revenue totaled \$2.6 billion in 2018, a 5.9% increase over passenger revenue of \$2.4 billion in 2017 mainly driven by a 6.8% increase in passenger traffic compared to 2017. However, yield decreased 2.1% to 12.02 cents in 2018. This decrease was mainly driven by weaker Latin American currencies, specifically during the second half of the year.

In Colombia, real GDP growth, at constant prices, was approximately 2.8% in 2018, which represented a faster growth rate than in 2017. Average inflation of consumer prices in Colombia rose approximately 3.2% in 2017, according to the IMF.

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 bolivars. According to data from the IMF, Venezuela's GDP contracted by 18% in 2018. Exact data regarding inflation rates in Venezuela varies significantly, depending on the source. In response to continued hyperinflation, the Venezuelan government introduced the Bolivar Soberano on August 20, 2018, replacing the Bolivar Fuerte at a rate of 1 to 100,000.

Copa Airlines flights between Panama and Venezuela were cancelled during April 2018, as a result of a temporary suspension of diplomatic and commercial relations between the two countries. For the year ended December 31, 2018, revenue from Copa Airlines' flights to Venezuela, including connecting traffic, represented about 5.8% of consolidated revenues and direct flights revenue between Panama and Venezuela, excluding connections, represented about 0.6% of consolidated revenues.

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 1.3% in 2017 and is estimated to increase by 1.2% in 2018. In recent years, the Panamanian economy has outpaced the economic growth of the United States and of Latin America as a whole. According to the Comptroller General of the Republic of Panama *Contraloría General de la República de Panamá*, in 2018 the Panamanian economy grew by 3.7% (versus 5.4% in 2017). Headline inflation in Panama (as indicated by the consumer price index) rose by 2.0% in 2018. Additionally, the Colombian economy has experienced relatively stable growth. The Colombian gross domestic product grew by 2.8% in 2018 and is estimated to grow by 3.6% in 2019, while headline inflation (as indicated by the consumer price index) rose by 32% in 2018.

Revenues

We derive our revenues primarily from passenger transportation, which represented 96.6% of our revenues for the year ended December 31, 2018. In addition, 2.3% of our total revenues are derived from cargo and 1.0% from other revenues.

We recognize passenger revenue from tickets when transportation is provided rather than when a ticket is sold. 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

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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.

	2018	2017	2016	2015	2014
Capacity (in available seat miles, in millions)	25,817	23,936	22,004	21,675	20,757
Load factor	83.4%	83.2%	80.4%	75.2%	76.7%
Yield (in cents)	12.02	12.27	12.15	13.40	16.58

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.

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 2018, as a result of the location of its hub, Copa purchased 54% of its aircraft fuel in Panama. Copa has 22 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.

Aircraft Fuel Data	2018	2017	2016
Average price per gallon of jet fuel into plane (excluding hedge) (in U.S. dollars)	\$ 2.32	\$ 1.85	\$ 1.53
Gallons consumed (in millions)	328.1	307.0	284.3
Available seat miles (in millions)	25,817	23,936	22,004
Gallons per ASM (in hundredths)	1.27	1.28	1.29

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.

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Passenger servicing. Our passenger servicing expenses consist of catering, in-flight entertainment and liability insurance among others. These expenses are generally directly related to the number of passengers we carry or the number of flights we operate.

Airport facilities and handling charges. Our airport facility and handling charges consist of take-off/landing charges, 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, 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, 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 our website at www.copaair.com, mobile app and call centers. 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 and heavy maintenance internally and outsource some of the heavy maintenance to independent third-party contractors. In 2015, we restructured 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, amortization and impairment. These expenses correspond primarily to the depreciation of aircraft owned by the company, engines, maintenance components and other related flight equipment.

Flight operations. These expenses are generally related to the charges that the countries which we overfly levy on our aircraft as overflight charges. These fees are generally related to the number of flights we operate.

Aircraft rentals and other rentals. Our aircraft rental expenses are generally fixed by the terms of our operating lease agreements. We currently have 29 operating leases, 24 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 mainly overhead expenditures and miscellaneous 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.

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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 \$34.5 million in 2018, \$49.3 million in 2017 and \$38.3 million in 2016.

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.

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 CGU's 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 2018 and the recoverable amount was estimated at \$5.2 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.

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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.

When a major maintenance inspection or overhaul cost is embedded in the initial purchase cost of an aircraft, the Company estimates the carrying amount of the component. These initial built-in maintenance assets are depreciated over the estimated time period until the first maintenance event is performed. The cost of major maintenance events completed after the aircraft acquisition are capitalized and depreciated over the estimated time period until the next major maintenance event. The remaining value of the previously capitalized component, if any, is charged to expense upon completion of the subsequent maintenance event.

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). In 2018, we recognized a \$188.6 million non-recurring impairment charge related to the Embraer 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. The Company's frequent flyer program objective, is to reward customer loyalty through the earning of miles whenever the program members make certain flights. The miles or points earned can be exchanged for flights on Copa or any of 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 tickets sale 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 separate performance obligation. 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.

A statistical model that estimates the percentages of points that will not be redeemed before expiration is used to estimate breakage. The breakage and the fair value of the miles are reviewed annually, and any adjustments are reflected on a prospective basis to passenger revenues.

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 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, and is included in passenger revenues.

In addition, the Company recognizes, in other operating revenues, the marketing component of mileage sales to co-branded card and other partners, in addition to other marketing related payments.

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The Company sells miles to non-airline businesses with which it has marketing agreements. The main contracts to sell miles are related to co-branded credit card relationships with major banks in the region. The Company determined the selling prices of miles according to a method which allocates consideration based upon the relative selling price of the deliverables. The relative selling price of the deliverables is determined based upon the estimated standalone selling prices of each deliverable in the arrangement and is allocated between the miles sold to the passenger (as described above) and the marketing elements. Revenue allocated to the performance obligations, related to marketing components, is recorded in other operating revenue when miles are delivered.

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 16, *Leases*
- IFRS 17, *Insurance Contracts*
- Amendment to IFRS 9, *Financial instruments*, on prepayment features with negative compensation
- Amendment to IAS 28, *Investments in Associates and Joint Ventures*
- Amendments to IAS 19 - *Employee benefits' on plan amendment, curtailment or settlement*
- Amendments to IFRS 3 - *Definition of a business*
- Amendments to IAS 1 and IAS 8 - *Definition of material*
- Amendments to IFRS 10 and IAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- Annual Improvements Cycle 2015 - 2017

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

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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:

	2018	2017	2016
Operating revenues:			
Passenger revenue	96.6%	96.9%	96.8%
Cargo and mail revenue	2.3%	2.2%	2.4%
Other operating revenue	1.0%	0.9%	0.8%
Total operating revenues	100.0%	100.0%	100.0%
Operating expenses:			
Fuel	28.6%	21.4%	23.8%
Wages, salaries, benefits and other employees expenses	16.6%	16.5%	16.7%
Passenger servicing	3.9%	3.9%	3.9%
Airport facilities and handling charges	7.0%	6.8%	7.2%
Sales and distribution	7.8%	7.9%	8.7%
Maintenance, materials and repairs	4.2%	5.2%	5.5%
Depreciation, amortization and impairment	13.4%	6.6%	7.6%
Flight operations	4.0%	4.0%	4.0%
Aircraft rentals and other rentals	4.9%	5.3%	6.3%
Cargo and courier expenses	0.4%	0.3%	0.3%
Other operating and administrative expenses	3.8%	3.8%	4.2%
Total operating expenses	94.6%	83.2%	88.1%
Operating income	5.4%	16.8%	11.9%
Non-operating income (expense):			
Finance cost	-1.3%	-1.4%	-1.7%
Finance income	0.9%	0.7%	0.6%
Gain (loss) on foreign currency fluctuations	-0.4%	0.2%	0.6%
Net change in fair value of derivatives	0.0%	0.1%	5.0%
Other non-operating income (expense)	0.0%	-0.1%	-0.2%
Total non-operating income (expense)	-0.8%	-0.4%	4.4%
Income/(loss) before income taxes	0.0%	0.0%	0.0%
Income taxes	-4.6%	-16.4%	-16.3%
Net profit (loss)	3.3%	14.4%	14.6%

Year 2018 Compared to Year 2017

Our consolidated net profit in 2018 totaled \$88.1 million, a 75.8% decrease from net profit of \$364.0 million in 2017. In addition, we had consolidated operating profit of \$145.0 million in 2018, a 65.8% decrease over operating profit of \$424.0 million in 2017. Our consolidated operating margin in 2018 was 5.4%, a decrease of 11.4 percentage points versus 2017. The 2018 results include a \$188.6 million non-cash and non-recurrent impairment charge related to the Embraer fleet.

Operating revenue

Our consolidated revenue totaled \$2.7 billion in 2018, a 6.2% increase over operating revenue of \$2.5 billion in 2017, mainly due to an increase of 5.9% in passenger revenue. This was driven by a 6.8% increase in passenger traffic partially offset by a 2.1% decrease in passenger yield compared to 2017.

Passenger revenue. Passenger revenue totaled \$2.6 billion in 2018, a 5.9% increase over passenger revenue of \$2.4 billion in 2017. This was driven by a 6.8% increase in passenger traffic, partially offset by a decrease of 2.1% in passenger yield compared to 2017.

Cargo and mail revenue. Cargo and mail revenue totaled \$62.5 million in 2018, a 13.0% increase from cargo and mail revenue of \$55.3 million in 2017, driven by more capacity.

Other operating revenue. Other operating revenue totaled \$27.8 million in 2018, a 24.8% increase from other revenue of \$22.2 million in 2017 driven by an increase in revenues from services to other airlines.

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Operating expenses

Our consolidated operating expenses totaled \$2.5 billion in 2018, a 20.7% increase over operating expenses of \$2.1 billion in 2017. This resulted mainly from an increase in fuel, labor, and depreciation expenses.

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

Fuel. Aircraft fuel totaled \$765.8 million in 2018, an 33.7% increase from aircraft fuel of \$572.7 million in 2017, mainly due to a 24.6% higher effective fuel price and a 6.0% increase in block hours.

Wages, salaries and other employees' expenses. Salaries and benefits totaled \$443.3 million in 2018, a 6.8% increase over salaries and benefits of \$415.1 million in 2017, mainly driven by a headcount increase to support additional capacity and the full year effect of inflationary salary adjustments.

Passenger servicing. Passenger servicing totaled \$104.3 million in 2018 compared to \$99.4 million in 2017. This represented a 4.9% increase driven by passenger traffic growth, partly offset by a lower effective rate per passenger.

Airport facilities and handling charges. Airport facilities and handling charges totaled \$186.4 million in 2018, a 9.0% increase over \$171.0 million in 2017. This increase was driven mainly by a 4.4% departures increase and higher effective rates related to airport services and handling charges in North America.

Sales and Distribution. Sales and distribution totaled \$210.2 million in 2018, a 4.9% increase compared to \$200.3 million in 2017, due to 5.9% higher passenger revenue, offset by lower commission rates.

Maintenance, materials and repairs. Maintenance, materials and repairs totaled \$111.7 million in 2018, a 15.5% decrease over maintenance, materials and repairs of \$132.1 million in 2017. This decrease was primarily a result of lower lease return expenses.

Depreciation, amortization and impairment. Depreciation totaled \$358.1 million in 2018, a 114.0% increase over \$167.3 million in 2017, mainly due to a \$188.6 million non-recurring impairment charge related to the Embraer fleet.

Flight operations. Flight operations amounted to \$108.4 million in 2018, a 6.7% increase compared to \$101.6 million in 2017, mainly due to 6.0% more block hours and higher overflight rates.

Aircraft rentals and other rentals. Aircraft rental expense amounted to \$132.5 million in 2018, a 1.5% decrease from \$134.5 million reported in 2017. This decrease was primarily a result of fewer leased aircraft, and lower lease rates.

Cargo and courier expenses. Cargo and courier expenses amounted to \$10.1 million in 2018, a 36.6% increase compared to \$7.4 million in 2017, mainly due to an increase in transported kilos.

Other operating and administrative expenses. Other expenses totaled \$101.8 million in 2018, a 6.0% increase from \$96.1 million in 2017, mainly due to taxes and overhead expenses.

Total Non-operating Income (Expense)

Non-operating expense totaled \$22.4 million in 2018, as compared to non-operating expense of \$10.7 million in 2017 mainly due to a translational loss in foreign exchange rates.

Finance cost. Finance cost totaled \$35.9 million in 2018, an 1.8% increase over finance cost of \$35.2 million in 2017, as a result of a lower average debt balance with higher rates that were offset by lower factoring interest rate flows.

Finance income. Finance income totaled \$23.6 million in 2018, a 31.7% increase over finance income of \$17.9 million in 2017 due to an increase in investments and higher interest rates.

Other non-operating income (expense). Other non-operating expense totaled \$0.2 million in 2018, compared to \$2.3 million in 2017 mainly due to fix asset disposition.

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Year 2017 Compared to Year 2016

Our consolidated net profit in 2017 totaled \$364.0 million, a 12.6% increase from a net profit of \$323.4 million in 2016. In addition, we had consolidated operating profit of \$424.0 million in 2017, a 60.0% increase over operating profit of \$265.0 million in 2016. Our consolidated operating margin in 2017 was 16.8%, an increase of 4.9 percentage points versus 2016.

Operating revenue

Our consolidated revenue totaled \$2.5 billion in 2017, a 13.6% 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 \$2.4 billion in 2017, a 13.8% increase over passenger revenue of \$2.1 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 \$22.2 million in 2017, a 33.2% increase from other operating revenue of \$16.7 million in 2016, driven by an increase 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 \$2.0 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, mainly due to an 8.0% higher fuel consumption.

Wages, salaries and other employees' expenses. Wages, 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 mainly 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 over \$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 \$200.3 million in 2017, a 3.3% increase compared to \$193.8 million in 2016 due to 14.3% higher passenger revenue, offset by lower commission rates.

Maintenance, materials and repairs. Maintenance, materials and repairs totaled \$132.1 million in 2017, an 8.5% 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 lease returns.

Depreciation, amortization and impairment. Depreciation totaled \$167.3 million in 2017, a 0.3% decrease over \$167.9 million in 2016, mainly as a result fewer 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.

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

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 operating and administrative expenses totaled \$96.1 million in 2017, a 4.2% increase from \$92.2 million in 2016, mainly due to more expenses in legal fees, software and equipment.

Total Non-operating Income (Expense)

Non-operating expenses totaled \$10.7 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% increase over finance income of \$13.0 million in 2016, due to higher investments.

Net Change in fair value 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 income (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.

B. Liquidity and Capital Resources

Our cash, cash equivalents, and short-term investments at December 31, 2018 decreased by \$221.5 million, to \$722.4 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 27.0% of our revenues for the year ended December 31, 2018; 17.7% of our total assets and 39.2% of our total equity as of December 31, 2018, 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 Holdings, S.A., through its subsidiaries, has short term unsecured credit facilities with financial institutions in the aggregate amount of \$212.3 million. These lines of credit have been put in place to finance aircraft delivery pre-delivery payments and for working capital purposes. As of December 31, 2018, our outstanding borrowings under these credit lines were \$140.0 million (2017: \$127.8 million).

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, 2018 were \$436.8 million, a decrease of \$290.6 million over the \$727.3 million in 2017. Our principal source of cash is receipts from ticket sales to customers, which for the year ended December 31, 2018 increased by \$73.0 million over receipts in the year 2017.

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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 \$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 \$334.4 million over receipts in the year 2016.

Investing Activities

Net cash flow used in investing activities was \$149.6 million in 2018 compared to a net cash flow used in investing activities of \$578.2 million in 2017 and net cash flow used in investing activities of \$179.9 million in 2016. During 2018, we made capital expenditures of \$33.7 million, which consisted of expenditures related to the net of acquisition of property and equipment and reimbursements of advance payments on aircraft purchase contracts, compared to \$81.1 million in 2017 and \$50.9 million in 2016. In 2018, the Company used \$63.7 million in acquiring investments compared to \$287.1 million in 2017 and \$67.1 million from net proceeds on investments in 2016.

Financing Activities

Net cash flow used in financing activities were \$323.9 million in 2018 compared to net cash flows used in financing activities of \$204.8 million in 2017 and \$248.6 million in 2016. During 2018, \$225.0 million of proceeds from borrowings were offset by the repayment of \$401.3 million in debt and \$147.6 million in dividends paid. During 2017, \$147.8 million of proceeds from financing were offset by the repayment of \$246.3 million in debt and \$106.8 million in dividends declared. During 2016, \$164.4 million of proceeds from borrowing were offset by the repayment of \$327.0 million in debt, \$86.1 million in dividends paid.

Over the years, 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 \$178.3 million as of December 31, 2018 at an average weighted interest rate of 3.15%, \$119.5 million bears interest at a floating weighted average interest rate of 3.01% representing a spread of 20 bps over the 3 month LIBOR of December 31, 2018. At December 31, 2018, the total amount outstanding under our Ex-Im-supported financings totaled \$298 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.

Since 2014, we have financed our aircraft through a mix of Japanese Operating Leases with Call Options, or “JOLCO”, and sale-leasebacks.

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 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 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. We have financed 19 Boeing 737 Next Generation and 737 MAX aircraft since 2014 through JOLCO financing. As of December 31, 2018 JOLCO financed debt outstanding was \$776.8 million.

Our Embraer aircraft have all been financed via commercial loans. As of December 31, 2018 the total amount outstanding is \$57.6 million.

We complied with all required covenants in 2018.

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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.

As of December 31, 2018, the Company had one purchase contract with Boeing which entails 67 firm orders of Boeing 737 MAX aircraft, agreed to be delivered between 2019 and 2025. The aircraft under this contract have an approximate value of \$8.8 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.

The Company maintained letters of credit with several banks with a value of \$25.9 million as of December 31, 2018 (\$25.5 million as of December 31, 2017). These letters of credit are pledged mainly for operating lessors, maintenance providers and airport operators.

Copa Airlines has lines of credit for a total of \$262.3 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.

As of December 31, 2018, the Company has a balance of outstanding lines of credit of \$140.0 million. As of December 31, 2017, the Company's balance from lines of credit was \$127.8 million.

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

Beginning in the middle of 2018, we have experienced a soft yield environment driven primarily by weak macro-economic factors in the region, especially in Brazil and Argentina. We expect to continue seeing weak unit revenues in the first half of 2019 driven by low yields, particularly when compared to a very strong first quarter in 2018. By the second half of 2019 we expect the environment to stabilize or even modestly recover.

We intend to continue developing initiatives to improve our operational efficiency and performance, including a continued focus on maintaining our industry leading on-time performance and completion factor.

Wingo had a successful 2018 both operationally and financially. It achieved profitability in Colombia earlier than planned, and was recognized as the Best Budget Carrier in Latin America according to Kayak users. In 2019, Wingo will significantly increase its capacity and expects to improve both its unit costs and profitability. During 2019, Wingo's four 737-700 aircraft will be transitioned to Copa Airlines livery and configuration, and Copa will send five 737-800 to Wingo. The fifth Wingo aircraft will most likely be based in Panama.

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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, 2018 included the following:

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	8,878,648	1,130,899	2,754,003	3,197,842	1,795,904
Aircraft operating leases	454,825	113,233	199,949	122,334	19,309
Other operating leases	109,247	15,222	45,835	30,027	18,163
Short-term debt and long-term debt(1)	1,287,248	311,965	240,311	188,392	546,580
Total	10,729,968	1,571,319	3,240,098	3,538,595	2,379,956

(1) Includes actual interest and estimated interest for floating-rate debt based on December 31, 2018 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. 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. 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 2018.

The following table sets forth the name, age and position of each member of our Board of Directors as of March 31, 2019. 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	61
Stanley Motta	Chairman and Director	74
Alvaro Heilbron	Director	54
Jaime Arias	Director	85
Ricardo Alberto Arias	Director	80
Carlos A. Motta	Director	47
John Gebo	Director	49
Jose Castañeda Velez	Director	75
Roberto Artavia Loria	Director	60
Andrew Levy	Director	50
Josh Connor	Director	45

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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.

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 Bahía, 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 Fundación 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, Coyol 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.

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Mr. Andrew Levy is one of the independent directors of Copa Holdings. Previously, he served as CFO of UAL. He also served as 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.

