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

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**FORM 20-F**

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- 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, 2019
- 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

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**COPA HOLDINGS, S.A.**

(Exact name of Registrant as Specified in Its Charter)

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**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)

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

<u>Title of Each Class:</u>	<u>Trading Symbol(s)</u>	<u>Name of Each Exchange On Which Registered</u>
Class A Common Stock, without par value	CPA	New York Stock Exchange

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Securities registered or to be registered pursuant to Section 12(g) of the Act:  
None

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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, 2019, there were outstanding 42,275,981 shares of common stock, without par value, of which 31,337,856 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	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated Filer	<input type="checkbox"/>	Emerging Growth Company	<input type="checkbox"/>

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 La Nueva Aerolínea, S.A., 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, 2019 and 2018, 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, 2019, 2018 and 2017. Our audited consolidated financial statements for the years ended December 31, 2018 and 2017 have been restated to reflect the application of IFRS 16. The details of the changes in accounting policies and impacts due the application of IFRS 16 are disclosed in note 5 of 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;
- the recently events related to the coronavirus ("COVID-19") outbreak;
- 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 7.

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, 2019, and for the years ended December 31, 2019, 2018 and 2017 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, 2016 and 2015 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 and IFRS 16.

	Year Ended December 31, (in thousands of dollars, except share and per share data and operating data)				
	2019	2018	2017	2016	2015
<b>STATEMENT OF PROFIT OR LOSS DATA</b>					
Operating revenue:					
Passenger revenue	2,612,605	2,587,389	2,444,251	2,148,501	2,185,465
Cargo and mail revenue	62,460	62,483	55,290	53,989	56,738
Other operating revenue	32,343	27,755	22,245	16,696	11,507
<b>Total operating revenues</b>	<b>2,707,408</b>	<b>2,677,627</b>	<b>2,521,786</b>	<b>2,219,186</b>	<b>2,253,710</b>
Operating expenses:					
Fuel	696,249	765,781	572,746	528,996	603,760
Wages, salaries, benefits and other employees expenses	450,439	443,287	415,147	370,190	373,631
Passenger servicing	102,103	104,346	99,447	86,329	84,327
Airport facilities and handling charges	181,959	186,422	171,040	159,771	148,078
Sales and distribution	210,623	210,158	200,256	193,837	188,961
Maintenance, materials and repairs	127,562	110,710	131,181	121,781	111,178
Depreciation, amortization and impairment <sup>(1)</sup>	371,424	465,187	277,523	167,894	150,548
Flight operations	102,806	108,437	101,647	88,188	86,461
Other operating and administrative expenses	118,090	123,737	114,415	237,199	254,132
<b>Total operating expenses</b>	<b>2,361,255</b>	<b>2,518,065</b>	<b>2,083,402</b>	<b>1,954,185</b>	<b>2,001,076</b>
Operating profit	<u>346,153</u>	<u>159,562</u>	<u>438,384</u>	<u>265,001</u>	<u>252,634</u>
Non-operating income (expense):					
Finance cost	(57,432)	(50,825)	(51,096)	(37,024)	(33,155)
Finance income	24,405	23,628	17,939	13,000	25,947
Gain (loss) on foreign currency fluctuations	(15,408)	(9,398)	6,218	13,043	(440,097)
Net change in fair value of derivatives	—	—	2,801	111,642	(11,572)
Other non-operating income (expense)	(4,279)	(239)	(2,337)	(3,982)	(1,632)
<b>Total non-operating income (expense), net</b>	<b>(52,714)</b>	<b>(36,834)</b>	<b>(26,475)</b>	<b>96,679</b>	<b>(460,509)</b>
Profit (loss) before taxes	293,439	122,728	411,909	361,680	(207,875)
Income tax expenses	(46,437)	(34,530)	(49,310)	(38,271)	(32,759)
<b>Net profit (loss)</b>	<b><u>247,002</u></b>	<b><u>88,198</u></b>	<b><u>362,599</u></b>	<b><u>323,409</u></b>	<b><u>(240,634)</u></b>

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- (1) Depreciation, amortization and impairment includes a non-cash loss of \$89.3 million in 2019, related to the measurement upon held for sale obligation of the Embraer 190 fleet and spare parts inventory and \$188.6 million in 2018 related to the impairment of our Embraer 190 fleet as well as General Electric CF34 spare engines.