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, 2019. A brief biographical description of each of our executive officers follows the table.

Name	Position	Age
Pedro Heilbron	Chief Executive Officer and Director	61
José Montero	Chief Financial Officer	49
Daniel Gunn	Senior Vice-President of Operations	51
Dennis Cary	Senior Vice-President of Commercial and Planning	55
Vidalía de Casado	Vice-President of Human Resources	62
Julio Toro	Vice-President of Technology	45
Ahmad Zamany	Vice-President of Technical Operations	61
Bolívar Domínguez	Vice-President of Flight Operations	44
Timothy Manoles	Loyalty Vice-President	59
Christophe Didier	Vice-President of Sales	55
Christopher Amenechi	Vice-President of Pricing and Revenue Management	53
Eduardo Lombana	Chief Executive Officer of Copa Colombia	57

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 Aeronautical 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.

Ms. Vidalía 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.

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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 Lack 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. 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 Vice President 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.

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 2018, we paid an aggregate of approximately \$6.1 million in cash compensation to our executive officers. 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.

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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, 100% of the awarded stock at the third 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

	2018	2017	2016
Shares	43,355	36,229	291,872
Fair value	135.81	\$107.29	\$59.94 to \$63.3
Contractual life	3 to 5 years	3 years	3 to 5 years

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 options awards amounts to \$7.1 million, \$7.4 million, and \$7.5 million in 2018, 2017, and 2016, respectively, and was recorded as a component of “Wages, salaries, benefits and other employees’ expenses” within operating expenses.

During the first quarter of 2019, the Compensation Committee of the Company’s Board of Directors approved three awards. Awards under these plans will grant approximately 30,412 shares of non-vested stock, which will vest over a period of three years. The Company estimates the fair value of these awards to be approximately \$2.7 million and the 2019 compensation cost for these plans will be \$1.4 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. 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. 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 2018.

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, including cybersecurity and privacy risks and the Company's procedures and policies for assessing and managing such risks;
- 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 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.

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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, Jose Castañeda and Andrew Levy, 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 76.8% of the Company's employees are located in Panama, while the remaining 23.2% are distributed among our foreign stations. Copa's employees can be categorized as follows:

<u>December 31,</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Pilots	1,426	1,290	1,183
Flight attendants	2,358	2,204	2,043
Mechanics	440	512	477
Customer service agents, reservation agents, ramp and others	2,905	2,919	2,954
Management and clerical	2,321	2,120	2,076
Total employees	9,450	9,045	8,733

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 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 in May of 2019.

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Approximately 63.2% of the Company's 9,450 employees are unionized. Our employees currently belong to eight union organizations; four 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 four unions covering employees in Panama include: the pilots' union (UNPAC); the flight attendants' union (SIPANAB); the mechanics' union (SITECMAP), 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 with the flight attendants' union in 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 (SITRANAC), and the Mechanics Union in Colombia (ACMA).

Copa entered into collective bargaining with ACDAC and ACAV in January 2018. ACDAC has not yet resolved and ACAV ended with an arbitration process and we have a new arbitration collective document for terms of two years until September 2020.

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, 2018. ACMA has not presented a new bill of petition.

Copa Colombia 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".

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, 2018 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".

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Class A Shares Beneficially Owned	Shares	(%)(1)
CIASA(2)	0	0.0%
Executive officers and directors as a group (15 persons)	92,761	0.3%
Others	31,164,925	99.7%
Total	31,257,686	

(1) Based on a total of 31,257,686 Class A shares outstanding.

(2) CIASA owns 100% of the Class B shares of Copa Holdings representing 25.9% 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, 2019. 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 25.9% 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 Copa Holdings, S.A., Boulevard Costa del Este, Avenida Principal y Avenida de la Rotonda, Urbanización Costa del Este, Complejo Business Park, Torre Oeste, 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, 2019, we had 337 registered record holders of our Class A shares.

B. Related Party Transactions

Registration Rights Agreement

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.

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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 \$3.8 million, \$3.0 million and \$1.3 million in 2018, 2017, and 2016, respectively. There have not been any material interest payments for the last three years. There was no outstanding debt balance at December 31 2018, 2017, or 2016. 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 \$9.7 million in 2018, \$8.5 million in 2017 and \$7.1 million in 2016.

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 \$398.7 million in 2018, \$290.2 million in 2017 and \$229.9 million in 2016.

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 \$0.2 million per month. Payments to Desarrollo Inmobiliario Del Este, S.A. totaled \$3.8 million, \$3.6 million and \$3.8 million in 2018, 2017 and 2016, 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 \$0.5 million, \$0.4 million and \$0.3 million in 2018, 2017 and 2016, respectively.

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 \$1.7 million, \$1.4 million, and \$1.6 million in 2018, 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 \$5.8 million in 2018 and \$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 Intemacional, 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 \$1.6 million in 2018, \$1.7 million in 2017 and \$1.7 million in 2016.

[Table of Contents](#)**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 ratification each quarter. 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.

<u>Dividend for Fiscal Year:</u>	<u>Payment Date</u>	<u>Total Dividend Payment (U.S. Dollars)</u>	<u>Cash Dividend per Share</u>
2018	December 14, 2018	\$37 million	0.87
2018	September 14, 2018	\$37 million	0.87
2018	June 15, 2018	\$37 million	0.87
2018	March 15, 2018	\$37 million	0.87
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	15-dic-16	\$22 million	0.51
2016	13-sep-16	\$22 million	0.51
2016	16-jun-16	\$21 million	0.51
2016	16-mar-16	\$21 million	0.51
2015	December 15, 2015	\$37 million	0.84
2015	September 15, 2015	\$37 million	0.84
2015	June 15, 2015	\$37 million	0.84
2015	March 16, 2015	\$37 million	0.84

B. Significant Changes

None

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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.

	<u>Low</u>	<u>High</u>
2014		
Annual	87.00	162.83
2015		
Annual	39.03	121.25
2016		
Annual	42.61	97.00
2017		
Annual	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
2018		
Annual	67.38	141.34
First Quarter	122.03	141.34
Second Quarter	91.75	130.94
Third Quarter	74.77	99.78
Fourth Quarter	67.38	88.15
October	67.38	85.09
November	68.50	85.27
December	72.00	88.15
2019		
Annual	77.31	100.00
First Quarter	77.31	100.00
January	77.31	100.00
February	87.09	99.12
March	77.94	85.91

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.

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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.

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, 2018, we had 33,816,276 Class A shares issued and 31,257,686 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;

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- 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 director's 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 below under "—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".

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 “Item 4. Information on the Company. Business Overview. 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:

- 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.

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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.

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.

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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 Computershare Inc. 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.

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.

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

(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.

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.

Panama

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

Delaware

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.

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. 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.

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.

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.

- (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;

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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.

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.

Delaware

(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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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.

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.

No comparable provisions exist under Delaware law.

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 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.

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, 2021 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 early 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 by means of reconciliation.

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 January 2019.

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 stock (by vote or value);
- a partnership or other pass-through entity (or investor therein) for United States federal income tax purposes; or
- a person whose “functional currency” is not the United States dollar.

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 related to the payments with respect to positions in substantially similar or related property,

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 were a passive foreign investment company (a “PFIC”) for United States federal income tax purposes for 2018, and we expect to operate in such a manner so as not to become a PFIC in 2019 or the foreseeable future. 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 generally 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 establish that you are an exempt recipient such as a corporation. A backup withholding tax may apply to such payments unless you provide an accurate taxpayer identification number and make any other required certification or otherwise establish an exemption.

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.

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Panama

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 NYSE 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.

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, 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. The Company has not entered into new fuel hedge contracts, and has adopted a new strategy of remaining unhedged, while regularly reviewing its policies based on market conditions and others factors. As of December 31, 2018, the Company did not have any outstanding fuel hedge contracts. Market risk is estimated as a hypothetical 10% increase in the December 31, 2018 cost per gallon of fuel. Based on projected 2018 fuel consumption, such an increase would result in an increase to aircraft fuel expense of approximately \$58.0 million in 2019. There are no hedged contracts for 2019.

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 2019 than they did during 2018, our interest expense would increase by approximately \$1.4 million and the fair value of the debt would decrease by approximately \$10.2 million. If interest rates average 10% less in 2019 than they did in 2018, our interest income from marketable securities would decrease by approximately \$1.4 million and the fair value of our debt would increase by approximately \$10.2 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, 2018.

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 44.7% of revenues and 55.3% 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 22.7%, 11.3%, and 7.2% of our revenue in 2018, respectively.

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.

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The following chart summarizes the Company's exchange risk exposure (assets and liabilities denominated in foreign currency) at December 31, 2018 and 2017:

	As of December 31, 2018	As of December 31, 2017
Assets		
Cash and cash equivalents	\$ 53,123	\$ 25,189
Investments	2	277
Accounts receivables, net	68,171	75,769
Other assets	19,107	29,459
Total assets	<u>\$ 140,403</u>	<u>\$ 130,694</u>
Liabilities		
Accounts payables suppliers and agencies	\$ 48,501	\$ 37,186
Accumulated taxes and expenses payables	40,243	50,922
Other liabilities	20,771	25,471
Total liabilities	<u>\$ 109,515</u>	<u>\$ 113,579</u>
Net position	<u>\$ 30,888</u>	<u>\$ 17,114</u>

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.

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

A. 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, 2018. 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.

B. 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, 2018. 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

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- (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, 2018, the Company's internal control over financial reporting is effective based on those criteria.

C. Attestation Report of the Registered Public Accounting Firm

The effectiveness of our internal controls over financial reporting as of December 31, 2018 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.

D. Changes in Internal Control over Financial Reporting

During the last quarter of 2018, the Company migrated the its cargo activities into a new cargo system, and also initiated the phased implementation upgrade of the system supporting the sales and reservation program with the intention of automating internal procedures and controls, and increasing functionality to support operations. Our internal controls over financial reporting were adjusted to mitigate key risks regarding the quality of information produced from our cargo services processes which includes our service organization reports. In preparation for the adoption of IFRS 16 in January 2019, the Company designed an internal project to document, evaluate, design and implement changes to be produced thereafter. A risk-based analysis was addressed and documented accordingly aligned with our internal control standards.

In relation with the material weakness in our internal control over financial reporting in the year ended December 31, 2017 related to the Company's flight equipment accounting treatment, we have remediated it by adjusting our policies accordingly and reflected the appropriate accounting treatment in our 2018 consolidated financial statements.

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, 2018, 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, 2018, 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, 2018 and 2017 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, 2018, and the related notes, and our report dated April 24, 2019, expressed an unqualified opinion thereon.

Basis for Opinion

The Company's 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,

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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.

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 24, 2019

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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 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, 2018, 2017 and 2016:

	2018	2017	2016
Audit Fees	\$ 981,810	\$ 1,025,000	\$ 1,150,000
Audit-Related Fees	—	—	—
Tax Fees	—	—	—
All Other Fees	—	—	—
Total	\$ 981,810	\$ 1,025,000	\$ 1,150,000

Audit Fees

Audit fees for 2018, 2017 and 2016 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 2018, 2017 or 2016.

Tax Fees

There were no tax fees for 2018, 2017 or 2016.

All Other Fees

Other fees for 2018, 2017 and 2016 included amounts paid for permitted consulting services performed by Ernst & Young and pre-approved by our audit committee. There were no such fees in 2018, 2017 or 2016.

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 2018, none of the fees paid to Ernst & Young were approved pursuant to the de minimis exception.

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Item 16D. Exemptions from the Listing Standards for Audit Committees

None

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:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced program	Maximum number of shares that may be yet be purchased under the program
Program 2014 (EOMR)				
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
ASR 2015				
September 2015	500,000		850,242	
December 2015	1,460,250		2,310,492	
Total	2,310,492			

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, 2017 or 2018.

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

Item 16H. Mine Safety Disclosure

None

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.

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](#)
- 10.1 (2008) [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.](#)
- 10.2**† [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](#)
- 10.3**† [Aircraft Lease Amendment Agreement dated as of May 21, 2003 to Aircraft Lease Agreement, dated October 1, 1998, between Wells Fargo Bank Northwest and Compañía Panameña de Aviación, S.A., in respect of Boeing Model 737-71Q Aircraft, Serial No. 29047](#)
- 10.4**† [Aircraft Lease Agreement, dated as of October 1, 1998, between First Security Bank and Compañía Panameña de Aviación, S.A., in respect of Boeing Model 737-71Q Aircraft, Serial No. 29048](#)
- 10.5**† [Letter Agreement dated as of November 6, 1998 amending Aircraft Lease Agreement, dated as of October 1, 1998, between First Security Bank and Compañía Panameña de Aviación, S.A., in respect of Boeing Model 737-71Q Aircraft, Serial No. 29048](#)
- 10.6**† [Aircraft Lease Amendment Agreement dated as of May 21, 2003 to Aircraft Lease Agreement, dated October 1, 1998, between Wells Fargo Bank Northwest and Compañía Panameña de Aviación, S.A., in respect of Boeing Model 737-71Q Aircraft, Serial No. 29048](#)
- 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](#)
- 10.8**† [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](#)
- 10.9**† [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](#)
- 10.10**† [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](#)
- 10.11**† [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](#)

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- 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](#)
- 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](#)
- 10.14**† [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](#)
- 10.15**† [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](#)
- 10.16**† [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](#)
- 10.17**† [Aircraft Lease Agreement, dated as of December 23, 2004, between Wells Fargo Bank Noorthwest, N.A. and Compañía Panameña de Aviación, S.A., Boeing Model 737- 800 Aircraft, Serial No. 29670](#)
- 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.](#)
- 10.19**† [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.](#)
- 10.20**† [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.](#)
- 10.21** [Aircraft General Terms Agreement, dated November 25, 1998, between The Boeing Company and Copa Holdings, S.A.](#)
- 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](#)
- 10.23**† [Supplemental agreement No. 1 dated 2001 to Purchase Agreement Number 2191 between The Boeing Company and Copa Holdings, S.A.](#)
- 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.](#)
- 10.25**† [Supplemental Agreement No. 3 dated as of June 14, 2002 to Purchase Agreement Number 2191 between The Boeing Company and Copa Holdings, S.A.](#)
- 10.26**† [Supplemental Agreement No. 4 dated as of December 20, 2002 to Purchase Agreement Number 2191 between The Boeing Company and Copa Holdings, S.A.](#)
- 10.27**† [Supplemental Agreement No. 5 dated as of October 31, 2003 to Purchase Agreement Number 2191 between The Boeing Company and Copa Holdings, S.A.](#)
- 10.28**† [Supplemental Agreement No. 6 dated as of September 9, 2004 to Purchase Agreement Number 2191 between The Boeing Company and Copa Holdings, S.A.](#)
- 10.29**† [Supplemental Agreement No. 7 dated as of December 9, 2004 to Purchase Agreement Number 2191 between The Boeing Company and Copa Holdings, S.A.](#)
- 10.30**† [Supplemental Agreement No. 8 dated as of April 15, 2005 to Purchase Agreement Number 2191 between The Boeing Company and Copa Holdings, S.A.](#)
- 10.31**† [Maintenance Cost per Hour Engine Service Agreement, dated March 5, 2003, between G.E. Engine Services, Inc. and Copa Holdings, S.A.](#)

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10.32**†	<u>English translation of Aviation Fuel Supply Agreement, dated July 18, 2005, between Petróleos Delta, S.A. and Compañía Panameña de Aviación, S.A.</u>
10.33**†	<u>Form of Amended and Restated Alliance Agreement between Continental Airlines, Inc. and Compañía Panameña de Aviación, S.A.</u>
10.34**	<u>Form of Amended and Restated Services Agreement between Continental Airlines, Inc. and Compañía Panameña de Aviación, S.A.</u>
10.35**	<u>Form of Second Amended and Restated Shareholders' Agreement among Copa Holdings, S.A., Corporación de Inversiones Aéreas, S.A. and Continental Airlines, Inc.</u>
10.36**	<u>Form of Guaranteed Loan Agreement</u>
10.37**	<u>Form of Amended and Restated Registration Rights Agreement among Copa Holdings, S.A., Corporación de Inversiones Aéreas, S.A. and Continental Airlines, Inc.</u>
10.38**	<u>Form of Copa Holdings, S.A. 2005 Stock Incentive Plan</u>
10.39**	<u>Form of Copa Holdings, S.A. Restricted Stock Award Agreement</u>
10.40*	<u>Form of Indemnification Agreement with the Registrant's directors</u>
10.41**	<u>Form of Amended and Restated Trademark License Agreement between Continental Airlines, Inc. and Compañía Panameña de Aviación, S.A.</u>
10.42*†	<u>Embraer 190 Purchase Agreement COM 0028-06 dated February 2006 between Embraer—Empresa Brasileira de Aeronáutica S.A. and Copa Holdings, S.A. relating to Embraer 190LR aircraft</u>
10.43*†	<u>Letter Agreement COM 0029-06 to the Embraer Agreement dated February 2006 between Embraer—Empresa Brasileira de Aeronáutica S.A. and Copa Holdings, S.A. relating to Embraer 190LR aircraft</u>
10.44*†	<u>Supplemental Agreement No. 9 dated as of March 16, 2006 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A.</u>
10.44 (2006)†	<u>Supplemental Agreement No. 11 dated as of August 30, 2006 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A.</u>
10.45*†	<u>Supplemental Agreement No. 10 dated as of May 8, 2006 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A.</u>
10.45 (2006)†	<u>Supplemental Agreement No. 12 dated as of February 26, 2007 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A.</u>
10.46 (2006)†	<u>Supplemental Agreement No. 13 dated as of April 23, 2007 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A.</u>
10.47(2007)†	<u>Supplemental Agreement No. 14 dated as of August 31, 2007 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A.</u>
10.48(2007)†	<u>Supplemental Agreement No. 15 dated as of February 21, 2008 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A.</u>
10.49(2008)†	<u>Supplemental Agreement No. 16 dated as of June 30, 2008 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A.</u>
10.50(2008)†	<u>Supplemental Agreement No. 17 dated as of December 15, 2008 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A.</u>
10.51(2009)†	<u>Supplemental Agreement No. 18 dated as of July 15, 2009 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A.</u>
10.52(2009)†	<u>Supplemental Agreement No. 19 dated as of August 31, 2009 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A.</u>

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10.53(2009)†	<u>Supplemental Agreement No. 20 dated as of November 19, 2009 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A</u>
10.54(2010)†	<u>Supplemental Agreement No. 21 dated as of May 28, 2010 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A</u>
10.55(2010)†	<u>Supplemental Agreement No. 22 dated as of September 24, 2010 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A</u>
10.56(2010)†	<u>Supplemental Agreement No. 23 dated as of October, 2010 to the Boeing Purchase Agreement Number 2191 dated November 25, 1998 between the Boeing Company and Copa Holdings, S.A</u>
10.57(2011)†	<u>On Pointsm Solutions Rate per Engine Flight Hour Service Agreement dated as of May 22, 2011 between GE Engine Services, LLC., Compañía Panameña de Aviación, S.A., and Lease Management Services, LLC.</u>
10.58(2012)†	<u>On Pointsm Solutions Rate per Engine Flight Hour Service Agreement dated as of April 15, 2012 between GE Engine Services, LLC., Compañía Panameña de Aviación, S.A., and Lease Management Services, LLC.</u>
10.62(2017) †	<u>Purchase Agreement No. PA-03774 dated June 27, 2012 between The Boeing Company and Copa Holdings S.A. relating to Boeing Model 737 MAX Aircraft.</u>
12.1	<u>Certification of the Chief Executive Officer, pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934.</u>
12.2	<u>Certification of the Chief Financial Officer, pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934.</u>
13.1	<u>Certification of Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
13.2	<u>Certification of the Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
21.1**	<u>Subsidiaries of the Registrant</u>
101. INS	XBRL Instance Document.
101. SCH	XBRL Taxonomy Extension Schema Document.
101. CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101. LAB	XBRL Taxonomy Extension Label Linkbase Document.
101. PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101. DEF	XBRL Taxonomy Extension Definition Document.
*	Previously filed with the SEC as an exhibit and incorporated by reference from our Registration Statement on Form F-1, filed June 15, 2006, File No. 333-135031.
**	Previously filed with the SEC as an exhibit and incorporated by reference from our Registration Statement on Form F-1, filed November 28, 2005, as amended on December 1, 2005 and December 13, 2005, File No. 333-129967.
2006	Previously filed with the SEC as an exhibit and incorporated by reference from our Annual Report on Form 20-F, filed July 2, 2007, File No.001-07956031.
2007	Previously filed with the SEC as an exhibit and incorporated by reference from our Annual Report on Form 20-F, filed May 9, 2008, File No.001-08818238.
2008	Previously filed with the SEC as an exhibit and incorporated by reference from our Annual Report on Form 20-F, filed May 6, 2009, File No. 001- 09801609.
2009	Previously filed with the SEC as an exhibit and incorporated by reference from our Annual Report on Form 20-F, filed March 17, 2010, File No. 001- 10686910.