<b>STATEMENT OF FINANCIAL POSITION DATA</b>					
Total cash, cash equivalents and short-term investments	851,135	722,358	943,900	814,689	684,948
Accounts receivable, net	129,781	116,054	115,641	116,100	105,777
Asset held for sale	120,006	40,330	—	—	—
Total current assets	1,234,443	1,059,922	1,194,631	1,069,391	907,585
Purchase deposits for flight equipment	463,274	474,060	413,633	250,165	243,070
Total property and equipment	2,532,402	2,698,131	2,614,216	2,623,682	2,453,751
Total assets	4,357,378	4,441,905	4,422,263	3,846,113	3,518,574
Long-term debt	938,183	975,283	876,119	961,414	1,055,183
Total equity	1,934,906	1,796,594	1,850,938	1,631,824	1,390,520
Capital stock	114,743	108,594	101,449	93,384	85,845
<b>CASH FLOW DATA</b>					
Net cash from operating activities	784,883	543,013	835,506	594,590	316,863
Net cash (used in) from investing activities	(192,868)	(149,596)	(578,159)	(179,909)	32,384
Net cash used in financing activities	(545,334)	(430,191)	(312,930)	(248,625)	(357,466)
<b>OTHER FINANCIAL DATA</b>					
Underlying net profit <sup>(2)</sup>	336,346	276,822	359,798	190,224	210,342
Adjusted EBITDA <sup>(3)</sup>	697,890	615,112	722,589	553,598	(50,119)
Operating margin <sup>(4)</sup>	12.8%	6.0%	17.4%	11.9%	11.2%
Weighted average shares used in computing net income per share (basic)	42,483,048	42,456,032	42,418,773	42,358,091	43,861,084
Weighted average shares used in computing net income per share (diluted)	42,483,048	42,456,032	42,418,773	42,363,171	43,868,864
Earnings (Loss) per share (basic)	5.81	2.08	8.55	7.64	(5.49)
Earnings (Loss) per share (diluted)	5.81	2.08	8.55	7.63	(5.49)
Dividends per share paid	2.60	3.48	2.52	2.04	3.36
Total number of shares at end of period	42,275,981	42,195,811	42,123,766	42,050,481	41,955,227
<b>OPERATING DATA</b>					
Revenue passengers carried <sup>(5)</sup>	15,424	15,168	14,201	12,870	11,876
Revenue passenger miles <sup>(6)</sup>	21,303	21,529	19,914	17,690	16,309
Available seat miles <sup>(7)</sup>	25,113	25,817	23,936	22,004	21,675
Load factor <sup>(8)</sup>	84.8%	83.4%	83.2%	80.4%	75.2%
Total block hours <sup>(9)</sup>	431,749	444,851	419,610	388,058	388,355
Average daily aircraft utilization <sup>(10)</sup>	11.3	12.0	11.5	10.6	10.8
Average passenger fare	169.4	170.6	172.1	166.9	184.0
Yield <sup>(11)</sup>	12.26	12.02	12.27	12.15	13.40
Passenger revenue per ASM <sup>(12)</sup>	10.40	10.02	10.21	9.76	10.08
Operating revenue per ASM <sup>(13)</sup>	10.78	10.37	10.54	10.09	10.40
Operating expenses per ASM (CASM) <sup>(14)</sup>	9.40	9.75	8.70	8.88	9.23
Departures	131,819	132,498	126,963	123,098	122,588
Average daily departures	361.1	363.0	347.8	337.3	335.9
Average number of aircraft	104.8	101.6	100.4	99.9	98.3
Airports served at period end	80	80	75	73	73
On-Time Performance <sup>(15)</sup>	91.4%	89.8%	86.8%	88.4%	90.6%
Stage Length <sup>(16)</sup>	1,288	1,321	1,282	1,213	1,236

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- (2) Underlying net profit for the year ended on December 31, 2019 and 2018 represents net income (loss) minus the sum of Embraer 190 impairment.