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2010	Previously filed with the SEC as an exhibit and incorporated by reference from our Annual Report on Form 20-F, filed May 17, 2011, as amended on December 22, 2011, File No. 001-111276555
2011	Previously filed with the SEC as an exhibit and incorporated by reference from our Annual Report on Form 20-F, filed April 16, 2012, File No. 001-12762135.
2012	Previously filed with the SEC as an exhibit and incorporated by reference from our Annual Report on Form 20-F, filed April 29, 2013, File No. 001-13792566.
2017	Previously filed with the SEC as an exhibit and incorporated by reference from our Annual Report on Form 20-F, filed April 18, 2017, File No. 001-32696
†	The Registrant was granted confidential treatment for portions of this exhibit.

SIGNATURES

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

COPA HOLDINGS, S.A.

By: /s/ Pedro Heilbron

Name: Pedro Heilbron
Title: Chief Executive Officer

By: /s/ Jose Montero

Name: Jose Montero
Title: Chief Financial Officer

Dated: April 24, 2019

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Consolidated Financial Statements
Copa Holdings, S. A. and Subsidiaries
Year ended December 31, 2018
with Report of the Independent Registered Public Accounting Firm

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

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Report of the Independent Registered Public Accounting Firm

To the Board of Directors and the Shareholders of
Copa Holdings, S.A. and subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Copa Holdings, S.A. and subsidiaries as of December 31, 2018 and 2017, 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, 2018 and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 24, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. 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 audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Ernst & Young Limited Corp.
A member practice of Ernst & Young Global Limited

/s/ Ernst & Young Limited Corp.

We have served as the Company's auditor since 1999.
Panama City, Republic of Panama
April 24, 2019

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Copa Holdings, S. A. and Subsidiaries
Consolidated statement of financial position
As of December, 31
(In US\$ thousands)

	Notes	2018	2017 Restated*
ASSETS			
Current assets			
Cash and cash equivalents	8	\$ 156,158	\$ 238,792
Investments	9	566,200	705,108
Accounts receivable	10,23	116,054	115,641
Expendable parts and supplies	11	86,530	81,825
Prepaid expenses	12	74,384	45,421
Prepaid income tax		10,357	—
Other currents assets	13,17	54,386	11,701
		<u>1,064,069</u>	<u>1,198,488</u>
Non-current assets			
Investments	9	138,846	65,953
Accounts receivable	10	1,177	2,444
Prepaid expenses	12	25,637	26,130
Property and equipment	13	2,701,322	2,617,407
Net pension asset	15	5,091	3,185
Intangible assets	16	101,168	81,115
Deferred tax assets	22	16,041	19,099
Other non-current assets	17	33,899	31,140
		<u>3,023,181</u>	<u>2,846,473</u>
Total assets		<u>\$4,087,250</u>	<u>\$4,044,961</u>
LIABILITIES AND EQUITY			
Current liabilities			
Current maturities of long-term debt	18	\$ 311,965	\$ 298,462
Trade, other payables and financial liabilities	19,23	141,030	130,590
Air traffic liability	7.2	471,676	477,168
Frequent flyer deferred revenue	7.2	30,342	17,197
Taxes and interest payable		44,749	70,077
Accrued expenses payable	20	47,390	60,321
Income tax payable		—	3,700
		<u>1,047,152</u>	<u>1,057,515</u>
Non-current liabilities			
Long-term debt	18	975,283	876,119
Frequent flyer deferred revenue	7.2	37,472	33,115
Other long-term liabilities	21	137,724	130,621
Deferred tax liabilities	22	48,940	52,465
		<u>1,199,419</u>	<u>1,092,320</u>
Total liabilities		<u>2,246,571</u>	<u>2,149,835</u>
Equity			
Issued capital	24		
Class A common stock -33,816,276 (2017 -33,776,480) shares issued, 31,257,686 (2017 - 31,185,641) outstanding		21,087	21,038
Class B common stock - 10,938,125 (2017 - 10,938,125) shares issued and outstanding, no par value		7,466	7,466
Additional paid in capital		80,041	72,945
Treasury stock		(136,388)	(136,388)
Retained earnings		1,872,700	1,933,953
Accumulated other comprehensive loss		(4,227)	(3,888)
Total equity		<u>1,840,679</u>	<u>1,895,126</u>
Commitments and contingencies	27	—	—
Total liabilities and equity		<u>\$4,087,250</u>	<u>\$ 4,044,961</u>

* See in note 5.1

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

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Copa Holdings, S. A. and Subsidiaries
Consolidated statement of profit or loss
For the year ended December, 31
(In US\$ thousands)

	<u>Notes</u>	<u>2018</u>	<u>2017</u> <u>Restated*</u>	<u>2016</u> <u>Restated*</u>
Operating revenue				
Passenger revenue		\$2,587,389	\$2,444,251	\$2,148,501
Cargo and mail revenue		62,483	55,290	53,989
Other operating revenue		<u>27,755</u>	<u>22,245</u>	<u>16,696</u>
	7	<u>2,677,627</u>	<u>2,521,786</u>	<u>2,219,186</u>
Operating expenses				
Fuel		765,781	572,746	528,996
Wages, salaries, benefits and other employees' expenses		443,287	415,147	370,190
Passenger servicing		104,346	99,447	86,329
Airport facilities and handling charges		186,422	171,040	159,771
Sales and distribution		210,158	200,256	193,837
Maintenance, materials and repairs		111,677	132,148	121,781
Depreciation and amortization	13,16	169,436	167,324	167,894
Impairment of non financial assets	13	188,624	—	—
Flight operations		108,437	101,647	88,188
Aircraft rentals and other rentals		132,534	134,539	138,885
Cargo and courier expenses		10,075	7,375	6,099
Other operating and administrative expenses		<u>101,812</u>	<u>96,087</u>	<u>92,215</u>
		<u>2,532,589</u>	<u>2,097,756</u>	<u>1,954,185</u>
Operating profit		145,038	424,030	265,001
Non-operating (expense) income				
Finance cost	18	(35,850)	(35,223)	(37,024)
Finance income	18	23,628	17,939	13,000
(Loss) Gain on foreign currency fluctuations		(9,952)	6,145	13,043
Net change in fair value of derivatives		—	2,801	111,642
Other non-operating expense		<u>(239)</u>	<u>(2,337)</u>	<u>(3,982)</u>
		<u>(22,413)</u>	<u>(10,675)</u>	<u>96,679</u>
Profit before taxes		122,625	413,355	361,680
Income tax expense	22	<u>(34,530)</u>	<u>(49,310)</u>	<u>(38,271)</u>
Net profit		<u>\$ 88,095</u>	<u>\$ 364,045</u>	<u>\$ 323,409</u>
Earnings per share				
Basic and diluted	26	<u>\$ 2.07</u>	<u>\$ 8.58</u>	<u>\$ 7.63</u>

* See in note 5.1

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

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Copa Holdings, S. A. and Subsidiaries
Consolidated statement of comprehensive income
For the year ended December, 31
(In US\$ thousands)

	<u>2018</u>	<u>2017</u> <u>Restated*</u>	<u>2016</u> <u>Restated*</u>
Net profit	<u>\$88,095</u>	<u>\$364,045</u>	<u>\$323,409</u>
Other comprehensive loss			
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods -			
Remeasurement of actuarial loss, net of amortization	<u>(339)</u>	<u>(2,016)</u>	<u>(1,104)</u>
Total comprehensive income for the year	<u><u>\$87,756</u></u>	<u><u>\$362,029</u></u>	<u><u>\$322,305</u></u>

* See in note 5.1

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Copa Holdings, S. A. and Subsidiaries
Consolidated statement of changes in equity
For the year ended December, 31
(In US\$ thousands)

	Notes	Common stock (Non - par value)		Issued capital		Additional paid in capital	Treasury stock	Retained earnings	Accumulated other comprehensive income (loss)	Total equity
		Class A	Class B	Class A	Class B					
At January 1, 2016		31,017,102	10,938,125	\$20,924	\$ 7,466	\$ 57,455	\$(136,388)	\$1,441,831	\$ (768)	\$1,390,520
Effect of adoption of IFRS 15	5.1	—	—	—	—	—	—	(2,354)	—	(2,354)
At January 1, 2016 (restated)		31,017,102	10,938,125	20,924	7,466	57,455	(136,388)	1,439,477	(768)	1,388,166
Net profit		—	—	—	—	—	—	323,409	—	323,409
Other comprehensive loss		—	—	—	—	—	—	—	(1,104)	(1,104)
Issuance of stock for employee awards		94,208	—	64	—	(64)	—	—	—	—
Share-based compensation expense		—	—	—	—	7,539	—	—	—	7,539
Dividends paid		—	—	—	—	—	—	(86,116)	—	(86,116)
Other		1,046	—	—	—	56	—	(70)	—	(14)
At December 31, 2016 (restated)		31,112,356	10,938,125	\$20,988	\$ 7,466	\$ 64,986	\$(136,388)	\$1,676,700	\$ (1,872)	\$1,631,880
Net profit		—	—	—	—	—	—	364,045	—	364,045
Other comprehensive loss		—	—	—	—	—	—	—	(2,016)	(2,016)
Issuance of stock for employee awards		62,224	—	42	—	(42)	—	—	—	—
Share-based compensation expense	25	—	—	—	—	7,422	—	—	—	7,422
Dividends paid	24	—	—	—	—	—	—	(106,792)	—	(106,792)
Share options exercised		11,061	—	8	—	579	—	—	—	587
At December 31, 2017 (restated)		31,185,641	10,938,125	\$21,038	\$ 7,466	\$ 72,945	\$(136,388)	\$1,933,953	\$ (3,888)	\$1,895,126
Adjustment on initial application of IFRS 9	5.2	—	—	—	—	—	—	(1,744)	—	(1,744)
Net profit		—	—	—	—	—	—	88,095	—	88,095
Other comprehensive loss		—	—	—	—	—	—	—	(339)	(339)
Issuance of stock for employee awards		72,045	—	49	—	(49)	—	—	—	—
Share-based compensation expense	25	—	—	—	—	7,145	—	—	—	7,145
Dividends paid	24	—	—	—	—	—	—	(147,604)	—	(147,604)
At December 31, 2018		<u>31,257,686</u>	<u>10,938,125</u>	<u>\$21,087</u>	<u>\$ 7,466</u>	<u>\$ 80,041</u>	<u>\$(136,388)</u>	<u>\$1,872,700</u>	<u>\$ (4,227)</u>	<u>\$1,840,679</u>

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

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Copa Holdings, S. A. and Subsidiaries
Consolidated statement of cash flows
For the year ended December, 31
(In US\$ thousands)

	Notes	2018	2017 Restated*	2016 Restated*
Operating activities				
Net profit		\$ 88,095	\$ 364,045	\$ 323,409
Adjustments for:				
Income tax expense		34,530	49,310	38,271
Finance cost	18	35,850	35,223	37,024
Finance income	18	(23,628)	(17,939)	(13,000)
Depreciation and amortization	13,16	169,436	167,324	167,810
Impairment of non financial assets		188,624	—	—
Disposal of assets		3,746	3,316	4,743
Impairment of financial assets	10	1,409	879	1,511
Allowance for obsolescence of expendable parts and supplies		159	182	87
Derivative instruments mark to market		—	(2,801)	(111,642)
Share-based compensation expense	25	7,145	7,422	7,539
Net foreign exchange differences		43,090	26,654	35,525
Change in:				
Accounts receivable		(3,150)	(3,534)	(9,967)
Accounts receivable from related parties	10	95	181	143
Other current assets		(50,531)	25,770	(14,745)
Restricted cash		—	—	64,228
Other assets		(5,669)	(1,012)	10,202
Accounts payable		8,820	20,943	16,387
Accounts payable from related parties	19	2,584	4,199	3,076
Air traffic liability		(5,492)	77,372	45,551
Frequent flyer deferred revenue		17,502	13,630	17,579
Other liability		(23,548)	28,322	30,117
Cash from operating activities		489,067	799,486	653,848
Income tax paid		(38,698)	(51,077)	(33,364)
Interest paid		(35,147)	(35,312)	(37,420)
Interest received		21,537	14,235	11,526
Net cash from operating activities		436,759	727,332	594,590
Investing activities				
Acquisition of investments		(711,840)	(854,119)	(553,037)
Proceeds from redemption of investments		775,504	567,007	485,944
Advance payments on aircraft purchase contracts and other		(216,732)	(191,315)	(47,479)
Reimbursement of advance payments on aircraft purchase contracts		152,651	28,888	29,150
Acquisition of property and equipment		(118,997)	(109,945)	(88,345)
Proceeds from sale of property and equipment		—	6	8,332
Acquisition of intangible assets	16	(30,182)	(18,681)	(14,474)
Net cash used in investing activities		(149,596)	(578,159)	(179,909)
Financing activities				
Proceeds from new borrowings	18	225,000	147,798	164,400
Payments on loans, borrowings and finance leases	18	(401,333)	(246,349)	(326,965)
Dividends paid		(147,604)	(106,792)	(86,116)
Proceeds from exercise of share options		—	587	56
Net cash used in financing activities		(323,937)	(204,756)	(248,625)
Net (decrease) increase in cash and cash equivalents		(36,774)	(55,583)	166,056
Cash and cash equivalents at January 1		238,792	331,687	204,715
Effect of exchange rate change on cash		(45,860)	(37,312)	(39,084)
Cash and cash equivalents at December 31		<u>\$ 156,158</u>	<u>\$ 238,792</u>	<u>\$ 331,687</u>

* See note 5.1

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

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

Notes to the consolidated financial statements

1. Corporate information

Copa Holdings, S. A. (“the Company”) was incorporated according to the laws of the Republic of Panama on May 6, 1988 with an indefinite duration. The Company is a public company listed in the New York Stock Exchange (NYSE) under the symbol CPA since December 14, 2005. The address of its registered office is Boulevard Costa del Este, Avenida Principal y Avenida de la Rotonda, Urbanización Costa del Este, Complejo Business Park, Torre Norte, Parque Lefevre, Panama City, Republic of Panama.

These consolidated financial statements comprise the Company and its subsidiaries: Compañía Panameña de Aviación, S. A. (“Copa Airlines”), Oval Financial Leasing, Ltd. (“OVAL”), AeroRepública, S. A. (“Copa Colombia”):

- Copa Airlines: the Company’s core operation is incorporated according to the laws of the Republic of Panama and provides international air transportation for passengers, cargo and mail, operating from its Panama City hub in the Republic of Panama.
- Copa Colombia: is a Colombian air carrier, incorporated according to the laws of the Republic of Colombia which provides domestic and international air transportation for passengers, cargo, and mail.

In October 2016, Copa Colombia officially launched “Wingo” a new low-cost business model. Wingo operates administratively and functionally under Copa Colombia, with an independent structure for its commercialization, distribution systems and customer service. Wingo began operations on December 1st, 2016, currently flights to 14 destinations, 6 domestic and 8 international, in 8 countries in South and Central America and the Caribbean.

- OVAL: incorporated according to the laws of the British Virgin Islands, it controls the special-purpose entities that have a beneficial interest in the majority of the Company’s fleet, which is leased to either Copa Airlines or Copa Colombia.

The Company currently offers approximately 363 daily scheduled flights to 80 destinations in 32 countries in North, Central and South America and the Caribbean, mainly from its Panama City Hub. Additionally, the Company provides passengers with access to flights to more than 200 international destinations through codeshare agreements. The Company is part of Star Alliance, the leading global airline network since June 2012.

The Company has a broad commercial alliance with United Continental Holdings, Inc. (“United”), which was renewed during May 2016, for another five years. This Alliance includes an extensive and expanding code-sharing and technology cooperation. The Company participated in United’s Mileage Plus frequent flyer loyalty program until June 30, 2015.

On July 1, 2015, Copa Airlines started its new loyalty program “ConnectMiles”, designed to strengthen the relationship with its frequent flyers and provide exclusive attention. The program maintains the mile accumulation and redemption model that Copa Airlines’s passengers have enjoyed in recent years in United’s Mileage Plus frequent flyer loyalty program. ConnectMiles members are eligible to earn and redeem miles to any of Star Alliance’s 1,317 (unaudited) destinations in 193 countries within 28 airlines members (unaudited).

As of December 31, 2018, the Company operates a fleet of 105 aircraft with an average age of 8.50 years, and consists of 68 Boeing 737-800 Next Generation aircraft, 14 Boeing 737-700 Next Generation aircraft, 4 Boeing 737 MAX-9 aircraft and 19 Embraer E190 aircraft.

The consolidated financial statements for the year ended December 31, 2018 have been authorized for issuance by the Company’s Chief Executive Officer and Chief Financial Officer on April 24, 2019.

COPA HOLDINGS, S. A. AND SUBSIDIARIES

Notes to the consolidated financial statements

2. Basis of preparation

Statement of compliance

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

As used in these notes to consolidated financial statements, the terms "the Company", "we", "us", "our", and similar terms refer to Copa Holdings, S. A. and, unless the context indicates otherwise, its consolidated subsidiaries.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for the following:

- certain financial assets, certain classes of property, plant and equipment and investment property – measured at fair value
- assets held for sale – measured at fair value less cost of disposal, and
- defined benefit pension plans – plan assets measured at fair value.

Functional and presentation currency

These consolidated financial statements are presented in United States dollars (U.S. dollars "\$"), which is the Company's functional currency and the legal tender of the Republic of Panama. The Republic of Panama does not issue its own paper currency; instead, the U.S. dollar is used as legal currency.

All values are rounded to the nearest thousand in U.S. dollars (\$000), except when otherwise indicated.

3. Significant accounting policies

(a) Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Control is achieved when the Company is exposed to, or has right to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls the investee, when it has:

- power over the investee,
- exposure, or rights to, variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary.

COPA HOLDINGS, S. A. AND SUBSIDIARIES

Notes to the consolidated financial statements

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany balances, transactions, and dividends are eliminated in full.

The following are the significant subsidiaries included in these financial statements:

Name	Country of Incorporation	Ownership interest	
		2018	2017
Copa Airlines	Panama	99%	99%
Copa Colombia	Colombia	99%	99%
Oval	British Virgin Islands	100%	100%

(b) Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is current when it is:

- expected to be realized or intended to be sold or consumed in the normal operating cycle
- expected to be realized within twelve months after the reporting period, or
- cash or cash equivalent, unless restricted.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in the normal operating cycle
- it is due to be settled within twelve months after the reporting period, or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(c) Foreign currencies

The Company's consolidated financial statements are presented in U.S. dollars, which is the Company's functional currency. The Company determines the functional currency for each entity, and the items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Company at the respective functional currency spot rates on the date when the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot exchange rate at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

COPA HOLDINGS, S. A. AND SUBSIDIARIES

Notes to the consolidated financial statements

Foreign exchange gains and losses are included in the exchange rate difference line in the consolidated statement of profit or loss for the year.

(d) Revenue recognition

Revenue is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The consideration received or receivable is measured taking into account contractually defined terms of payment and excluding taxes or duties. The following specific recognition criteria must also be met before revenue is recognized:

Passenger revenue

Passenger revenue is primarily composed of passenger ticket sales, frequent flyer miles and ancillaries revenues performed in conjunction with a passenger's flight.

- **Passenger tickets**

Passenger revenue from tickets is recognized when transportation is provided rather than when a ticket is sold. The amount of passenger ticket sales, to not yet recognized as revenue, is reflected under "Air traffic liability" in the consolidated statement of financial position. Refundable and nonrefundable tickets expire after one year from the date of issuance. The Company performs a monthly liability evaluation uses its historical experience with refundable and nonrefundable expired tickets and other facts, and a provision is recognized for tickets that are expected not to be used or redeemed. A year after the sales is made, all unredeemed sales are transferred from "Air Traffic liability" and recognized as revenue, and the provision is reversed.