Underlying net profit for the years ended on December 31, 2017, 2016 and 2015 represents net income (loss) minus 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.

	2019	2018	2017	2016	2015
Net profit (loss)	247,002	88,198	362,599	323,409	(240,634)
Fuel hedge mark to market loss/(gain)	—	—	(2,801)	(111,642)	11,572
Venezuela devaluation	—	—	—	(21,543)	432,503
Argentina devaluation	—	—	—	—	6,901
Impairment of non-financial assets	89,344	188,624	—	—	—
Underlying net profit	<u>336,346</u>	<u>276,822</u>	<u>359,798</u>	<u>190,224</u>	<u>210,342</u>

- (3) Adjusted EBITDA represents net profit (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.

	2019	2018	2017	2016	2015
Net profit (loss)	247,002	88,198	362,599	323,409	(240,634)
Finance Cost	57,432	50,825	51,096	37,024	33,155
Income Taxes	46,437	34,530	49,310	38,271	32,759
Depreciation, amortization and impairment	371,424	465,187	277,523	167,894	150,548
Finance income	(24,405)	(23,628)	(17,939)	(13,000)	(25,947)
Adjusted EBITDA	<u>697,890</u>	<u>615,112</u>	<u>722,589</u>	<u>553,598</u>	<u>(50,119)</u>

- (4) Operating margin represents operating profit as a percentage of operating revenues.
- (5) Total number of paying passengers (including all passengers redeeming frequent flyer miles and other travel awards) flown on all flight segments, expressed in thousands.
- (6) Number of miles flown by revenue passengers, expressed in millions.
- (7) Aircraft seating capacity multiplied by the number of miles the seats are flown, expressed in millions.
- (8) Percentage of aircraft seating capacity that is actually utilized. Load factors are calculated by dividing revenue passenger miles by available seat miles.



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- (9) 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.
- (10) Average number of block hours operated per day per aircraft for the total aircraft fleet.
- (11) Average amount (in cents) one passenger pays to fly one mile.
- (12) Passenger revenues (in cents) divided by the number of available seat miles.
- (13) Total operating revenues (in cents) divided by the number of available seat miles.
- (14) Total operating expenses (in cents) divided by the number of available seat miles.
- (15) Percentage of flights that arrive at the destination gate within fourteen minutes of scheduled arrival.
- (16) The average number of miles flown per flight.

### **a. Capitalization and Indebtedness**

Not applicable.

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

Not applicable.

### **c. 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 expanding our service to new markets as well as increasing 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 enough 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 and to gain suitable airport access in addition to route approval in the aforementioned 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. Difficulties obtaining necessary equipment could also affect the expansion of our business. For example, the mandatory grounding of Boeing 737 MAX 9 aircraft has affected the delivery scheduled for 2019 and 2020. Due to the Boeing 737 MAX 9 aircraft grounding we have experienced a constraint in capacity growth. While we currently expect operation of our Boeing 737 MAX fleet, and deliveries of the Boeing 737 MAX 9 aircraft, to resume by the second half of 2020, further delays are possible. Considering 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. 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. Also, on May 15, 2019 the Homeland Security Department of the United States announced a suspension of all commercial passenger and cargo flights between United States and Venezuela. The U.S. Department of Transportation (DOT) concurred with this determination and issued an order suspending all foreign air transportation for passengers or cargo to or from any airport in Venezuela. Any of the following developments (or a continuation or worsening of any of the following currently in existence) in the countries in which we operate could adversely affect our business, financial condition, liquidity and results of operations:

- changes in economic or other governmental policies, including exchange controls;
- changes in regulatory, legal or administrative practices; or
- other political or economic developments over which we have no control.

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

***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, 2019, we had \$828.8 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. Airbus also recently announced they will launch the A321 XLR; a new model of the Airbus 320 family that will extend the range of the current Airbus 320 NEO allowing competitors to explore new competitive routes overflying our Hub, it is expected to be released on 2023. 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 operated by AeroRepública, S.A., utilizes four of our 737-800s, each configured with 186 seats in a single class cabin. By 2020, we expect to incorporate a new Wingo operator, La Nueva Aerolínea S.A., which will be based in Panama and will initially operate one 737-800 from the *Panama Pacifico International Airport* outside of Panama City.

During the last years we have successfully operated our low-cost business model, with better results than expected. Therefore, we decided to change the 737-700s fleet to 737-800s with a greater seat density and lower unitary costs which shall make stronger our competitive position. Even though we have gained knowledge regarding the low-cost business model, we have limited experience operating it 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.

***We may not realize benefits from our strategic alliances and other commercial relationships, including from our 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, 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

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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. On March 13, 2019, the FAA issued an emergency order prohibiting the operation of Boeing 737 MAX series airplanes by U.S. certificated operators. The FAA emergency order is still in place, and it has had an adverse impact on our capacity growth and therefore on our expansion plans. See "—If we fail to successfully operate new aircraft, in particular our new Boeing 737 MAX aircraft, our business could be harmed." 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.

Copa Airlines is authorized by the DOT to engage in scheduled and charter air transportation services, including the transportation of persons, property (cargo) and mail, or combinations thereof, between points in Panama and points in the United States and beyond (via intermediate points in other countries). Copa Airlines holds the necessary authorizations from the DOT in the form of a foreign air carrier permit, an exemption authority and statements of authorization to conduct our current operations to and from the United States. The exemption authority was granted by the DOT in February 1998 and was due to expire in February 2000. However, the authority remains in effect by operation of law under the terms of the Administrative Procedure Act pending final DOT action on the application we filed to renew the authority on January 3, 2000. There can be no assurance that the DOT will grant the application. Our foreign air carrier permit has no expiration date. 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 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 while others are underway and have experienced significant delays. For example, Terminal 2 has experienced delays since one of the contractors responsible for the construction, Norberto Odebrecht Construction, was subject to penalties in 2017 for its past practices related to project approvals. Terminal 2 started operating a few gates during the early part of 2019, but construction is ongoing and is expected to be completed during 2020. 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.

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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, were added to existing storage capacity during 2019. This addition resulted in an increase of airport fuel storage capacity from 1.5 million to 4.5 million gallons, which represents approximately seven 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 additional fees or substantial increase in current airport charges, including at Tocumen International Airport, could have a material adverse impact on our results of operations. Passenger taxes and airport charges have increased in recent years, sometimes substantially. Certain important airports that we use may be privatized in the near future, which is likely to result in significant cost increases to the airlines that use these airports. We cannot ensure that the airports used by us will not impose, or further increase, passenger taxes and airport charges in the future, and any such increases could have an adverse effect on our financial condition and results of operations.

Certain airports that we serve (or that we plan to serve in the future) are subject to capacity constraints and impose various restrictions, including slot restrictions during certain periods of the day, limits on aircraft noise levels, limits on the number of average daily departures and curfews on runway use. We cannot be certain that we will be able to obtain a sufficient number of slots, gates and other facilities at airports to expand our services in line with our growth strategy. It is also possible that airports not currently subject to capacity constraints may become so in the future. In addition, an airline must use its slots on a regular and timely basis or risk having those slots re-allocated to others. Where slots or other airport resources are not available or their availability is restricted in some way, we may have to amend our schedules, change routes or reduce aircraft utilization. Any of these alternatives could have an adverse financial impact on us. In addition, we cannot ensure that airports at which there are no such restrictions may not implement restrictions in the future or that, where such restrictions exist, they may not become more onerous. Such restrictions may limit our ability to continue to provide or to increase services at such airports.

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

The airline business is characterized by high leverage. We have significant fixed expenditures in connection with our operating leases and facility rental costs, and a significant portion of our property and equipment is pledged to secure indebtedness. For the year ended December 31, 2019, our finance cost totaled \$57.4 million. At December 31, 2019, approximately 69.4% 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, 2019, the Company had one purchase contract with Boeing which entails 65 firm orders of Boeing 737 MAX aircraft, agreed to be delivered between 2020 and 2025. The aircraft under this contract have an approximate value of \$3.1 billion based on contractual obligations net of discounts and pre-delivery payments, including estimated amounts for contractual price escalation. 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;

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- 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.