The Company sells certain tickets with connecting flights with one or more segments operated by its other airline partners. For segments operated by other airline partners, the Company has determined that it is acting as an agent on behalf of the other airlines as they are responsible for their portion of the contract. The Company, as the agent, reduce from "Air traffic liability" when consideration is remitted to those airlines, and recognizes revenue for the net amount representing commission to be retained by the Company for any segments flown by other airlines.

- **Ticket Taxes**

The Company is required to charge certain taxes and fees on its passenger tickets. These taxes and fees include transportation taxes, airport passenger facility charges, and certain governmentally imposed airport arrival and departure taxes. These taxes and fees are legal assessments on the customer. Since the Company has a legal obligation to act as a collection agent with respect to these taxes and fees, we do not include such amounts in passenger revenue. The Company records a liability when these amounts are collected and derecognizes the liability when payments are made to the applicable government agency or operating carrier.

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Notes to the consolidated financial statements

- Frequent flyer program

Passenger revenue include income generated by the frequent flyer program. The Company's frequent flyer program objective, is to reward customer loyalty through the earning of miles whenever the programs members make certain flights. The miles or points earned can be exchanged for flights on Copa or any of 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 tickets sale 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 separate performance obligation. 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.

A statistical model that estimates the percentages of points that will not be redeemed before expiration is used to estimate breakage. The breakage and the fair value of the miles are reviewed annually, and any adjustments are reflected on a prospective basis to passenger revenues.

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 and is included in passenger revenues.

- Ancillaries revenues

Are primarily composed of services performed in conjunction with a passenger's flight, including administrative fees (such as ticket change fees), baggage fees, and other ticket-related fees. These ancillary fees are part of the travel performance obligation and, as such, are recognized as passenger revenue when the travel occurs.

Cargo and mail revenue

Cargo and mail revenue is recognized when the Company provides and completes the shipping services as requested by the client and the risks on the merchandise and goods are transferred.

Other operating revenue

Other revenue includes revenue associated with the frequent flyer program, which is comprised principally of the marketing component of mileage sales to co-branded card and other partners and other marketing related payments.

The Company sells miles to non-airline businesses with which it has marketing agreements. The main contracts to sell miles are related to co-branded credit card relationships with major banks in the region. The Company determined the selling prices of miles according to a method which allocates consideration based upon the relative selling price of the deliverables. The relative selling

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Notes to the consolidated financial statements

price of the deliverables is determined based upon the estimated standalone selling prices of each deliverable in the arrangement and is allocated between the miles sold to the passenger (as described above) and the marketing elements. Revenue allocated to the performance obligations related to, marketing components, is recorded in other operating revenue when miles are delivered.

The remaining amounts included within other revenue relate lease income, advertising and vacation-related services.

(e) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position, comprise cash on hand and in banks, money market accounts, and time deposits with original maturities of three months or less from the date of purchase.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash net of outstanding bank overdrafts, if any. The Company has elected to present the statement of cash flows using the indirect method.

(f) Financial instruments

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

Financial assets

The Company's financial assets include cash and cash equivalents, short and long-term investments and accounts receivable.

(i) Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial assets contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest' (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All financial assets are recognized on the trade date, which is the date on which the Company becomes a party to the contractual provisions of an instrument.

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Notes to the consolidated financial statements

- (ii) Subsequent measurement (policy applicable from January 1, 2018)

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortized cost

This category is the most relevant to the Company. The Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost included the Company's investments and its receivables.

The Company invests in short-term deposits and bonds with original maturities of more than three months but less than one year, and invests in long-term deposits and bonds with maturities greater than one year. These investments are classified as short and long-term investments, respectively, in the accompanying consolidated statement of financial position.

Accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial instruments are initially recognized and carried at the original invoice amount since recognition of interest under the amortized cost would be immaterial less a provision for impairment.

Financial assets at fair value through OCI

The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

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For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Company currently does not have assets classified under this category.

Financial assets designated at fair value through OCI

Upon initial recognition, the Company may elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation and are not held for trading*. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company currently does not have assets classified under this category.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

The Company currently does not have assets classified under this category.

(iii) Derecognition

A financial asset is derecognized when:

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

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

(iv) Impairment of financial assets

The Company recognizes an allowance for expected credit losses (ECLs) on financial asset measured at amortized cost. Loss allowance for financial assets are deducted from the gross carrying amount on the assets.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Both, lifetime ECLs and 12-month ECLs, are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company has established a policy to perform an assessment, at the end of each quarterly reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

For trade receivables the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each quarterly reporting date.

The Company has established a provision matrix to measure ECLs. Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the day past due.

Loss rates are based on actual credit loss experience over the last 12 months and adjusted for forward-looking factors specific to the debtors and the economic environment over the expected life of the receivables.

A financial assets is written off when there is a no reasonable expectation of recovering the contractual cash flows. The Company considers that there are no realistic prospects of recovery of the asset if any of the following indicators are present:

- the debtor is in a state of permanent disability

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Notes to the consolidated financial statements

- the Company has exhausted all legal and/or administrative recourse
- where the account exceeds one year without decreases
- when there are not documents that establishing the debt

Losses arising from impairment are recognized under “Other operating and administrative expenses” in the consolidated statement of profit or loss.

Financial liabilities

(i) Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company’s financial liabilities include trade and other payables and loans and borrowings including bank overdrafts.

(ii) Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

- Debt

Subsequent to initial recognition, all borrowings and loans are measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statement of profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included under finance cost in the consolidated statement of profit or loss.

(iii) Derecognition

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Company has a legally enforceable right to set off the recognized amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the ordinary course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

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Notes to the consolidated financial statements

Derivative financial instruments and hedging activities

Derivative instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value.

Derivatives are carried as financial assets when the fair value results in a right to the Company and as financial liabilities when the fair value results in an obligation. The accounting for changes in value depends on whether the derivative is designated as a hedging instrument, and if so, the classification of the hedge.

For hedge accounting purposes, hedges are classified into:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements. A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

As of December 31, 2018 and 2017, the Company does not have financial instruments designated under hedge accounting.

(g) Impairment no—financial assets

The Company assesses at each reporting date whether there is an indication that an asset or its cash-generating unit (CGU) may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's or CGU's recoverable amount. The recoverable amount is the higher of an asset's or its CGU's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the consolidated statement of profit or loss in those expense categories consistent with the function of the impaired asset.

For assets, excluding goodwill, an assessment is made at each reporting date to determine whether there is any indication that previously recognized impairment losses no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss.

(h) Expendable parts and supplies

Expendable parts and supplies for flight equipment are carried at the lower of the average acquisition cost or replacement cost, and are expensed when used in operations. The replacement cost is the estimated purchase price in the ordinary course of business.

(i) Passenger traffic commissions

Passenger traffic commissions are recognized as expense when transportation is provided and the related revenue is recognized. Passenger traffic commissions paid but not yet recognized as expense are included under "Prepaid expenses" in the accompanying consolidated statement of financial position.

(j) Property and equipment

Property and equipment comprise mainly airframe, engines, and other related flight equipment. All property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

When a major maintenance inspection or overhaul cost is embedded in the initial purchase cost of an aircraft, the Company estimates the carrying amount of the component. These initial built-in maintenance assets are depreciated over the estimated time period until the first maintenance event is performed. The cost of major maintenance events completed after the aircraft acquisition are capitalized and depreciated over the estimated time period until the next major maintenance event. The remaining value of the previously capitalized component if any, is charged to expense upon completion of the subsequent maintenance event.

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The Company recognizes the depreciation on a straight-line basis over the estimated useful lives of the assets. Depreciation is recognized in the consolidated statement of profit or loss from the date the property, and equipment is installed and ready for use.

Property and equipment	Estimate useful life (years)	Residual Value
Flight equipment -		
Airframe and engines	27	15%
Major maintenance events	3-16	—
Ramp and miscellaneous -		
Ground equipment	10	—
Furniture, fixture, equipment and other	5-10	—
Leasehold improvements	Lesser of remaining lease term and estimated useful life of the leasehold improvement	—

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognized.

The costs of major maintenance events for leased aircraft (including operating leases) are capitalized and depreciated over the shorter of the scheduled usage period to the next major inspection event or the remaining life of lease term (as appropriate). The value of major maintenance inspection or overhaul embedded in the aircraft operating leases is not recognized as a separated component under IAS 17 *Leases*.

The residual values, useful life, and methods of depreciation of property and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate.

The land owned by the Company is recognized at cost less any accumulated impairment.

(k) Leases

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

A reassessment is made after inception of the lease only if one of the following applies:

- there is a change in contractual terms, other than a renewal or extension of the arrangement;
- a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment. When a renewal option is exercised or extension granted, lease accounting shall commence or cease at the date of renewal or extension.

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Notes to the consolidated financial statements

The Company as lessor

(i) Operating leases

When assets are leased under operating leases, the asset is included in the consolidated statement of financial position according to its nature. Revenue from operating leases is recognized over the lease term on a straight-line basis.

Initial direct costs incurred by the Company in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the related lease income.

The Company as lessee

(ii) Operating leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item are classified as operating leases.

Operating lease payments are recognized as an expense in the consolidated statement of profit or loss on a straight-line basis over the lease term.

(iii) Finance leases

Leases where the lessor substantially transfers all the risks and benefits of ownership of the leased item are classified as finance leases.

The leased 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 costs in the consolidated statement of profit or loss.

Sale and leaseback transactions

The Company enters into transactions whereby aircraft are sold and subsequently leased back. The Company has not entered into sale and leaseback transactions that resulted in finance leases.

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognized immediately. If the sale price is below fair value any profit is recognized immediately. If the transaction is not at fair value, any resulting loss that is compensated for by future lease payments at below market rate is deferred and amortized over the lease term.

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(l) Intangible assets

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 acquiree are assigned to those units. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the expenditure is reflected in the consolidated statement of profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite life is recognized in the consolidated statement of profit or loss as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized but are tested for impairment at least annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains and losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of profit or loss when the asset is derecognized.

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Notes to the consolidated financial statements

The Company's intangible assets and the policies applied are summarized as follows:

- Licenses and software rights

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized using the straight-line method over their estimated useful lives (from three to eight years).

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company and that are estimated to generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads. These costs are amortized using the straight-line method over their estimated useful lives (from five to fifteen years).

Computer software development costs recognized as assets are amortized on a straight-line basis over their estimated useful lives, which range between three and five years.

Licenses and software rights acquired by the Company have finite useful lives and are amortized on a straight-line basis over the term of the contract and the amortization is recognized in the consolidated statement of profit or loss.

(m) Taxes

Income tax expense

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except when related to the items recognized directly in equity or in other comprehensive income ("OCI").

Current income tax

The Company pays taxes in the Republic of Panama and in other countries in which it operates, based on regulations in effect in each respective country.

Revenue arise principally from foreign operations, and according to the Panamanian Tax Code, these foreign operations are not subject to income tax in Panama.

The Panamanian tax code for the airline industry states that tax is based on net income earned for passenger traffic with origin or final destination in the Republic of Panama. The applicable tax rate is currently 25.0%. Dividends from the Panamanian subsidiaries, are separately 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.

The Company is also subject to local tax regulations in each of the other jurisdictions where it operates, the great majority of which are related to income taxes.

Current income tax assets and liabilities are measured at the amount expected to be paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

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Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions when appropriate.

Deferred tax

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

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

- when the deferred tax asset relating to the deductible temporary difference arises from initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss.
- in respect of deductible temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss.
- in respect of taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

(n) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction, or production of any qualifying asset, that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalized as part of the cost of the asset during that period of time.

Other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(o) Provisions

Provisions for costs, including restitution, restructuring and legal claims and assessments are recognized when:

- the Company has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- the amount of obligation can be reliably estimated.

For certain operating leases, the Company is contractually obliged to return the aircraft in a defined condition. The Company accrues a provision for restitution costs related to aircraft held under operating leases throughout the duration of the lease.

Restitution costs are based on the net present value of the estimated costs of returning the aircraft and are recognized in the consolidated statement of profit or loss under "Maintenance, materials and repairs". These costs are reviewed annually and adjusted as appropriate.

(p) Employee benefits

Defined benefit plan

The Company sponsors a defined benefit plan, which requires contributions to be made to a separately administered fund.

The calculation of the defined benefit obligation is performed annually by a qualified actuary using the projected unit credit actuarial cost method (PUC).

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets and the effect of the asset ceiling (if any), are recognized immediately in other comprehensive income. The Company determines the net interest by applying the discount rate to the net defined benefit liability or asset. The Company recognizes the following changes in the net defined benefit obligation in the consolidated statement of profit or loss.

Share-based payments

Employees (including senior executives) of the Company receive compensation in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions).

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The cost of equity-settled transactions is recognized, together with a corresponding increase in additional paid in capital in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. Expense or credit for a period represents the movement in cumulative expense recognized as of the beginning and end of that period and is recognized under "Wages, salaries, benefits and other employees' expenses" expense in the consolidated statement of profit or loss (note 25).

Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(g) Non-current assets held for sale and discontinued operations

The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

All the financial statements include amounts for continuing operations. Additional disclosures about assets held for sale are provided in Note 13.

4. Significant accounting judgments, estimates and assumptions

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets, and liabilities and the accompanying disclosures and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities in future periods.

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Judgments

In the process of applying the Company's accounting policies, management has made judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements in the following area:

- Leases

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 leases.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the Company's control. Such changes are reflected in the assumptions when they occur.

- Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each quarterly reporting period.

- Impairment of non-financial assets

Impairment exists when the carrying amount of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes (see note 16).

- Property and equipment

The Company's management has determined that the residual value of the airframe, engines, and components (rotable parts) owned is 15% of the cost of the asset, so the depreciation of flight equipment is made accordingly. Annually, management reviews the useful life and residual value of each of these assets (see note 13).

- 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 lessor 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.

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Any difference in the actual maintenance cost incurred and the amount of the provision is recorded in maintenance expenses in the period. The effect of any changes in estimates, including those mentioned above, is also recognized in maintenance expenses for the period (see note 21).

- 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 rate requires management's judgment, among other things, the historical data and experience is an indication of the future customer behavior.

- Multiple deliverable revenue arrangements—Frequent flyer program

The frequent flyer program includes two major transactions that are considered revenue arrangements with multiple performance obligations: (i) mileage credits earned with travel and (ii) mileage credits sold to co-branded credit card partner and other partners. The Company estimates the fair value of the miles in those transactions using a blended calculation of rates charged when miles are sold to other partners and the average value of a mile flown by a customer. Also, the Company estimates and reduces the liability for the value of miles earned but expected to expire unused, based on historical experience.

- Taxes

The Company believes that taken tax positions, including transfer pricing between entities, are reasonable. However, in the event of an audit by the tax authorities, they may challenge the positions taken by the Company, resulting in additional taxes and interest liabilities.

The tax positions involve considerable judgment by management and are reviewed and adjusted to account for changes in circumstances, such as lapsing of applicable statutes of limitations, conclusion of tax audits, additional exposures based on identification of new issues, or court decisions affecting a particular tax issue. Actual results may differ from estimates (see note 22).

- Fair value measurement

The Company measures financial instruments such as derivatives at fair value at the date of each statement of financial position. Fair values of financial instruments measured at amortized cost are disclosed in note 28.7.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole (see note 28.7 for further disclosures):

- i)* Level 1—Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- ii)* Level 2—Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- iii)* Level 3—Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

5. Changes in disclosures

Adoption of new and amended standards and interpretations

The Company applied for the first time the following standards and amendment, which are effective for annual periods beginning on or after January 1, 2018:

- IFRS 9 *Financial instruments*
- IFRS 15 *Revenue from contracts with customers*
- Amendment to IFRS 15 *Revenue from contracts with customers*

The following amendments effective for annual periods beginning on or after January 1, 2018, had no impact on the company's financial statements:

Amendments to IFRS 2 *Share based payments*

Amendments to IFRS 4 *Insurance contracts*

Amendments to IAS 40 *Investment property*

Annual Improvements Cycle—2014-2016: IFRS 1 *Adoption for the first time of international financial reporting standards* and IAS 28 *Investments in associates and joint ventures*.

IFRIC 22 *Foreign currency transactions and advance consideration*

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The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

5.1 IFRS 15 Revenue from contracts with customers

The new standard provides a framework that replaces existing revenue recognition guidance in IFRS and establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The model specifies that revenue should be recognized when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled.

Depending on whether certain criteria are met, revenue is recognized:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

The Company adopted IFRS 15 using the full retrospective method of adoption, using the following practical expedients:

- The effect of the transition on the current period has not been disclosed.
- Not restate contracts that begin and end within the same annual reporting period.
- Not disclose the amount of the remaining performance obligations for contracts since the original expected duration of the contracts are less or equal to one year.
- The costs to obtain a contract are recognized as expense because the amortization period is one year or less.

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The effect of adopting IFRS 15 is, as follows:

Impact on statement of profit or loss

	2017	IFRS 15	2017 Restated
Operating revenue			
Passenger revenue	\$ 2,462,419	\$ (18,168)	\$ 2,444,251
Cargo and mail revenue	55,290	—	55,290
Other operating revenue	9,847	12,398	22,245
	<u>2,527,556</u>	<u>(5,770)</u>	<u>2,521,786</u>
Operating expenses			
Other operating expenses	1,897,500	—	1,897,500
Sales and distribution	200,413	(157)	200,256
	<u>2,097,913</u>	<u>(157)</u>	<u>2,097,756</u>
Operating profit	429,643	(5,613)	424,030
Non—operating (expense) income	<u>(10,675)</u>	<u>—</u>	<u>(10,675)</u>
Profit before taxes	418,968	(5,613)	413,355
Income tax expense	(49,310)	—	(49,310)
Net profit	<u>369,658</u>	<u>(5,613)</u>	<u>364,045</u>
Earnings per share			
Basic and diluted	<u>\$ 8.71</u>	<u>\$ (0.13)</u>	<u>\$ 8.58</u>
	2016	IFRS 15	2016 Restated
Operating revenue			
Passenger revenue	\$ 2,155,167	\$ (6,666)	\$ 2,148,501
Cargo and mail revenue	53,989	—	53,989
Other operating revenue	12,696	4,000	16,696
	<u>2,221,852</u>	<u>(2,666)</u>	<u>2,219,186</u>
Operating expenses			
Other operating expenses	1,760,348	—	1,760,348
Sales and distribution	193,984	(147)	193,837
	<u>1,954,332</u>	<u>(147)</u>	<u>1,954,185</u>
Operating profit	267,520	(2,519)	265,001
Non—operating (expense) income	<u>96,679</u>	<u>—</u>	<u>96,679</u>
Profit before taxes	364,199	(2,519)	361,680
Income tax expense	(38,271)	—	(38,271)
Net profit	<u>325,928</u>	<u>(2,519)</u>	<u>323,409</u>
Earnings per share			
Basic and diluted	<u>\$ 7.69</u>	<u>\$ (0.06)</u>	<u>\$ 7.63</u>

The nature of these adjustments are described below:

- **Ancillary services:** considerations about these contracts are at what level and when revenues take place. This was evaluated under the performance obligations criteria, including services such as excess baggage fees, exchange fees, upgrades fees and other fees. The main change is the recognition of revenue from the sales date to the departure date, the moment when the performance obligations are fulfilled.

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Under the new standard these deliverables are considered a single performance obligation, which will not exist without the main performance obligation, the travel service that is fulfilled at departure date.

The Company recognized a decrease of \$2.6 million and \$1.4 million for the year ended as of December 2017 and 2016, respectively, in Passenger revenue due to the change in the timing of revenue recognition related to exchange fee and other ancillary, from the sales date, to the departure date.

- **Denied board compensation:** considerations about whether this performance obligation should be recognized as an operational expense or be allocated against the revenue. This impact consists in the reclassification of this type of performance obligation from the operational expense to contra revenue.

The Company recognized a decrease of \$0.2 million in each year ended as of December 2017 and 2016 in Passenger revenue, due the reclassification of denied board compensation from the Sales and distribution operating expenses.

- **Classification of revenue streams:** certain revenues that was presented as passenger revenue has been reclassified to other revenue. This revenue has been reclassified between passenger revenue, other revenue and operational expenses for the adoption. This reclassification occurred due to the analysis and classification of each contract according to each associated performance obligations. Some of these concepts include charter flights, publicity and fees related to cobrand agreements.

The Company recognized a decrease of \$15.4 million and \$5.1 million for the year ended as of December 2017 and 2016 due to the reclassification from Passenger revenue to Other operating revenue of the revenue related to the sale and transfer of miles and cobrand agreements from our frequent flyer program, the sale of advertising space, and charter flight.

- **Loyalty program contract:** considerations about loyalty point valuations, related to co-brand contracts. Multiple deliverable in this contract relate to points earn by the passenger and marketing related to the credit card with the financial entities were changed from a residual method to a method which allocates consideration based upon the relative selling price of the deliverables. The relative selling price of the deliverables is determined based upon the estimated standalone selling prices of each deliverable in the arrangement. Due to this assessment, the value applied to miles earned under the co-brand agreements have been be adjusted, changing the amount of revenue recognized from the inceptions of these contracts.

The Company recognized a decrease of \$2.7 million and \$1.1 million for the year ended as of December 2017 and 2016, respectively, in other operating revenue due to the change in the amount deferred for mileages credits due to sales from co-brand partner agreements resulting from the change from the residual method to the relative selling price method.

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Notes to the consolidated financial statements

Impact on the consolidated statement of financial position

	<u>2017</u>	<u>IFRS 15</u>	<u>2017</u> <u>Restated</u>
ASSETS	\$ 4,044,961	—	4,044,961
LIABILITIES AND EQUITY			
Current liabilities			
Air traffic liability	470,693	6,475	477,168
Frequent flyer deferred revenue	13,186	4,011	17,197
Other current liabilities	563,150	—	563,150
	<u>1,047,029</u>	<u>10,486</u>	<u>1,057,515</u>
Non—current liabilities	1,092,320	—	1,092,320
Total liabilities	<u>2,139,349</u>	<u>10,486</u>	<u>2,149,835</u>
Equity			
Retained earnings	1,574,781	(4,873)	1,569,908
Net income	369,658	(5,613)	364,045
Equity	(38,827)	—	(38,827)
Total equity	<u>1,905,612</u>	<u>(10,486)</u>	<u>1,895,126</u>
Total liabilities and equity	<u>\$ 4,044,961</u>	<u>—</u>	<u>4,044,961</u>

	<u>2016</u>	<u>IFRS 15</u>	<u>2016</u> <u>Restated</u>
ASSETS	\$ 3,640,595	—	3,640,595
LIABILITIES AND EQUITY			
Current liabilities			
Air traffic liability	396,237	3,559	399,796
Frequent flyer deferred revenue	9,044	1,314	10,358
Other current liabilities	457,401	—	457,401
	<u>862,682</u>	<u>4,873</u>	<u>867,555</u>
Non—current liabilities	1,141,160	—	1,141,160
Total liabilities	<u>2,003,842</u>	<u>4,873</u>	<u>2,008,715</u>
Equity			
Retained earnings	1,355,645	(2,354)	1,353,291
Net income	325,928	(2,519)	323,409
Equity	(44,820)	—	(44,820)
Total equity	<u>1,636,753</u>	<u>(4,873)</u>	<u>1,631,880</u>
Total liabilities and equity	<u>\$ 3,640,595</u>	<u>—</u>	<u>3,640,595</u>

The nature of these adjustments are described below:

- An increase of \$6.4 million and \$3.6 million as of December 31, 2017 and 2016, respectively, due to the change in the timing of revenue recognition related to exchange fee and other ancillary, from the sales date, to the departure date
- An increase of \$4.0 and \$1.3 million as of December 31, 2017 and 2016, respectively, in Frequent flyer deferred revenue, due the change in the amount deferred for mileages credits due to sales from co-brand partner agreements resulting from the change from the residual method to the relative selling price method product.

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Notes to the consolidated financial statements

- A decrease of \$4.9 million in retained earnings due to the impacts of the 2016 period. A decrease of \$2.4 million in retained earnings by: \$2.2 million due to the change in the timing of revenue recognition related to exchange fee and other ancillary, from the sales date, to the departure date; and \$0.2 million due to the change in the amount deferred for mileages credits due to sales from co-brand partner agreements resulting from the change from the residual method to the relative selling price method. This effect is the product of the impact of the 2015 period.

The change did not have a material impact on OCI for the period. The impact on the statement of cash flows for the year ended 31 December 2017 and 2016, only relates to the changes in the net profit. There was no impact on the net cash flows from operating activities. The cash flows from investing and financing activities were not affected.

5.2 IFRS 9 Financial instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company adopted the new standard without restating comparative information. The adjustments arising from the new impairment rules are therefore recognized in the opening balance on January 1, 2018. The adoption of IFRS 9 resulted in changes in accounting policies set out in note 3(f).

- Classification and measurement

The classification and measurement requirements of IFRS 9 did not have an impact on the Company. Trade receivables and investments are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Company analyzed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortized cost measurement under IFRS 9 therefore; reclassification for these instruments is not required.

There was not impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company as of January 1, 2018 did not have any such liabilities.

- Impairment of financial assets

The adoption of IFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. IFRS 9 requires the Company to recognize an allowance for ECLs for all financial assets not held at fair value through profit or loss.

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Set out below is the reconciliation of the ending impairment allowances in accordance with IAS 39 to the opening loss allowances determined in accordance with IFRS 9:

	Allowance for impairment under IAS 39 as at		ECL under IFRS 9 as at
	31 December 2017	Remeasurement	1 January 2018
Investment	\$ —	\$ (1,120)	\$ (1,120)
Account receivables	(3,673)	(624)	(4,297)
	<u>(3,673)</u>	<u>(1,744)</u>	<u>(5,417)</u>

- Investments at amortized cost

Are considered to be low risk, and therefore the impairment provision is determined at 12-month ECLs using the general approach as prescribed by IFRS 9. Applying the expected credit risk model results in the recognition of a loss allowance of \$1.1 million on January 1, 2018 and further increase of \$0.1 million in the current period.

- Accounts receivables

For accounts receivables, the Company applies the simplified approach, which requires the use of the lifetime expected loss provision for all trade receivables. Applying the simplified approach results in the recognition of a loss allowance of \$0.6 million on January 1, 2018 and further increase of \$1.3 million in the current period.

Further disclosures are provided in note 28.3.

- Hedge accounting

At the date of initial application, January 1, 2018, the Company does not have financial instruments designated under hedge accounting.

6. New standards and interpretations not yet adopted

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

IFRS 16 Leases

This standard was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases under IAS 17 *Leases*.

The lessee is required to recognize the present values of future lease payments and showing them either as lease assets (right-of-use assets "ROU") or together with property, plant and equipment, and also recognizing a financial liability representing its obligation to make future lease payments. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the ROU. IFRS 16 does not require a company to recognize assets and liabilities for (a) short-term leases (i.e. leases of 12 months or less), and (b) leases of low-value assets.

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Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

Transition to IFRS 16

The Company plans to adopt IFRS 16 retrospectively to each prior reporting period presented.

The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Company has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

The Company has set up a project team which has reviewed all of the Company's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Company's operating leases (see note 14). Also, the Company has actively participated in a specialized airline industry accounting group, which is comprised of various airline members, accounting firms and the staff of the International Air Transport Association (IATA). The objective of this group is to discuss the nature and volume of implementation questions to adopt uniform accounting policies about these new standards within the airline industry.

The Company's activities as a lessor are not material and the Company does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

During 2018, the Company has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements. The Company expects that the adoption of this standard will result in the recognition of additional liabilities in a range of approximately \$390.0 million to \$430.0 million, this calculation excluded the impact that would occur if the lease return conditions are included in the ROU asset and lease liability for which the Company has not yet completed the evaluation.

The actual impacts of adopting the standard on January 1, 2019 may change because the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and reinsurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

IFRS 17 is effective for reporting periods beginning on or after January 1, 2021 with comparative figures required. Early application is permitted; provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Company.

IFRIC 23 Uncertainty over income tax treatments

This IFRIC was issued in June, 2017 and clarifies how the recognition and measurement requirements of IAS 12 Income taxes, are applied where there is uncertainty over income tax treatments.

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The IFRIC had clarified previously that IAS 12, not IAS 37 *Provisions, contingent liabilities and contingent assets*, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

The Interpretation is applicable for annual reporting periods beginning on or after January 1, 2019; it provides a choice of two transition approaches:

- full retrospective using IAS 8, only if the application is possible without the use of hindsight; or
- modified retrospective with the cumulative effect of the initial application recognized as an adjustment to equity on the date of initial application. In this approach, comparative information is not restated.

Since the Company does not have any uncertainty over income tax treatments, the amendments will not have an impact on its consolidated financial statements.

Amendment to IAS 28—*Investments in Associates and Joint Ventures*

This amendment was issued in October, 2017 and clarifies that companies account for long-term interests in an associate or joint venture to which the equity method is not applied using IFRS 9.

The amendment is mandatory for annual reporting periods beginning on or after January 1, 2019. Since the Company does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

Amendment to IFRS 9 – *Prepayment features with negative compensation*

This amendment was issued in October 2017 and clarifies that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The IASB also clarified in the Basis for Conclusions to the Amendment that, under IFRS 9, gains and losses arising on modifications of financial liabilities that do not result in derecognition should be recognized in profit or loss.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Company.

Amendments to IAS 19—*Employee benefits' on plan amendment, curtailment or settlement*

The amendments to IAS 19 were issued in February 2018 and address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

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- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These Amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

Amendments to IFRS 3 – *Definition of a business*

This amendment was issued in October 2018 and revises the definition of a business. According to the new guidance to be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendment is effective for reporting periods beginning on or after January 1, 2020 and the Company does not expect that those amendments have a material impact on its consolidated financial statements.

Amendments to IAS 1 and IAS 8—*Definition of material*

The amendments to IAS 1 *Presentation of financial statements*, and IAS 8 *Accounting policies, changes in accounting estimates and errors* and consequential amendments to other IFRSs, were issued in October 2018 and revise:

- i) the use of a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
- ii) clarify the explanation of the definition of material; and
- iii) incorporate some of the guidance in IAS 1 about immaterial information.

These amendments should be applied for annual periods beginning on or after 1 January 2020. Earlier application is permitted. The Company does not expect that those amendments have a material impact on its consolidated financial statements.

Amendments to IFRS 10 and IAS 28—*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. These amendments are not applicable to the Company.

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Annual Improvements Cycle 2015–2017

These improvements include:

- IFRS 3 *Business combinations*, a company remeasures its previously held interest in a joint operation when it obtains control of the business.
An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Company.
- IFRS 11 *Joint arrangements*, a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Company.
- IAS 12 *Income taxes*, all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transactions that generated the distributable profits.
An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. The Company is evaluating these amendments and plans to adopt it on the required effective date.
- IAS 23 *Borrowing costs*, a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.
An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. The Company is evaluating these amendments and plans to adopt it on the required effective date. The Company does not expect that those amendments have a material impact on its consolidated financial statements.

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7. Revenue from contract with customers

7.1 Revenue disaggregation

Operating revenues are comprised of passenger revenues, cargo and mail, and other operating revenues. The following table shows disaggregated operating revenues for the years ended as December 31, 2018, 2017 and 2016.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Passenger revenue			
Passenger revenue	\$2,567,316	\$2,434,820	\$2,142,804
Miles redeemed	20,073	9,431	5,697
	<u>2,587,389</u>	<u>2,444,251</u>	<u>2,148,501</u>
Cargo and mail revenue	<u>62,483</u>	<u>55,290</u>	<u>53,989</u>
	62,483	55,290	53,989
Other operating revenue			
Frequent flyer program—marketing services	16,291	13,332	5,378
Other operating revenue	11,464	8,913	11,318
	<u>27,755</u>	<u>22,245</u>	<u>16,696</u>
Total revenue	<u>\$2,677,627</u>	<u>\$2,521,786</u>	<u>\$2,219,186</u>

7.2 Contract balances

The significant contract liabilities are comprised of ticket sales for transportation that has not yet been provided, record as “Air traffic liability” and outstanding loyalty program miles that may be redeemed for future travel, record as “Frequent flyer deferred revenue”.

The table below presents the changes in air traffic liability:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of year	\$ 477,168	\$ 399,796	\$ 352,110
Deferred of revenue	2,537,772	2,511,970	2,164,165
Recognition of revenue	<u>(2,543,264)</u>	<u>(2,434,598)</u>	<u>(2,116,479)</u>
Balance at end of year	<u>\$ 471,676</u>	<u>\$ 477,168</u>	<u>\$ 399,796</u>

The contract duration of passenger tickets is one year. Accordingly, any revenue associated with ticket sold for future travel dates will be recognized within twelve months.

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The table below presents the activity of the current and non-current frequent flyer liability:

Frequent flyer liability

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of year	\$ 50,312	\$36,682	\$18,884
Deferred of revenue	37,575	23,061	23,495
Recognition of revenue	(20,073)	(9,431)	(5,697)
Balance at end of year	<u>\$ 67,814</u>	<u>\$50,312</u>	<u>36,682</u>
Current	30,342	17,197	10,358
Non-current	37,472	33,115	26,324
	<u>\$ 67,814</u>	<u>\$50,312</u>	<u>\$36,682</u>

Contract assets are reflected as account receivable. See note 10.

7.3 Segment reporting

The Company's business activities are conducted as one operating segment – Air transportation, the reporting results of which are regularly reviewed by management for purposes of analyzing its performance and making decisions about resource allocations. Information concerning operating revenue by geographic area for the period ended December 31 is as follows (in millions):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
North America	\$ 707.2	\$ 610.0	\$ 638.9
Panama	432.6	407.7	369.0
Central America and the Caribbean	289.2	275.3	273.6
Brazil	319.5	363.7	245.4
Argentina	266.3	241.4	178.6
Colombia	214.4	197.9	146.1
Others South America	448.4	425.8	367.6
	<u>\$2,677.6</u>	<u>\$2,521.8</u>	<u>\$2,219.2</u>

The Company attributes revenue to the geographic areas based on point of sales. Our tangible assets and capital expenditures consist primarily of flight and related ground support equipment, which is mobile across geographic markets and, therefore, has not been allocated.

8. Cash and cash equivalents

	<u>2018</u>	<u>2017</u>
Checking and saving accounts	\$121,799	\$208,440
Time deposits of no more than ninety days	34,000	30,000
Cash on hand	359	352
	<u>\$156,158</u>	<u>\$238,792</u>

As of December 31, 2018 and 2017, the Company's cash and cash equivalents are free of restriction or charges that could limit its availability.

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Time deposits earned interest based on rates determined by the banks in which the instruments are held, ranging between 2.45% and 2.90% for U.S. dollars investments until December 2018 (2017: between 1.49% and 1.58% for U.S. dollars investments).

9. Investments

	2018			2017		
	Current	Non Current	Total	Current	Non Current	Total
Time deposits	\$531,002	\$ 65,000	\$596,002	\$705,108	\$ 65,953	\$771,061
Bonds	35,895	74,367	110,262	—	—	—
	566,897	139,367	706,264	705,108	65,953	771,061
Allowance for expected credit losses	(697)	(521)	(1,218)	—	—	—
	<u>\$566,200</u>	<u>\$ 138,846</u>	<u>\$705,046</u>	<u>\$705,108</u>	<u>\$ 65,953</u>	<u>\$771,061</u>

Time deposits earned interest based on rates determined by the banks in which the instruments are held. The use of these instruments depends on the cash requirements of the Company. Time deposits denominated with a contractual maturity of less than 365 days, bear interest at rates ranging between 2.62% and 3.75% (2017: between 1.37% and 3.75%), and with a contractual maturity of more than 365 rate ranging between 3.35% and 4.38% (2017: between 3.20% and 3.75%).

During 2018, the Company acquired bonds with semiannual interest payment, the interest rates of these investments ranging between 2.53% and 3.32%.

All of the investment at amortized cost are denominated on U.S. dollar, as a result, there is no exposure to foreign currency risk. There is also no exposure to price risk as the investments will be held to maturity.

The information about the expected credit loss over these financial assets are disclosed in note 28.3.

10. Accounts receivable

	2018	2017
Credit cards	\$ 56,446	\$ 64,420
Travel agencies and airlines clearing house	32,978	36,640
Cargo and other travel agencies	11,766	6,798
Government	6,342	6,216
Trade receivables from related parties	223	318
Other	14,533	7,366
	122,288	121,758
Allowance for expected credit losses	(5,057)	(3,673)
	<u>\$117,231</u>	<u>\$118,085</u>
Current	116,054	115,641
Non-current	1,177	2,444
	<u>\$117,231</u>	<u>\$118,085</u>

Trade receivable are non-interest bearing and are generally on term of 30 to 90 days.

See detail of trade receivables from related parties in note 23.

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As of December 31, 2018, the Company maintained a non-current account receivable with a government institution in the amount of \$2.2 million (2017: \$2.4 million).

The category “Other” mainly includes \$10.9 million of receivables from miles partners and \$1.0 million of employees accounts (2017: \$3.6 million and \$1.1 million respectively).

The movement in the allowance for impairment in respect of account receivables during the year was as follows. Comparative amounts for 2017 represent the allowance account for impairment losses under IAS 39.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of year	\$(3,673)	\$(3,739)	\$(2,997)
Adjustment on initial application of IFRS 9	(624)	—	—
Balance at beginning of year under IFRS 9	<u>(4,297)</u>	<u>(3,739)</u>	<u>(2,997)</u>
Additions	(1,311)	(879)	(1,511)
Write-offs	551	945	769
Balance at end of year	<u><u>\$(5,057)</u></u>	<u><u>\$(3,673)</u></u>	<u><u>\$(3,739)</u></u>

The information about the credit exposures are disclosed in Note 28.3.

11. Expendable parts and supplies

	<u>2018</u>	<u>2017</u>
Material for repair and maintenance	\$ 93,654	\$79,424
Other inventories	<u>3,315</u>	<u>3,058</u>
	96,969	82,482
Allowance for obsolescence	<u>(10,439)</u>	<u>(657)</u>
	<u><u>\$ 86,530</u></u>	<u><u>\$81,825</u></u>

Expendable parts and supplies recognized as an expense in the accompanying consolidated statement of profit or loss under “Maintenance, materials and repairs” amount to \$31.9 million, \$28.1 million and \$24.7 million, for the years ended December 31, 2018, 2017 and 2016, respectively.

During 2018, due the recognition of impairment over the Embraer 190 fleet (see note 13), the Company estimated the amount of inventory that is not expected to be consumed during the next 5 year, resulted in a loss of \$9.6 million recognize as “Impairment of non financial assets” in the accompanying consolidated statement of profit or loss.

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12. Prepaid expenses

	<u>2018</u>	<u>2017</u>
Prepaid taxes	\$ 40,504	\$38,672
Prepaid commissions	4,694	5,297
Prepaid rent	6,849	7,479
Prepaid insurance	2,304	207
Prepaid to supplier	45,670	19,896
	<u>\$100,021</u>	<u>\$71,551</u>
Current	74,384	45,421
Non-current	25,637	26,130
	<u>\$100,021</u>	<u>\$71,551</u>

Prepaid taxes include \$14.9 million of tax advance of VAT and withholdings taxes (2017: \$12.5 million). The non-current portion of prepaid expenses corresponds to \$11.2 million (2017: \$12.9 million) of advance payments of taxes which are credited to future payments from tax dividends in Panama and \$14.4 million in tax credits (2017: \$13.2 million).

Prepaid to supplier mainly includes operating expenses related to management of fuel and maintenance services. As of December 31, 2018, includes \$24.0 million (2017: \$4.0 million) paid in advance to GE Engines Services, LLC, for the purpose of future maintenance services related to aircraft engines.