### ***Discontinuation, reform or replacement of LIBOR, or uncertainty related to the potential for any of the foregoing, may adversely affect us.***

On July 27, 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, is considering replacing U.S. dollar LIBOR with a newly created index, calculated based on repurchase agreements backed by treasury securities. It is not possible to predict the effect of these changes, other reforms or the establishment of alternative reference rates in the United Kingdom, the United States or elsewhere.

### ***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, 2019 we operated a fleet of 88 Boeing aircraft and 14 Embraer 190 aircraft. In 2020, we expect to take delivery of ten 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 power plant for the new 737 MAX single-aisle jetliner.

Following the Ethiopian Airlines accident involving a Boeing 737 MAX 8 aircraft on March 10, 2019, we suspended operations of our 6 Boeing 737 MAX 9 aircraft, after authorities in Panama and other countries grounded the 737 MAX fleet worldwide, during the investigation into the cause of the accident. We partially covered our operation, with other aircraft in our fleet, with significant cancellations and delays. Authorities in Panama and other countries in which we operate would lift the grounding after completing satisfactory testing and investigation. While we currently expect to resume operations of our Boeing 737 MAX fleet by the second half of 2020 after implementing regulatory requirements and determining that the fleet is safe for operation, further delays are possible. Boeing has announced that it will compensate all airlines impacted by the worldwide suspension of the Boeing MAX fleet operations. However, this compensation will only cover financial impact caused by the suspension of Boeing MAX operations. We cannot estimate any reputational and commercial impact that we may have suffered due the grounding of Boeing MAX aircraft. 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

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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 December 2018 the Company signed an aircraft sale and purchase agreement with Azorra Aviation for the sale of five Embraer 190 aircraft 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 non-cash loss of \$188.6 million, which was recorded in the fourth quarter of 2018. During 2019, we announced our intention to accelerate the exit of our entire Embraer 190 fleet by selling the remaining 14 aircraft by 2020. This anticipated exit resulted in a non-cash loss of \$89.3 million related to the remaining aircraft as well as General Electric CF34 spare engines, and our Embraer 190 spare parts inventory.

***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 unsanctioned access to, our customers', employees', business partners' or our own information, or any other breaches of our information security.***

We make extensive use of online services and centralized data processing, including through third-party service providers. The secure maintenance and transmission of customer and employee information is a critical element of our operations. Our information technology and other systems, or those of service providers or business partners that maintain and transmit customer information, may be compromised by a malicious third-party penetration of our 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.

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As a result of these types of risks, we regularly review and update procedures and processes to prevent and protect against unauthorized access to our systems and information and inadvertent misuse of data.

However, it is difficult or impossible to defend against every risk being posed by changing technologies as well as acts of cyber-crime. Increasing sophistication of cyber criminals and terrorists make keeping up with new threats difficult and controls employed by our information technology department and cloud vendors could prove inadequate. As a result, we cannot be certain that we will not be the target of attacks on our networks and intrusions into our data, particularly given continuous advances in the technical capabilities of potential attackers, 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, criminal organizations 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 data security threats and to data privacy concerns, there has been heightened legislative and regulatory focus on attacks on critical infrastructures, including those in the transportation sector, and on data security and privacy in Panama, Brazil, the United States and other countries where we operate, including requirements for varying levels of data usage consent and 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.

The Company has agreements with financial institutions that process customer credit card transactions for the sale of air travel and other services. Under certain of the Company's credit card processing agreements, the financial institutions in certain circumstances have the right to require that the Company maintain a reserve equal to a portion of advance ticket sales that has been processed by that financial institution, but for which the Company has not yet provided the air transportation. Such financial institutions may require additional cash or other collateral reserves to be established or additional withholding of payments related to receivables collected if the Company does not maintain certain minimum levels of unrestricted cash, cash equivalents and short-term investments (collectively, "Unrestricted Liquidity"). The Company follows a policy of giving passengers credit to be redeemed in future dates instead of providing refunds which helps maintain healthy levels of unrestricted Liquidity.

***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 or the type of aircraft that we operate.***

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. See “—If we fail to successfully operate new aircraft, in particular our new Boeing 737 MAX aircraft, our business could be harmed.”