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13. Property and equipment

	Land	Flight equipment	Purchase deposits for flight equipment	Ramp and miscellaneous	Furniture, fixtures, equipment and other	Leasehold improvements	Construction in progress	Total
Cost -								
Balance at January 1, 2016	\$6,301	\$ 3,030,361	\$ 243,070	\$ 43,037	\$ 25,947	\$ 35,866	\$ 10,054	\$ 3,394,636
Transfer of pre-delivery payments	—	27,585	(27,585)	—	—	—	—	—
Additions	—	94,348	34,680	3,026	1,878	73	7,435	141,440
Disposals	—	(36,812)	—	(604)	(1,226)	(98)	—	(38,740)
Adjustments	—	100	—	—	2,363	—	—	2,463
Reclassifications	—	(340)	—	(289)	645	9,140	(10,896)	(1,740)
Balance at December 31, 2016	\$6,301	\$ 3,115,242	\$ 250,165	\$ 45,170	\$ 29,607	\$ 44,981	\$ 6,593	\$ 3,498,059
Transfer of pre-delivery payments	—	28,674	(28,674)	—	—	—	—	—
Additions	—	158,557	192,196	1,461	3,392	1,614	5,246	362,466
Disposals	—	(54,114)	(54)	(228)	(711)	—	—	(55,107)
Reclassifications	—	3,870	—	1,950	(4,764)	3,448	(6,061)	(1,557)
Balance at December 31, 2017	\$6,301	\$ 3,252,229	\$ 413,633	\$ 48,353	\$ 27,524	\$ 50,043	\$ 5,778	\$ 3,803,861
Transfer of pre-delivery payments	—	156,305	(156,305)	—	—	—	—	—
Additions	—	228,302	216,732	5,434	3,773	3,388	10,795	468,424
Disposals	—	(20,737)	—	(128)	(393)	(6,246)	(10)	(27,514)
Assets held for sale	—	(164,201)	—	—	—	—	—	(164,201)
Reclassifications	—	(2,371)	—	77	14	2,219	(2,310)	(2,371)
Balance at December 31, 2018	\$6,301	\$ 3,449,527	\$ 474,060	\$ 53,736	\$ 30,918	\$ 49,404	\$ 14,253	\$ 4,078,199
Accumulated depreciation -								
Balance at January 1, 2016	\$ —	\$ (868,326)	\$ —	\$ (28,549)	\$ (21,891)	\$ (22,119)	\$ —	\$ (940,885)
Depreciation for the year	—	(141,418)	—	(3,724)	(2,284)	(4,246)	—	(151,672)
Disposals	—	13,587	—	524	1,220	12	—	15,343
Adjustments	—	(14)	—	—	(2,667)	—	—	(2,681)
Reclassifications	—	(99)	—	(116)	41	174	—	—
Balance at December 31, 2016	\$ —	\$ (996,270)	\$ —	\$ (31,865)	\$ (25,581)	\$ (26,179)	\$ —	\$ (1,079,895)
Depreciation for the year	—	(148,188)	—	(3,811)	(2,192)	(4,505)	—	(158,696)
Disposals	—	51,233	—	200	704	—	—	52,137
Reclassifications	—	(1,335)	—	(1,540)	4,110	(1,235)	—	—
Balance at December 31, 2017	\$ —	\$ (1,094,560)	\$ —	\$ (37,016)	\$ (22,959)	\$ (31,919)	\$ —	\$ (1,186,454)
Depreciation for the year	—	(147,980)	—	(3,783)	(2,506)	(5,038)	—	(159,307)
Disposals	—	16,876	—	118	379	6,396	—	23,769
Assets held for sale	—	75,556	—	—	—	—	—	75,556
Reclassifications	—	268	—	—	—	—	—	268
Impairment	—	(130,709)	—	—	—	—	—	(130,709)
Balance at December 31, 2018	\$ —	\$ (1,280,549)	\$ —	\$ (40,681)	\$ (25,086)	\$ (30,561)	\$ —	\$ (1,376,877)
Carrying amounts -								
At December 31, 2016	\$6,301	\$ 2,118,972	\$ 250,165	\$ 13,305	\$ 4,026	\$ 18,802	\$ 6,593	\$ 2,418,164
At December 31, 2017	\$6,301	\$ 2,157,669	\$ 413,633	\$ 11,337	\$ 4,565	\$ 18,124	\$ 5,778	\$ 2,617,407
At December 31, 2018	\$6,301	\$ 2,168,978	\$ 474,060	\$ 13,055	\$ 5,832	\$ 18,843	\$ 14,253	\$ 2,701,322

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Flight equipment comprises aircraft, engines, aircraft components and major maintenance.

The amount of \$216.7 million corresponds to the advance payments on aircraft purchase contracts during 2018 (2017: \$192.2 million), which include \$1.4 million of borrowing costs capitalized during the year ended December 31, 2018 (2017: \$1.8 million and 2016: Nil). The rate used to determine the amount of borrowing costs eligible for capitalization was 3.54%, which is the interest rate of the specific borrowing (see note 18).

As of December 31, 2018, the carrying amount of the assets acquired under finance leases is \$691.7 million (2017: \$535.5 million).

During 2018, 6 new aircraft were capitalized, 2 Boeing 737-800 and 4 Boeing 737 MAX 9.

Aircraft with a carrying value of \$1.3 billion are pledged as collateral for the obligation of the special purpose entities as of December 31, 2018 and 2017.

As of December 31, 2018 and 2017 construction in progress mainly comprises remodeling projects for airport facilities and offices, and the construction of the new hangar.

Impairment of property and equipment

During 2018 the Company reassessed the Embraer 190 assets given its updated fleet plan and other considerations, as a consequence the expected useful life of the Embraer 190 fleet was shortened to 5 years from the year 2019. This review over the useful life triggered an evaluation of the recoverable amount of the Embraer 190 fleet, as the higher of the aircraft's fair value less costs to sell and its value in use. The value in use was determined using cash flow projections from financial budgets approved by senior management covering a five year period. The pre-tax discount rate applied to cash flow projections was 13.5%. As a result of this analysis, the Company determined the book value was in excess of its recoverable amount and recognized an impairment of \$179.0 million over to the Embraer 190 fleet, and it was written down to its fair value less cost to sell, which include the amount listed below for the 5 Embraer 190 that are held for sale as of December 31, 2018.

The fair value of the Embraer 190 fleet was determined considering specific circumstances of the fleet such as aircraft age, maintenance requirements and condition and therefore classifies as Level 2 in the fair value hierarchy. The Company reassessed the Embraer 190 assets and adjusted the depreciable life and salvage value to align with the expected transition dates. The effect of these changes on the expected depreciation expense of this fleet amounts to \$0.3 million per year.

On November 2018, the shareholders of the Company approved the plan to sell five aircraft Embraer 190. Efforts to sell the aircraft have started and the sale is expected to be completed within a year from the reporting date.

Asset held for sale are included under "Other current assets" in the accompanying consolidated statement of financial position (see note 17)

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Notes to the consolidated financial statements

14. Leases

Finance leases

The Company entered into finance leases of aircraft through Japanese Operating Leases with Call Option (JOLCO) arrangements. These arrangements establish semi-annual payments of obligations, and have a minimum lease term of 10 years, with a minimal purchase option at the end of the lease.

As of December 31, 2018, the scheduled future minimum lease payments required under finance leases are as follows:

	<u>Future minimum lease payments</u>	<u>Interest</u>	<u>Present value of minimum lease payments</u>
Up to one year	\$ 67,743	\$ 23,707	\$ 66,548
One to five years	280,126	82,233	254,811
Over five years	577,164	42,371	456,661
Total minimum lease payments	<u>\$ 925,033</u>	<u>\$148,311</u>	<u>\$ 778,020</u>

As of December 31, 2017, the scheduled future minimum lease payments required under finance leases are as follows:

	<u>Future minimum lease payments</u>	<u>Interest</u>	<u>Present value of minimum lease payments</u>
Up to one year	\$ 46,274	\$16,180	\$ 45,416
One to five years	186,344	54,830	169,383
Over five years	388,005	26,924	310,388
Total minimum lease payments	<u>\$ 620,623</u>	<u>\$97,934</u>	<u>\$ 525,187</u>

Assets acquired under finance leases are classified under property and equipment, and the finance leases are classified as long-term debt (see note 18).

Operating leases

As of December 31, 2018, the scheduled future minimum lease payments required under aircraft and non-aircraft operating leases that have initial non-cancellable lease terms in excess of one year are as follows:

	<u>Aircraft</u>	<u>Others</u>
Up to one year	\$113,233	\$ 15,222
One to five years	322,283	75,862
More than five years	19,309	18,163
Total minimum lease payments	<u>\$454,825</u>	<u>\$109,247</u>

Total lease expense amount to \$132.5 million for the year ended December, 31 2018 (2017: \$134.5 million and 2016: \$138.8 million) included under "Aircraft rentals and other rentals" in the accompanying consolidated statement of profit or loss.

The Company leases some aircraft under long-term lease agreements with an average duration of 10 years. Aircraft under operating leases may be renewed in accordance with management's business plan.

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Other leased assets include real estate, airport and terminal facilities, sales offices, maintenance facilities, and general offices. Most lease agreements include renewal options; a few have escalation clauses, but no purchase options.

Because the lease renewals are not considered to be reasonably assured, the lease payments that would be due during the renewal periods are not included in the determination of lease expenses until the leases are renewed. Leasehold improvements are amortized over the contractually committed lease term, which does not include the renewal periods.

Since 2015, the Company is the lessor of two aircraft, as part of the strategy of fleet management, in order to optimize the use of aircraft in relation to the routes scheduled for that year. Each lease is scheduled to expire in 2020. The carrying amount of the two aircraft under operating leases is up to \$30.7 million (2017: \$32.6 million).

Total lease income amounts to \$3.5 million for the year ended December 31, 2018 (2017: \$3.5 million and 2016: \$3.5 million), included under "Other operating revenue" in the accompanying consolidated statement of profit or loss.

As of December 31, 2018, future minimum lease receivables under non-cancellable leases are as follows:

	<u>2018</u>	<u>2017</u>
Up to one year	\$3,480	\$3,480
One to five years	1,595	5,075
Total minimum lease rental payments	<u>\$5,075</u>	<u>\$8,555</u>

15. Net pension assets

	<u>2018</u>	<u>2017</u>
Pension assets	<u>\$ 28,339</u>	<u>\$ 23,794</u>
Post-employment benefits	(22,568)	(19,997)
Other employee benefits	(680)	(612)
Total employee benefits liability	<u>\$(23,248)</u>	<u>\$(20,609)</u>
Net pension asset	<u>\$ 5,091</u>	<u>\$ 3,185</u>

In accordance with Panamanian law, the Company contributes to the following defined benefit plans:

Seniority premium plan: it covers all employees eligible for the seniority premium as provided by the Company. Employees are fully vested in their benefit upon leaving the Company. The benefits consist of 1.92% of eligible earnings accumulated for each year of service.

Indemnity plan: it covers all employees eligible for the indemnity plan as provided by the Company. The benefits consist of 6.54% of eligible earnings accumulated for each year of service.

The actuarial liability is recognized for the legal obligation under the formal terms of the plan, and for the implied projections as required under IAS 19R. These actuarial projections do not constitute a legal obligation for the Company.

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Notes to the consolidated financial statements

The following table summarizes the components of net benefit expense included under “Wages, salaries, benefits and other employees ‘expenses” in the accompanying consolidated statement of profit or loss:

	<u>Defined benefit obligation</u>	<u>Fair value of assets</u>	<u>Defined benefit assets (liability)</u>
Year ended December 31, 2018			
Current service cost	(2,105)	—	(2,105)
Interest cost on net benefit obligation	(642)	666	24
Net benefit expense	<u>\$ (2,747)</u>	<u>\$ 666</u>	<u>\$ (2,081)</u>
Year ended December 31, 2017			
Current service cost	(1,767)	—	(1,767)
Interest cost on net benefit obligation	(568)	778	210
Net benefit expense	<u>\$ (2,335)</u>	<u>\$ 778</u>	<u>\$ (1,557)</u>
Year ended December 31, 2016			
Current service cost	(1,724)	—	(1,724)
Interest cost on net benefit obligation	(516)	689	173
Net benefit expense	<u>\$ (2,240)</u>	<u>\$ 689</u>	<u>\$ (1,551)</u>

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The following table shows reconciliation from the opening balance to the closing balances for net pension asset and its components:

	Defined benefit obligation	Fair value of assets	Other employee benefits liability	Defined benefit assets (liability)
At January 1, 2016	\$ (14,468)	\$ 22,273	\$ (1,755)	\$ 6,050
Current service cost	(1,724)	—	—	(1,724)
Interest cost	(516)	689	—	173
Return on plan assets greater (less) than discount rate	—	518	—	518
Experience (gain) loss	(1,052)	—	—	(1,052)
Investment return	—	27	—	27
Assumption changes	(67)	—	—	(67)
Employer contributions	—	3,970	—	3,970
Benefits paid	1,329	(1,531)	(75)	(277)
Adjustments	—	—	1,208	1,208
At December 31, 2016	\$ (16,498)	\$ 25,946	\$ (622)	\$ 8,826
Current service cost	(1,767)	—	—	(1,767)
Interest (cost) income	(568)	778	—	210
Return on plan assets greater (less) than discount rate	—	(21)	—	(21)
Experience gain (loss)	(2,033)	—	—	(2,033)
Investment return	—	88	—	88
Assumption changes	(226)	—	—	(226)
Employer contributions	—	(1,677)	—	(1,677)
Benefits paid	1,095	(1,320)	—	(225)
Adjustments	—	—	10	10
As of December 31, 2017	\$ (19,997)	\$ 23,794	\$ (612)	\$ 3,185
Current service cost	(2,105)	—	—	(2,105)
Interest (cost) income	(642)	666	—	24
Return on plan assets greater (less) than discount rate	—	483	—	483
Experience gain (loss)	(1,943)	—	—	(1,943)
Investment return	—	67	—	67
Assumption changes	877	—	—	877
Employer contributions	1,242	4,780	—	6,022
Benefits paid	—	(1,451)	—	(1,451)
Adjustments	—	—	(68)	(68)
As of December 31, 2018	\$ (22,568)	\$ 28,339	\$ (680)	\$ 5,091

As of December 31, 2018 and 2017, plan assets are comprised totally by fixed term deposits.

As of December 31, 2017 employer contributions is a net amount of regular contributions by \$3.5 million and retirement of interest earned by \$5.2 million.

For the year ended December 31, 2018 actuarial loss of \$0.3 million (2017: \$2.0 million and 2016: \$1.1 million) were recognized in other comprehensive income.

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The following were the principal actuarial assumptions at the reporting date:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Economic assumptions -			
Discount rate	3.91%	3.15%	3.37%
Compensation—salary increase	4%	4%	4%
Demographic assumptions -			
Mortality	RP - 2000 no collar		
Termination	13% all ages		
Retirement			
Males	62 years		
Females	57 years		

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

	<u>December, 31 2018</u>		<u>December, 31 2017</u>		<u>December, 31 2016</u>	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Discount rate (0.5% movement)	\$ (538)	\$ 569	\$ (506)	\$ 537	\$ (410)	\$ 434
Salary rate (0.5% movement)	103	(93)	99	(89)	122	(117)

The following payments are expected contributions to the defined benefit plan in future years:

	<u>2018</u>	<u>2017</u>
Up to one year	\$ 4,163	\$ 3,424
One to five years	12,293	10,794
Over five years	<u>13,076</u>	<u>11,401</u>
Total expected payments	<u>\$29,532</u>	<u>\$25,619</u>

COPA HOLDINGS, S. A. AND SUBSIDIARIES

Notes to the consolidated financial statements

16. Intangible assets

	<u>Goodwill</u>	<u>Other intangibles assets</u>		<u>Total</u>
		<u>License and software rights</u>	<u>Intangible in process</u>	
Cost -				
Balance at January 1, 2016	\$20,380	\$ 63,809	\$ 17,681	\$101,870
Additions	—	73	14,401	14,474
Disposals	—	(1,546)	—	(1,546)
Impairment loss	—	—	(5,931)	(5,931)
Reclassifications	—	11,813	(10,073)	1,740
Balance at December 31, 2016	20,380	74,149	16,078	110,607
Additions	—	1,783	16,898	18,681
Disposals	—	(4,891)	—	(4,891)
Reclassifications	—	3,642	(2,085)	1,557
Balance at December 31, 2017	20,380	74,683	30,891	125,954
Additions	—	2,711	27,471	30,182
Reclassifications	—	16,730	(16,730)	—
Balance at December 31, 2018	20,380	94,124	41,632	156,136
Amortization -				
Balance at January 1, 2016	\$ —	\$ (32,444)	\$ —	\$ (32,444)
Amortization for the year	—	(10,207)	—	(10,207)
Disposals	—	1,546	—	1,546
Balance at December 31, 2016	—	(41,105)	—	(41,105)
Amortization for the year	—	(8,628)	—	(8,628)
Disposals	—	4,894	—	4,894
Balance at December 31, 2017	—	(44,839)	—	(44,839)
Amortization for the year	—	(10,129)	—	(10,129)
Balance at December 31, 2018	—	(54,968)	—	(54,968)
Carrying amounts -				
At December 31, 2016	<u>\$20,380</u>	<u>\$ 33,044</u>	<u>\$ 16,078</u>	<u>\$ 69,502</u>
At December 31, 2017	<u>\$20,380</u>	<u>\$ 29,844</u>	<u>\$ 30,891</u>	<u>\$ 81,115</u>
At December 31, 2018	<u>\$20,380</u>	<u>\$ 39,156</u>	<u>\$ 41,632</u>	<u>\$101,168</u>

Goodwill

The Company performed its annual impairment test in September 2018 and 2107 and the recoverable amount was estimated at \$5.2 billion (2017: \$4.4 billion), an amount far in excess of the \$20.4 million of goodwill recorded.

The cash flows beyond the five-year period are extrapolated using a 3.0% growth rate. It was concluded that no impairment charge is necessary since the estimated recoverable amount of the CGU exceed its carrying value by approximately 51%.

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Key assumptions used in value in use calculations

The calculations of value in use of the CGU are sensitive to the following main assumptions:

- Revenue – the Company calculated the projected passenger revenue based on the current beliefs, expectations, and projections about future events and financial trends affecting its business.
- Cash flows – determination of the terminal value is based on the present value of the Company's cash flows in perpetuity. When estimating the cash flows for use in the residual value calculation, it is essential to clearly define the normalized cash flows level, the appropriate discount rate for the degree of risk inherent in that return stream, and a constant future growth rate for the related cash flows. To estimate the value, the Gordon Growth Model was used.
- Discount rates – The selected pre-tax rate of 13.5% represents the current market assessment of the risks specific to the CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Company and its operating segment and is derived from its pre-tax weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Company's investors. The cost of debt is based on the interest-bearing borrowings the Company is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Sensitivity to changes in assumptions

- The Company estimated that a reduction to 12.5% or an increase to 14.5% in the discount rate would not cause the carrying amounts to exceed the recoverable amount.

Other intangible assets

Intangible assets in process

Intangible assets in process as of December 31, 2018 and 2017 mainly comprise improvements to the tickets reservation system, and other operational system.

During 2018, the Company capitalized a \$16.7 million of a new internet booking engine, renew aircraft maintenance systems and other programs.

During 2016, the Company evaluated the recoverability of the development cost generated in a project in process related to some systems; as a result of this evaluation, the Company recognized an impairment of \$5.9 million of incurred cost that will no longer generate probable future economic benefits.

During 2016, the Company capitalized an \$11.8 million of a new operating and administrative systems and other program for ConnectMiles.

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17. Other assets

	<u>2018</u>	<u>2017</u>
Current -		
Asset held for sale	\$40,330	\$ —
Interest receivable	12,534	10,443
Other	1,522	1,258
	<u>54,386</u>	<u>11,701</u>
Non-current -		
Guarantee deposits	20,015	14,568
Deposits for litigation	10,672	12,390
Other	3,212	4,182
	<u>33,899</u>	<u>31,140</u>
	<u>\$88,285</u>	<u>\$42,841</u>

Guarantee deposits are mainly amounts paid to fuel suppliers, as required at the inception of the agreements (see note 23).

Deposit for litigation is cash deposited into the escrow account until the related dispute is settled (see note 21).