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

In 2019, approximately 67.3% of revenues and 81.3% of expenses were denominated in U.S. dollars (for 2018, US dollar-denominated expenses and revenues were 55.3% and 44.7%, respectively). A significant part of our revenue is denominated in foreign currencies, including the Brazilian real, Colombian peso and Argentinian peso, which represented 8.7%, 8.3% and 4.8%, of our revenues in 2019, respectively (for 2018, Brazilian real, Colombian peso and Argentinian peso comprised 22.7%, 11.3% and 7.2% respectively). If any of these currencies decline in value against the U.S. dollar, our revenues, expressed in U.S. dollars, and our operating margin would be adversely affected. We may not be able to adjust our fares denominated in other currencies to offset any increases in U.S. dollar-denominated expenses, increases in interest expense or exchange losses on fixed obligations or indebtedness denominated in foreign currency.

We are also exposed to exchange rate losses, as well as gains, due to the fluctuation in the value of local currencies 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.

***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 were required to adopt the new accounting standard IFRS 16 *Leases* (“IFRS 16”). As a result, the Company has changed its accounting policy for lease contracts. IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an arrangement contains a lease*, SIC-15 *operating leases-incentives*, and SIC-27 *Evaluating the substance of transactions involving the legal form of a lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the statement of financial position.

The Company has adopted the standard using the full retrospective approach and has restated comparatives for the 2018 and 2017 reporting periods. The details of the changes in accounting policies and impacts are disclosed in note 5 to our annual consolidated financial statements.

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

The average age of our fleet was approximately 9.2 years as of December 31, 2019. 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 time flown by 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 61.8% of our 8,877 employees are unionized. There are currently five unions covering our employees based in Panama: the pilots' union; the flight attendants' union; the mechanics' union; the passenger service agents' union; and an industry union, which represents ground personnel, messengers, drivers, passenger service agents, counter agents and other non-executive administrative staff. Copa entered into collective bargaining agreements with the pilot's union in July 2017, the industry union in December 2017, the mechanics' union in June 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, 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 2019, approximately 66.8% of our revenues were derived from tickets sold through third-party distribution channels, including those provided by conventional travel agents, online travel agents, or "OTAs," or tour operators. We cannot assure that we will be able to maintain favorable relationships with these ticket sellers. Our revenues could be adversely impacted if travel agents or tour operators elect to favor other airlines or to disfavor us. Our relationship with travel agents and tour operators may be affected by:

- the size of commissions offered by other airlines;
- changes in our arrangements with other distributors of airline tickets; and
- the introduction and growth of new methods of selling tickets.

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

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

We have several agreements with third-party contractors to provide certain services primarily outside of Panama. Maintenance services include aircraft heavy checks, engine maintenance, overhaul, component repairs and line maintenance activities. In addition to call center services, third-party contractors also provide us with 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 recent Boeing 737 MAX aircraft grounding, 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 suspended operations of our six Boeing 737 MAX 9 aircraft, 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**

***An outbreak of disease or similar public health threat, such as the coronavirus, could have a material adverse impact on the Company's business, operating results and financial condition.***

An outbreak of disease or similar public health threat, or fear of such an event, that affects travel demand or travel behavior could have a material adverse impact on the Company's business, financial condition and operating results. In addition, outbreaks of disease could result in travel bans or restrictions, increased government restrictions and regulation, including quarantines of our personnel or an inability to access facilities or our aircraft, which could adversely affect our operations.

In December 2019, a novel strain of coronavirus ("COVID-19") was reported in Wuhan, China. The virus has promulgated significantly outside China, and now exists in most of the world. As a result, The World Health Organization has declared COVID-19 a pandemic. In addition, on March 13 the U.S. government declared a state of emergency and took some important actions including enhanced screenings, quarantine requirements and travel restrictions to certain countries. Other countries have put in place similar measures.

As of the date of this report, the Company is experiencing decline in near-term demand as evidenced by a significant reduction in forward sales over the next few months, with declines of as much as 50% as compared to forward sales during the same period the previous year. In March 2020 we temporarily suspended, for a maximum of 30 days, some flights to markets on Central America, South America and The Caribbean due to government travel restrictions as the result of the virus.

We have implemented certain initiatives, including cost savings, temporary capacity reductions, deferral of the company's non-essential capital expenditures, and the drawing of \$300 million from medium-term liquidity facilities. All of these actions are intended to mitigate the disruptions caused by the coronavirus.

The extent of the impact of the COVID-19 on the Company's operational and financial performance will depend on future developments, including the duration, spread of the outbreak, related travel advisories, restrictions and the impact of the COVID-19 on overall demand for air travel, all of which are highly uncertain and cannot be predicted. If traffic on the Company's routes were to remain at these levels for an extended period, and/or routes in other parts of the Company's network begin to see significant declines in demand, our results of operations for 2020 would be materially adversely affected and we may have to take additional actions to preserve our long-term sustainability.

***Our auditors have included a going concern emphasis paragraph in their opinion due to the significant drop in demand for air travel as a result of the effects of the COVID-19 global pandemic, and specifically the actions taken by governments, including the closing of the Panama City Airport, which are largely out of our control.***

The Company's consolidated financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and satisfaction of liabilities in the ordinary course of business. However, because of the significant drop in worldwide demand for air travel caused by the COVID-19 global pandemic that has affected the entire aviation industry, and the significant travel restrictions that have been placed by numerous countries, including the decision by the government of the Republic of Panama to suspend all passenger flights for a period of one month effective on March 22, 2020, the Company's independent registered public accounting firm, in their report on the Company's consolidated financial statements for the year ended December 31, 2019, have expressed substantial doubt about the Company's ability to continue as a going concern.

Following the suspension of its operations as a result of the government restrictions related to the COVID-19 global pandemic, the Company has implemented several measures to maintain robust liquidity levels, including the acceleration of collection of its accounts receivable through increased factoring, and the negotiation of longer payment terms with its main suppliers. As of March 15, 2020 the company had \$1.0 billion in cash and equivalents, and approximately \$300 million on currently available lines of credit. As of March 31, 2020 the company had drawn on \$145 million of the \$300 million available and ended the month of March 2020 with approximately \$1.15 billion in cash and equivalents. To further bolster its cash and equivalents position the Company has the possibility of raising approximately \$400 million in additional funds by refinancing its unencumbered aircraft, engines and aircraft spare parts, as well as by requesting advances from banks secured by its investments (including time deposits and fixed income instruments). In addition, the Company is reducing operational expenses and non-essential capital expenditure outflows. With these operating and financing measures it expects to decrease its monthly cash burn ratio to approximately \$70 million per month for the remainder of 2020. The Company cannot guarantee that it will be successful in implementing these initiatives.

### ***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, Delta-Northwest and, most recently, the strategic partnership between Delta Airlines and LATAM Group. 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. Current LCCs such as Volaris, Spirit, JetBlue, Interjet and Gol are adding pressure to our fares and are also exploring new competitive routes overflying our Hub. We also expect more competition from new entrants in the market such as JetSmart and FlyBondi. 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 29.5% of operating expenses in 2019, 30.4% of operating expenses in 2018 and 27.5% in 2017. 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.

Furthermore, in October 2016, the International Maritime Organization (IMO) enacted a new regulation requiring sulphur content in marine fuels to be reduced from 3.5% to 0.5%. Considering that the implementation date for this regulation is January 1, 2020, airlines could be directly affected as refiner efforts to produce this new bunker product is expected to increase the price of jet fuel.

As of December 31, 2019, 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 2020, 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.

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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.

***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 CO<sub>2</sub> 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 in 2020. 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 2017. 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 2020 the Panamanian and Colombian economies are expected to grow by 5.5% and 3.6%, 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.

#### ***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 \$46.4 million, \$34.5 million and \$49.3 million in the years ended December 31, 2019, 2018 and 2017, respectively, which represented an effective income tax rate of 15.8%, 28.1% and 12.0%, respectively. We are subject to local tax regulations in each of the jurisdictions where we operate, the great majority of which are related to the taxation of income. In some of the countries to which we fly, we 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. In February 2020, the Company received two notifications from the tax authority in Panama related to a tax audit process that began in 2019. The notifications include adjustments to the reported dividend tax for the years 2012 to 2016 and income tax 2016. The Company has filed and administrative appeal which is the first legal stage under Panamanian laws. 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 these notices. According to Panamanian laws, the statute of limitations is 3 and 15 years for income tax and dividend tax, respectively. If after going through the appeal process our tax position does not prevail we could have to issue a significant disbursement to the tax authorities.