18. Debt

	2018		
	Due through	Effective rates ranged	Carrying Amount
Long-term fixed rate debt	2028	1.58% to 4.90%	779,592
Long-term variable rate debt	2028	2.67% to 3.91%	367,656
Loans payables	2019	3.41% to 3.71%	140,000
			1,287,248
Current maturities			(311,965)
Long-term debt			<u>\$ 975,283</u>
	2017		
	Due through	Effective rates ranged	Carrying Amount
Long-term fixed rate debt	2025	1.81% to 5.58%	\$ 626,150
Long-term variable rate debt	2027	1.54% to 3.04%	420,634
Loans payables	2018	2.33% to 2.58%	127,797
			1,174,581
Current maturities			(298,462)
Long-term debt			<u>\$ 876,119</u>

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Maturities of long-term debt for the next five years are as follows:

Year ending December 31,	
2019	311,965
2020	128,842
2021	111,469
2022	104,893
2023	83,499
Thereafter	546,580
	<u>\$1,287,248</u>

As of December 31, 2018, long-term fixed rate debt included \$601.3 million (2017: \$394.2 million) and long-term variable debt included \$175.5 million corresponding to finance leases using a JOLCO structure (2017: \$128.4 million) (see note 14).

As of December 31, 2018 the Company had \$297.8 million (2017: \$372.0 million) of outstanding indebtedness that is owed to financial institutions under financing arrangements guaranteed by the Export-Import Bank of the United States. The Export-Import Bank guarantees support 80% of the net purchase price of the aircraft and are secured with a first priority mortgage on the aircraft in favor of a security trustee on behalf of Export-Import Bank.

The Company's Export-Import Bank supported financings are amortized on a quarterly basis, are denominated in U.S. dollars, and originally bear interest at a floating rate linked to LIBOR. The Export-Import Bank guaranteed facilities typically offer an option to fix the applicable interest rate. The Company has exercised this option with respect to \$178.3 million as of December 31, 2018 (2017: \$231.9 million).

In the past, the Company has extended the maturity of some of its aircraft financing to 15 years through the use of a "Stretched Overall Amortization and Repayment" (SOAR), structure which provides serial draw-downs, calculated to result in a 100% loan accreting to a recourse balloon at the maturity of the Export-Import Bank guaranteed loan. The Company currently has 4 aircraft finance under SOAR structure which had an outstanding balance of \$15.0 million as of December 31, 2018 (2017: \$28.3 million).

As of December 31, 2018, the loan payable in the amount of \$140.0 million (2017: \$127.8 million) resulted from the use of the lines of credits (see note 27 for information regarding financial covenants related to the Company's financial agreement).

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Notes to the consolidated financial statements

The detail of finance cost and income is as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Finance income -			
Interest income on short-term bank deposits	\$ 1,670	\$ 1,499	\$ 675
Interest income on investment	21,958	16,440	12,325
	<u>\$ 23,628</u>	<u>\$ 17,939</u>	<u>\$ 13,000</u>
Finance cost -			
Interests expense on bank loans	\$(34,687)	\$(32,599)	\$(32,647)
Interest on factoring	(1,163)	(2,624)	(4,377)
	<u>\$(35,850)</u>	<u>\$(35,223)</u>	<u>\$(37,024)</u>

Changes in liabilities arising from financing activities:

	<u>2017</u>	<u>Cash flows</u>	<u>New debt</u>	<u>Non-cash transactions</u>	<u>2018</u>
Debt					
Obligations under finance leases	\$ 522,690	\$ (34,899)	\$ —	\$ 289,000	\$ 776,791
Debt	651,891	(366,434)	225,000	—	510,457
Total liabilities from financing activities	<u>\$1,174,581</u>	<u>\$(401,333)</u>	<u>\$225,000</u>	<u>\$ 289,000</u>	<u>\$1,287,248</u>

During 2018, the Company's non-cash investing and financing transactions are comprised of \$289.0 million related to the acquisition of new aircraft that are financed using the JOLCO structure (see note 14).

19. Trade, other payables and financial liabilities

	<u>2018</u>	<u>2017</u>
Account payables	\$124,962	\$116,554
Account payables to related parties	15,464	12,880
	140,426	129,434
Others	604	1,156
	<u>\$141,030</u>	<u>\$130,590</u>

See details of the account due to related parties in note 23.

20. Accrued expenses payable

	<u>2018</u>	<u>2017</u>
Accruals and estimations	\$ 4,500	\$ 9,059
Labor related provisions	36,953	44,188
Liability for social security contributions	4,955	6,432
Other	982	642
	<u>\$47,390</u>	<u>\$60,321</u>

As of December 31, 2018, accruals and estimations include the estimated balance of the current portion of the provision for maintenance of \$4.5 million (2017: 4.2 million) (see note 21).

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As of December 31, 2017 accruals and estimations include the estimated balance of the current portion of the provision for return condition of \$4.9 million.

Labor related provisions include a profit-sharing program for both management and non-management staff. For members of management, profit-sharing is based on a combination of the Company's performance as a whole and the achievement of individual goals. Profit-sharing for non-management employees is based solely on the Company's performance. The accrual at year-end represents the amount expensed for the current year, which is expected to be settled within 12 months.

21. Other long-term liabilities

	Provision for litigations	Provision for return condition	Other long-term liabilities	Total
Balance at January 1, 2018	\$ 15,152	\$ 92,974	\$ 31,554	\$ 139,680
Increases	302	17,067	364	17,733
Used	(753)	(6,540)	(4,568)	(11,861)
Reclassification	—	—	(1,506)	(1,506)
Effect of movements in exchange rates	(1,822)	—	—	(1,822)
Balance at December 31, 2018	<u>\$ 12,879</u>	<u>\$ 103,501</u>	<u>\$ 25,844</u>	<u>\$ 142,224</u>
Current	—	—	4,500	4,500
Non-current	<u>12,879</u>	<u>103,501</u>	<u>21,344</u>	<u>137,724</u>
	<u>\$ 12,879</u>	<u>\$ 103,501</u>	<u>\$ 25,844</u>	<u>\$ 142,224</u>

Provision for litigation

Provisions for litigation in process and expected payments related to labor legal cases.

The Company is the plaintiff in an action in October 2003 against Empresa Brasileira de Infraestrutura Aeroportuária ("INFRAERO"), Brazil's airport operator, the legality of the Additional Airport Tariffs (*Adicional das Tarifas Aeroportuárias*, or ATAERO), which is a 50% surcharge imposed on all airlines which fly to Brazil. Similar suits have been filed against INFRAERO by other major airline carriers. In this case, the court of first instance ruled in favor of INFRAERO and the Company has appealed the judgment. While the litigation is still pending, the Company continues to pay the ATAERO amounts due into an escrow account and as of December 31, 2018, the aggregate amount in such account totaled \$10.6 million (2017: \$12.4 million).

In the event that the Company receives a final unfavorable judgment it will be required to release the escrowed fund to INFRAERO and will not be able to recover such amounts. The Company does not, however, expect the release of such amounts to have a material impact on its financial results since these amounts already had been expensed.

Provision for return condition

For operating leases, the Company is contractually obliged to return aircraft in an agreed-upon condition. The Company accrues for restitution costs related to aircraft held under operating leases throughout the duration of the lease. The Company has been not have planned aircrafts return on 2019. As of December 31, 2017, the Company presented the estimated balance of the current portion of this provision as "Accrued expenses payable" in the consolidated statement of financial position (see note 20).

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Other long-term liabilities

Other long-term liabilities include principally the provision for maintenance which mainly include the accrual of formal agreements with third parties for operational maintenance events. The cost of these agreements are billed by power by the hour and charged to the consolidated statement of profit or loss. As of December 31, 2018, the provision for maintenance amount to \$22.9 million (2017: \$28.9 million) and the Company has presented the estimated balance of the current portion of this provision as “Accrued expenses payable” in the consolidated statement of financial position (see note 20).

Other long-term liabilities also include the provision for the non-compete agreement created for payment to senior management related to covenants not to compete with the Company in the future (relative to the \$2.6 million trust fund). This provision is accounted for as “Other long-term employee benefits” under IAS 19R *Employee benefits*. The accrued amount is revalued annually using the projected benefit method as required by IAS 19R.

22. Income taxes

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current taxes expense -			
Current period	\$(35,258)	\$(43,034)	\$(31,666)
Adjustment for prior period	261	455	(127)
	<u>\$(34,997)</u>	<u>\$(42,579)</u>	<u>\$(31,793)</u>
Deferred taxes expenses -			
Origination and reversal of temporary differences	467	(6,731)	(6,478)
Total income tax expense	<u>\$(34,530)</u>	<u>\$(49,310)</u>	<u>\$(38,271)</u>

During the year 2018, the deferred tax balances have been re-measured as a result of the change in Colombia’s income tax rate, 33%, 32%, 31% and 30% for the taxable year 2019, 2020, 2021 and 2022, respectively according to the law N°1943 published on December 28, 2018. Deferred tax expected to reverse in the year 2019, has been measured using the effective rate that will apply in Colombia for the period (33%).

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The balances of deferred taxes are as follows:

	Statement of financial position		Statement of profit or loss		
	2018	2017	2018	2017	2016
Deferred tax liabilities					
Maintenance deposits	\$(29,863)	\$(26,586)	\$ 3,277	\$ 2,796	\$ 2,286
Prepaid dividend tax	(8,859)	(14,103)	(5,244)	1,671	5,300
Property and equipment	(7,396)	(9,532)	(2,136)	2,107	(1,599)
Other	(4,691)	(4,050)	641	(1,962)	(10,147)
Set off tax	1,869	1,806	(63)	2,879	16,269
	<u>\$(48,940)</u>	<u>\$(52,465)</u>	<u>\$(3,525)</u>	<u>\$ 7,491</u>	<u>\$ 12,109</u>
Deferred tax assets					
Provision for return conditions	\$ 7,136	\$ 7,859	\$ 723	\$ (253)	\$ 4,417
Air traffic liability	1,792	1,281	(511)	(266)	305
Fuel derivative	—	—	—	107	4,403
Other provisions	4,687	4,416	(271)	(272)	(3,059)
Tax loss	4,295	7,349	3,054	2,803	4,572
Set off tax	(1,869)	(1,806)	63	(2,879)	(16,269)
	<u>\$ 16,041</u>	<u>\$ 19,099</u>	<u>\$ 3,058</u>	<u>\$ (760)</u>	<u>\$ (5,631)</u>
	<u>\$(32,899)</u>	<u>\$(33,366)</u>	<u>\$ (467)</u>	<u>\$ 6,731</u>	<u>\$ 6,478</u>

At December 31, 2018 the deferred tax assets include an amount of \$4.3 million (\$7.3 million at December, 2017) which relates to carried forward tax losses of Copa Colombia. During 2018, the subsidiary generated a tax profit. The Company has concluded that the deferred assets will be recoverable using the estimated future taxable income based on the approved business plans for the subsidiary. The Company expects to use the remaining tax losses within the next three to five years, however, these tax losses can be carried forward indefinitely.

The aggregate amount of temporary differences associated with investments in subsidiaries, for which deferred tax liabilities have not been recognized, is \$453.8 million as of December 31, 2018 (2017: \$397.9 million).

Reconciliation of the effective tax rate is as follows:

	Tax rate	2018	Tax rate	2017	Tax rate	2016
Net income		\$ 88,095		\$364,045		\$323,409
Total income tax expense		34,530		49,310		38,271
Profit excluding income tax		122,625		413,355		361,680
Income taxes at Panamanian statutory rates	25.0%	30,656	25.0%	103,339	25.0%	90,420
Stations - Taxable/Panama	(19.6%)	(23,986)	(7.8%)	(32,043)	(5.5%)	(20,150)
Stations - Taxable/Non Panama	9.2%	11,319	1.7%	6,856	0.9%	3,383
Stations - Non Taxable/Non panama	3.4%	4,106	(9.4%)	(38,684)	(9.8%)	(35,509)
Dividend tax	10.4%	12,696	2.5%	10,297	0.0%	—
(Over) under provided in prior periods	(0.2%)	(261)	(0.1%)	(455)	0.04%	127
Provision for income taxes	<u>28.2%</u>	<u>\$ 34,530</u>	<u>11.9%</u>	<u>\$ 49,310</u>	<u>10.6%</u>	<u>\$ 38,271</u>

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23. Accounts and transactions with related parties

	2018	2017
Account receivable -		
Panama Air Cargo Terminal	\$ 102	\$ 254
Banco General, S.A.	102	12
Petroleos Delta, S.A.	10	19
Editora del Caribe, S.A.	8	32
Lubricantes Delta, S.A.	1	—
Assa Compañía de Seguros, S.A.	—	1
	<u>\$ 223</u>	<u>\$ 318</u>
Account payable -		
Petróleos Delta, S.A.	\$12,150	\$10,371
Assa Compañía de Seguros, S.A.	2,224	1,431
Desarrollos Inmobiliarios del Este, S.A.	811	650
Banco General, S.A.	135	—
Panama Air Cargo Terminal	53	200
Galindo, Arias & López	43	31
Motta International, S.A.	48	81
Cable Onda, S.A.	—	112
Global Brands, S.A.	—	4
	<u>\$15,464</u>	<u>\$12,880</u>

Transactions with related parties for the year ended December 31 are as follows:

Related party	Transaction	Amount of transaction 2018	Amount of transaction 2017	Amount of transaction 2016
Petróleos Delta, S.A.	Purchase of jet fuel	398,733	290,172	229,899
ASSA Compañía de Seguros, S.A.	Insurance	9,735	8,527	7,128
Panama Air Cargo Terminal	Handling	5,849	4,869	—
Profuturo Administradora de Fondos de Pensión y Cesantía	Payments	4,716	2,386	3,238
Desarrollo Inmobiliario del Este, S.A.	Property leasing	3,838	3,625	3,795
Motta International	Purchase	1,585	1,632	1,646
Cable Onda, S.A.	Communications	1,687	1,448	1,625
Galindo, Arias & López	Legal services	490	373	341
GBM International, Inc.	Technological support	231	273	272
Global Brands, S.A.	Purchase	55	79	67
Lubricantes Delta, S.A.	Fuel accessories	—	—	63
Editora del Caribe, S.A.	Advertising	—	4	(162)
Banco General, S.A.	Interest income	\$ (3,781)	\$ (2,986)	\$ (1,284)

Banco General, S.A.: The Company's controlling shareholders have a vote and a decision within the board of directors of BG Financial Group, which is the controlling company of Banco General. Likewise, Banco General, S. A. owns ProFuturo Administradora de Fondos de Pensión y Cesantía S.A., which manage the Company's reserves for pension purposes.

Also the Company has interest receivable by \$1.8 million (2017: \$2.3 million) due to short and long term time deposits in this financial institution.

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Petróleos Delta, S.A.: Since 2005, the fuel company entered into a contract with the Company to meet its jet fuel needs. The contract's term is four years, and the last contract subscribed was on June, 2016.

As of December 31, 2018, the Company maintained guarantee deposits with Petróleos Delta, S.A. in the amount of \$16.1 million (2017: \$11.8 million), recorded as "Other non-current assets" in the consolidated statement of financial position. While the Company's controlling shareholders do not hold a controlling equity interest in Petróleos Delta, S. A., various members of the Company's Board of Directors are also board members of Petróleos Delta, S. A.

ASSA Compañía de Seguros, S. A.: An insurance company controlled by the Company's controlling shareholders that provide substantially all of the Company's insurance policies.

Desarrollo Inmobiliario del Este, S. A.: The Company leases six floors consisting of approximately 121,686 square feet of the building from Desarrollo Inmobiliario, an entity controlled by the same group of investors that controls Corporación de Inversiones Aéreas, S. A. ("CIASA"). CIASA owns 100% of the class B shares of the Company.

Motta Internacional, S.A. & Global Brands, S. A.: The Company purchases most of the alcohol and other beverages served on its aircraft from Motta Internacional, S. A. and Global Brands, S. A., both of which are controlled by the Company's controlling shareholders.

GBM International, Inc.: Provides systems integration and computer services, as well as technical services and enterprise management. A member of the Company's Board of Directors is shareholder of GBM International, Inc.

Galindo, Arias & López: Certain partners of Galindo, Arias & López (a law firm) are indirect shareholders of CIASA and serve on the Company's Board of Directors.

Editora del Caribe, S.A.: this Panamanian publisher is responsible for publishing the official journal of Copa Airlines "Panorama of the Americas". A member of the Company's Board of Directors is shareholder of Editora del Caribe, S. A.

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.

Panama Air Cargo Terminal: Provides cargo and courier services in Panama, an entity controlled by the same group of investors that controls CIASA.

Compensation of key management personnel

Key management personnel compensation is as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Short-term employee benefits	\$ 6,104	\$ 5,133	\$3,763
Post-employment pension	117	99	72
Share-based payments	<u>5,092</u>	<u>5,524</u>	<u>5,799</u>
	<u>\$11,313</u>	<u>\$10,756</u>	<u>\$9,634</u>

The Company has not set aside any additional funds for future payments to executive officers, other than one pursuant to a non-compete agreement for \$3.1 million established in 2006 (see note 21).

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24. Equity

Common stock

The 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, 2018, the Company had 33,816,276 Class A shares issued (2017: 33,776,480) and 31,257,686 shares outstanding (2017: 31,185,641), 10,938,125 Class B shares issued and outstanding (2017: 10,938,125) 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.

- 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: (i) a transformation of the Company into another corporate type; (ii) a merger, consolidation, or spin-off of the Company, (iii) a change of corporate purpose; (iv) voluntarily delisting Class A shares from the NYSE; (v) and any amendment to the foregoing special voting provisions adversely affecting the rights and privileges of the Class A shares.

- 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. 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 the Company a written certification of their status as Panamanian as a condition to registering the transfer to them of Class B shares.

- Class C shares

The Independent Directors Committee of the Board of Directors, or the Board of Directors as a whole if applicable, is 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.

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 stock 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.

Dividends

The payment of dividends on shares is subject to the discretion of the Board of Directors. Under Panamanian law, the Company may pay dividends only out of retained earnings and capital surplus. The Articles of Incorporation provides that all dividends declared by the Board of Directors will be paid equally with respect to all of the Class A and Class B shares.

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In February 2016, the Board of Directors of the Company approved to change the dividend policy to base the calculation of the payment of yearly dividends to shareholders in an amount of up to 40% of the prior year's annual consolidated underlying net income, distributed in equal quarterly installments upon board ratifications.

In 2018, the Company paid quarterly dividends in the amount of \$0.87 per share (2017: \$0.51 per share for the first and second quarters and \$0.75 per share for the third and fourth quarter).

Treasury stock

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable cost net of any tax effects, is recognized as a deduction from equity and presented separately in the balance sheet. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is presented within share premium.

Since treasury stock is not considered outstanding for share count purposes, it is excluded from average common shares outstanding for basic and diluted earnings per share.

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.

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 ("ASR") with Citibank for a period of approximately three months for a total amount of \$100 million. On December 15, 2015, the Bank delivered to the Company 1,960,250 shares, recognized at the settlement price of \$51.01 per share.

25. Share-based payments

The Company has established equity compensation plans under which it administers restricted stock, stock options, and certain other equity-based awards to attract, retain, and motivate executive officers, certain key employees, and non-employee directors to compensate them for their contributions to the growth and profitability of the Company. Shares delivered under this award program may be sourced from treasury stock, or authorized unissued shares.

The Company's equity compensation plans are accounted for under IFRS 2 *Share-Based Payment* ("IFRS 2"). IFRS 2 requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award or at fair value of the award at each reporting date, depending on the type of award granted. The resulting cost is recognized over the period during which an employee is required to provide service in exchange for the award, which is usually the vesting period.

The total compensation cost recognized for non-vested stock and options awards amounts to \$7.1 million, \$7.4 million, and \$7.5 million in 2018, 2017, and 2016, respectively, and was recorded as a component of "Wages, salaries, benefits and other employees' expenses" within operating expenses.

Non-vested Stock

The Company approved a non-vested stock bonus award for certain executive officers of the Company.

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A summary of the terms and conditions, properly approved by the Compensation Committee of our Board of Directors, relating to the grants of the non-vested stock award under the equity compensation plan is as follows:

Grant date	Number of instruments	Vesting conditions	Contractual life
February, 2015	13,709	One-third every anniversary	3 years
April, 2015	4,915	15% first three anniversaries 25% fourth anniversary 30% fifth anniversary	5 years
June, 2015	10,920	One-third every anniversary	3 years
June, 2015	4,912	Third anniversary	3 years
June, 2015	6,750	15% first three anniversaries 25% fourth anniversary 30% fifth anniversary	5 years
December, 2015	429	Third anniversary	3 years
February, 2016	19,012	One-third every anniversary	3 years
February, 2016	147,000	15% first three anniversaries 25% fourth anniversary 30% fifth anniversary	5 years
February, 2016	63,000	Fifth anniversary	5 years
May, 2016	7,899	15% first three anniversaries 25% fourth anniversary 30% fifth anniversary	5 years
May, 2016	4,739	One-third every anniversary	3 years
June, 2016	25,280	One-third every anniversary	3 years
June, 2016	7,925	Third anniversary	3 years
September, 2016	6,668	Third anniversary	3 years
September, 2016	5,005	One-third every anniversary	3 years
February, 2017	22,012	One-third every anniversary	3 years
June, 2017	11,980	One-third every anniversary	3 years
June, 2017	2,237	Third anniversary	3 years
February, 2018	21,556	7% first month 31% first three anniversaries	3 years
February, 2018	14,379	33% first three anniversaries	3 years
February, 2018	1,316	15% first three anniversaries 25% fourth 30% fifth anniversary	5 years
July, 2018	6,104	Third anniversary	3 years

Non-vested stock awards were measured at their fair value on the grant date. For the 2018 grants, the fair value of these non-vested stock awards amounts to \$135.81 per share (2017: \$107.29).

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A summary of the non-vested stock award activity under the plan as of December 31, 2018 and 2017 with changes during these years is as follows (in number of shares):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Non-vested as of January 1	304,153	333,183	139,962
Granted	43,355	36,229	291,872
Vested	(72,045)	(62,224)	(94,208)
Forfeited	(3,559)	(3,035)	(4,443)
Non-vested as of December 31	<u>271,904</u>	<u>304,153</u>	<u>333,183</u>

The Company uses the accelerated attribution method to recognize the compensation cost for awards with graded vesting periods. The Company estimates that the remaining compensation cost, not yet recognized for the non-vested stock awards, amounts to \$9.8 million (2017: \$9.3 million), with a weighted average remaining contractual life of 2.3 years (2017: 2.1 years). Additionally, the Company estimates that the 2019 compensation cost related to these plans amounts to \$4.77 million.

The Company plans to make additional equity-based awards under the plan from time to time, including additional non-vested stock and stock option awards. The Company anticipates that future employee non-vested stock and stock option awards granted pursuant to the plan will generally vest over a three to five year period and the stock options will carry a ten-year term.

26. Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit (loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of shares outstanding during the year, increased by the number of non-vested dividend participating share-based payment awards outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the net profit (loss) attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares, when the effect of their inclusion is dilutive (decreases earnings per share or increases loss per share).

The computation of the income and share data used in the basic and diluted earnings per share is as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Basic earnings per share -			
Net income	\$88,095	\$364,045	\$323,409
Weighted-average shares outstanding	42,182	42,111	42,036
Non-vested dividend participating awards	274	308	322
	<u>42,456</u>	<u>42,419</u>	<u>42,358</u>
	<u>2.07</u>	<u>8.58</u>	<u>7.63</u>

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	<u>2018</u>	<u>2017</u>	<u>2016</u>
Diluted earnings per share -			
Net income	\$88,095	\$364,045	\$323,409
Weighted-average shares outstanding used for basic earnings per share	42,456	42,419	42,358
Share options on issue	—	—	5
	<u>\$42,456</u>	<u>\$ 42,419</u>	<u>\$ 42,363</u>
	<u>2.07</u>	<u>8.58</u>	<u>7.63</u>

27. Commitments and contingencies

Purchase contracts

As of December 31, 2018, the Company has subscribed a purchase contract with Boeing consisting of sixty seven (67) Boeing 737 MAX aircraft, which will be delivered between 2019 and 2025.

The firm orders have an approximate value of \$8.8 billion based on aircraft list prices, including estimated amounts for contractual price escalation and pre-delivery deposits.

Covenants

As a result of the various aircraft financing contracts entered into by the Company, the Company is required to comply with certain financial covenants. These covenants, among other things, require the Company to maintain earnings before income taxes, depreciation, amortization, and restructuring, or rent cost ("EBITDAR") to a fixed charge ratio of at least 2.5 times, a minimum tangible net worth of \$16.0 million, an EBITDAR to a finance charge expense ratio of at least 2.0 times, a total liability plus operating leases minus operating cash to tangible net worth ratio of less than 5.5, a long-term obligations to an EBITDAR ratio of less than 6.0, a minimum unrestricted cash balance of \$50 million, and a minimum of \$75 million in available cash, cash equivalents, and short-term investments. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings.

As of December 31, 2018, the total of aircraft financing contracts with covenants were paid. As of December 21, 2017, the Company was in compliance with all required covenants.

Labor unions

Approximately 63.2% of the Company's 9,450 employees are unionized. There are currently eight (8) union organizations, four (4) covering employees in Panama and four (4) covering employees in Colombia. The Company traditionally had good relations with its employees and with all the unions and expects to continue to enjoy good relations with its employees and the unions in the future.

The four (4) unions covering employees in Panama include the pilots' union (UNPAC); the flight attendants' union (SIPANAB); the mechanics' union (SITECMAP), 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 pilot's union in July 2017, the industry union in December 2017, the mechanics' union in June 2018 and the flight attendants' union in October 2018.

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Collective bargaining agreements in Panama typically have terms of four years.

The four (4) unions covering employees in Colombia are: the pilots' union (ACDAC), the flight attendants' union (ACAV), the industry union (SINTRATAC), and the Mechanics Union (ACMA).

Copa entered into collective bargaining with ACDAC and ACAV in January 2018. ACDAC has not yet resolved and ACAV ended with an arbitration process and we have a new arbitration collective document for terms of two years until September 2020. 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, 2018. 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 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 to an industry union (UPADEP).

Lines of credit for working capital and letters of credit

The Company maintained letters of credit with several banks with a value of \$25.9 million as of December 31, 2018 (2017: \$25.5 million). These letters of credit are pledged mainly for operating lessors, maintenance providers and airport operators.

The Company, has short term unsecured credit facilities with financial institutions in the aggregate amount of \$212.3 million. These lines of credit have been put in place to pre-delivery payments and for working capital purposes. As of December 31, 2018, our outstanding borrowings under these credit lines were \$140.0 million (2017: \$127.8 million).

Tax audit

In March 2016, the Company received notifications from the tax authorities in Colombia. The Company, along with its tax advisors, has concluded that it is not probable that an outflow of resources embodying economic benefits will be required to settle them, especially considering that the Company has enough arguments to support its position and also taking into consideration that both cases are in the preliminary stages.

28. Financial instruments—Risk management and fair value

In the normal course of its operations, the Company is exposed to a variety of financial risks: market risk (especially cash flow, currency, commodity prices and interest rate risk), credit risks and liquidity risk. The Company has established risk management policies to minimize potential adverse effects on the Company's financial performance:

28.1 Fuel price risk

The Company has risks that are common in its industry, related to the price level of aircraft fuel, which can significantly affect its operations, financial position and liquidity.

In the past the Company has entered into financial derivative contracts in an effort to mitigate this risk, but with inconsistent results. The Company has not entered into new fuel hedge contracts, and has adopted a new strategy of remaining unhedged, while regularly reviewing its policies based on market conditions and others factors. As of December 31, 2018, The Company did not have any outstanding fuel hedge contracts.

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The Company's derivative in 2017 contracts did not qualify as hedges for financial reporting purposes. Accordingly, changes in fair value of such derivative contracts, which amounted to gains of in 2017 of \$2.8 million and loss of \$111.6 million in 2016, were recorded as a component of "Net change in fair value of derivatives" in the accompanying consolidated statement of profit or loss.

The Company's derivative contracts matured in December 2017, the fair value of derivative was recorded in "Trade, other payables and financial liabilities" in 2017 in the consolidated statement of financial position. The Company's purchases of jet fuel are made primarily from one supplier (see note 19).

Fuel price risk is estimated as a hypothetical 10% increase in the December 31, 2018 cost per gallon of fuel. Based on projected 2019 fuel consumption, such an increase would result in an increase to aircraft fuel expense of approximately \$58.0 million in 2019 (unaudited).

28.2 Market risk

Foreign currency risk

Foreign exchange risk is originated when the Company performs transactions and maintains monetary assets and liabilities in currencies that are different from the functional currency of the Company. Assets and liabilities in foreign currency are translated using with the exchange rates at the end of the period, except for non-monetary assets and liabilities that are translated at the equivalent cost of the U.S. dollar at the acquisition date and maintained at the historical rate. The results of foreign operations are translated using the average exchange rates that were in place during the period. Gains and losses deriving from exchange rates are included within "(Loss) Gain on foreign currency fluctuations" in the consolidated statement of profit or loss.

The majority of the obligations are denominated in U.S. dollars. Since Panama uses the U.S. dollar as legal tender, the majority of the Company's operating expenses are also denominated in U.S. dollars, approximately 44.7% of revenues and 55.3% of expenses, respectively. A significant part of our revenue is denominated in foreign currencies, including the Brazilian real, Colombian peso and Argentinian peso, which represented 22.7%, 11.3% and 7.2%, respectively (2017: 16.5%, 11.4% and 7.8% respectively).

Generally, the Company's exposure to most of these foreign currencies, with the exception of the Venezuelan bolivar, is limited to the period of up to two weeks between the completion of a sale and the conversion to U.S. dollar.

Foreign companies operating in Venezuela, including airlines, have experienced increasing delays for approvals by the Venezuelan government to repatriate funds. To reduce the cash exposure in Venezuela, the Company processes its passenger tickets mainly in U.S. dollars, constantly monitors sales and adjusts capacity.

On July 25, 2018, the Venezuelan government published the official gazette No. 41,460 where is indicated the unit of the monetary system of the Bolivarian Republic of Venezuela has been restated. The Banco Central de Venezuela have introduced their new Bolivar Soberano since August 20, 2018. The new currency replaced the "Bolivar Fuerte", the older currency that was being used, and consists in the elimination of five zeros from it.

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The following chart summarizes the Company's foreign currency risk exposure (assets and liabilities denominated in foreign currency) as of December 31:

	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents	\$ 53,123	\$ 25,189
Investments	2	277
Accounts receivable, net	68,171	75,769
Other assets	<u>19,107</u>	<u>29,459</u>
Total assets	\$140,403	\$130,694
Liabilities		
Accounts payable	48,501	37,186
Taxes payable	40,243	50,922
Other liabilities	<u>20,771</u>	<u>25,471</u>
Total liabilities	<u>\$109,515</u>	<u>\$113,579</u>
Net position	<u>\$ 30,888</u>	<u>\$ 17,114</u>

From time to time the, Company enters into factoring agreements on receivables outstanding on credit card sales in certain countries.

28.3 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its financing activities, including deposits with banks and investments in financial instruments and from its account receivables.

The carrying amounts of financial assets represent the maximum credit risk.

Short and long-term investments

To mitigate the credit risk arising from deposits in bank and investments in financial instruments, the Company only conducts business with financial institutions that have an investment grade above BBB-from Standard & Poor's, with strength and liquidity indicators aligning with or above the market average.

The Company has established a policy to perform an assessment, at the end of each quarterly reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by monitors changes in credit risk ratings published by Standard & Poor's.

As the financial instruments are considered to be low risk, the impairment provision is determined at 12-month ECLs using the general approach as prescribed by IFRS 9.

The movement in the allowance for impairment for short and long-term investments at amortized cost during the year was as follows.

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	<u>2018</u>
Balance at beginning of year (under IAS 39)	\$ —
Adjustment on initial application of IFRS 9	(1,120)
Balance at beginning of year under IFRS 9	(1,120)
Additions	(98)
Balance at end of year	<u>\$ (1,218)</u>

Account receivables

Regarding credit risk originating from commercial accounts receivable, the Company does not consider it significant since most of the accounts receivable can be easily converted into cash, usually in periods no longer than one month. The risk is managed by each business unit subject to the Company's established policy, procedures and control relating to customer credit risk management. Specific credit limits and payment terms have been established according to periodic analysis of the client's payment capacity.

A considerable amount of the Company's tickets sales are processed through major credit cards, resulting in accounts receivable that are generally short-term and usually collected before revenue is recognized. The Company considers that the credit risk associated with these accounts receivable is controllable based on the industry's trends and strong policies and procedures established and followed by the Company.

As result of the previously explained, the Company evaluates the concentration of risk with respect to trade receivables as low.

An impairment analysis is performed at each quarterly reporting date using a provision matrix to measure expected credit losses. Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the day past due.

Loss rates are based on actual credit loss experience over the last 12 months and adjusted for forward-looking factors specific to the debtors and the economic environment over the expected life of the receivables.

The Company evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and operate in largely independent markets.

Set out below is the information about the credit risk exposure on the Company's trade receivables using a provision matrix at December 31, 2018:

	<u>Account receivables</u>					
	<u>Total</u>	<u>Days past due</u>				
		<u>Current</u>	<u><30</u>	<u>30-60</u>	<u>60-90</u>	<u>>90</u>
Expected credit loss rate		0.1%	16.8%	26.8%	48.1%	59.8%
Gross carrying amount	\$122,288	\$112,394	\$1,799	\$ 533	\$ 312	\$7,250
Expected credit loss	\$ 5,057	\$ 124	\$ 303	\$ 143	\$ 150	\$4,337

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

Notes to the consolidated financial statements

The information as of December 31, 2017 under IAS 39 is as follows:

	<u>2017</u>
Neither past due nor impaired	\$115,685
Past due 1 to 30 days	1,286
Past due 31 to 60 days	617
More than 60 days	497
	<u>118,085</u>
Impaired	3,673
Total accounts receivable	<u>\$121,758</u>

28.4 Interest rate and cash flow risk

The income and operating cash flows of the Company are substantially independent of changes in interest rates, because the Company does not have significant assets that generate interest except for surplus cash and cash equivalents and short and long-term investments.

Interest rate risk originates mainly from long-term debt related to aircraft financing. These long-term lease payments at variable interest rates expose the Company to cash flow risk. The Company mitigates this risk by entering into fixed rate financing agreements in at least half of its outstanding debt.

As of December 31, 2018 and 2017, fixed interest rates range from 1.58% to 4.90%, and the main floating rate is LIBOR.

The Company's earnings are affected by changes in interest rates due to the impact of those changes on interest expenses from variable-rate debt instruments and operating leases, and on interest income generated from cash and investment balances. If the interest rate average is 10% more in 2019 than in 2018, the interest expense would increase by approximately \$1.4 million and the fair value of the debt would decrease by approximately \$10.2 million. If interest rates average 10% less in 2019 than in 2018, the interest income from marketable securities would decrease by approximately \$1.4 million and the fair value of the debt would increase by approximately \$10.2 million. These amounts are determined by considering the impact of the hypothetical interest rates on the variable-rate debt and marketable securities equivalent balances at December 31, 2018.

28.5 Liquidity risk

The Company's policy requires having sufficient cash to fulfill its obligations. The Company maintains sufficient cash on hand and in banks or cash equivalents that are highly liquid. The Company also has credit lines in financial institutions that allow it to withstand potential cash shortages to fulfill its short-term commitments (see note 27).

The table below summarizes the Company's financial liabilities according to their maturity date. The amounts in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances as the impact of discounting is not significant.

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2018

	Note	Carrying amount	Contractual cash flow	Less than twelve months	Between 1 and 4 years	More than 4 years
Non-derivative financial liabilities						
Debt	18	\$1,287,248	\$1,465,223	\$ 348,654	\$ 529,624	\$586,945
Account payable	19	124,962	124,962	124,962	—	—
Account payable to related parties	19	15,464	15,464	15,464	—	—
		<u>\$1,427,674</u>	<u>\$1,605,649</u>	<u>\$ 489,080</u>	<u>\$ 529,624</u>	<u>\$586,945</u>

December 31, 2017

	Note	Carrying amount	Contractual cash flow	Less than twelve months	Between 1 and 4 years	More than 4 years
Non-derivative financial liabilities						
Debt	18	\$1,174,581	\$1,313,191	\$ 329,284	\$ 549,726	\$434,181
Account payable	19	116,554	116,554	116,554	—	—
Account payable to related parties	19	12,880	12,880	12,880	—	—
		<u>\$1,304,015</u>	<u>\$1,442,625</u>	<u>\$ 458,718</u>	<u>\$ 549,726</u>	<u>\$434,181</u>

28.6 Equity risk management

The Company's objectives when managing equity are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal equity structure to reduce the cost of capital.

Consistent with others in the industry, the Company monitors equity on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated statement of financial position), less cash and cash equivalents and short-term investments. Total capitalization is calculated as equity as shown in the consolidated statement of financial position plus net debt.

The Company's gearing ratio (unaudited) is as follows:

	2018	2017
Total debt (note 18)	\$1,287,248	\$1,174,581
Less: non-restricted cash and cash equivalents and short-term investments	(722,358)	(943,900)
Net debt	564,890	230,681
Total equity	1,840,679	1,895,126
Total capitalization	<u>2,405,569</u>	<u>2,125,807</u>
Gearing ratio	<u>23.5%</u>	<u>10.9%</u>

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

Notes to the consolidated financial statements

28.7 Fair value measurement

The following table shows the carrying amount and fair values of financial assets and financial liabilities as of December 31:

	Note	Carrying amount		Fair Value	
		2018	2017	2018	2017
Financial assets					
Cash and cash equivalents	8	\$ 156,158	\$ 238,792	\$ 156,158	\$ 238,792
Short-term investments	9	566,200	705,108	566,200	705,108
Account receivable	10	117,231	118,085	117,231	118,085
Long-term investments	9	138,846	65,953	138,349	65,953
Financial liabilities					
Debt	18	1,287,248	1,174,581	1,147,248	1,053,070
Account payable	19	140,426	129,434	140,426	129,434

The fair value of the financial assets and liabilities is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents, short-term investments approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Long-term investments in bonds are based on published price quotations in an active market at the reporting date.
- Accounts receivable are evaluated by the Company based on parameters such as interest rates, and risk characteristics. Based on this evaluation, allowances are taken into account for the expected losses of these receivables.
- Debt obligations, financial assets, and financial liabilities are estimated by discounting future cash flows using the Company's current incremental borrowing for a similar liability.

29. Subsequent events

Stock Grants

During the first quarter of 2019, the Compensation Committee of the Company's Board of Directors approved three awards. Awards under these plans will grant approximately 30,412 shares of non-vested stock, which will vest over a period of three years. The Company estimates the fair value of these awards to be approximately \$2.7 million and the 2019 compensation cost for these plans will be \$1.4 million.

Sale of aircraft

During the first quarter of 2019, the Company delivered the two first Embraer 190 aircraft classified as "Other current asset" in the consolidated statement of financial position (see note 13).

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COPA HOLDINGS, S. A. AND SUBSIDIARIES

Notes to the consolidated financial statements

Suspension of operations Max 9

During the first quarter of 2019, the Company temporarily suspended operations of its Boeing 737 MAX 9 aircraft during the investigation into the cause of the accident of Ethiopian Airlines involving a Boeing 737 MAX 8 aircraft. Regulatory authorities around the world grounded the aircraft. The Company estimates this suspension would increase the maintenance expenses and could cause flight cancellations and other interruptions in the services.

Certification

I, Pedro Heilbron, certify that:

1. I have reviewed this annual report on Form 20-F of Copa Holdings, S.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 24, 2019

/s/ Pedro Heilbron
Pedro Heilbron
Chief Executive Officer

(Section 302 CEO Certification)

Certification

I, Jose Montero, certify that:

1. I have reviewed this annual report on Form 20-F of Copa Holdings, S.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 24, 2019

/s/ Jose Montero
Jose Montero
Chief Financial Officer

(Section 302 CFO Certification)

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Copa Holdings, S.A. (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 20-F for the year ended December 31, 2018 of the Company fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 24, 2019

/s/ Pedro Heilbron
Pedro Heilbron
Chief Executive Officer

(Section 906 CEO Certification)

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Copa Holdings, S.A. (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 20-F for the year ended December 31, 2018 of the Company fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 24, 2019

/s/ Jose Montero
Jose Montero
Chief Financial Officer

(Section 906 CFO Certification)