***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. For the year ended December 31, 2019, revenue from the Company's flights to Venezuela, including connecting traffic, represented about 6.3% of consolidated revenues and direct flights between Panama and Venezuela. 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 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, 2019 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, 2019, the average daily trading volume for our Class A shares as reported by the NYSE was approximately 272,642 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, 2019, our transported passengers to and from Cuba represented approximately 4.8% of our total passengers. Our operating revenues from Cuban operations during the year ended December 31, 2019 represented approximately 2.0% 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.

***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 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, 2019 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 102 aircraft at December 31, 2019. 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 33 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, with the recently coronavirus (COVID-19) outbreak, we can provide no assurances of the approvals and subsequent implementation of the JBA.

Our registered office is located at Avenida Principal y Avenida de la Rotonda, Urbanización Costa del Este, Complejo Business Park, Torre Norte, Parque Lefevre, Panama City, Panama and our telephone number is +507 304-2774. The website of Copa Airlines is [www.copaair.com](http://www.copaair.com). Information contained on, or accessible through, this website is not incorporated by reference herein and shall not be considered part of this annual report. Our agent for service of process in the United States is Puglisi & Associates, 850 Library Avenue, Suite 204, Newark, Delaware 19715, and its telephone number is +(302) 738-6680. Also, the SEC maintains an internet site ([www.sec.gov](http://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 2019, our capital expenditures were \$131.8 million, which consisted of advance payments on aircraft purchase contracts and acquisition of property and equipment, offset by reimbursement of advance payments on aircraft purchase contracts. 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 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, 2019 we operate a fleet of 102 aircraft, 82 Boeing 737-Next Generation aircraft, 14 Embraer 190 aircraft and six Boeing 737 MAX 9 aircraft to meet our growing capacity requirements. The Company had one purchase contract with Boeing which entails 65 firm orders of Boeing 737 MAX aircraft, agreed to be delivered between 2020 and 2025.

Copa currently offers approximately 361 daily scheduled flights among 80 destinations in 33 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 has a strategic alliance with United Airlines, or "UAL" or "United," that encompass joint marketing strategies and code-sharing arrangements, among other things. In addition, Copa has entered into a three-way JBA with UAL and Avianca that is intended to cover our combined network between the United States and Latin America (except Brazil). Copa has been a member of Star Alliance since June 2012.

Since January 2001, we have grown significantly and have established a track record of consistent profitability. Our total operating revenues increased from \$0.3 billion in 2001 to \$2.7 billion in 2019 while our operating income also increased from \$25.0 million to \$346.2 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 6.63¢ in 2019, 6.79¢ in 2018, 6.31¢ in 2017, 6.48¢ in 2016 and 6.45¢ in 2015. 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 65 Boeing 737 MAX aircraft to be delivered between 2020 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, 2019, Copa's statistic for on-time performance, according to DOT standard methodology of arrivals within 14 minutes of scheduled arrival time, was and its completion factor was 99.8%. 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 2019, we were recognized by OAG as the second most on-time airline in the world, and by Flight Stats, for the seventh 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 2020, we were recognized by OAG as the second most on-time airline in the world and the most on-time airline in Latin America. We intend to continue to incentivize our employees to improve or maintain operating and service metrics relating to our customers' satisfaction by continuing our profit sharing plan and employee recognition programs. We will continue to reward our customer loyalty with, ConnectMiles awards, upgrades and access to our Copa Club lounges.

## **Industry**

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

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According to data from the International Air Transport Association, or “IATA”, Latin America comprised approximately 6.9% of international worldwide passengers flown in 2018 or 302 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 75% of international RPKs flown to and from Central America in 2018, compared to 17.9% RPKs flown between Central America and South America and 6.7% 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 84% on average.

The chart below details passenger traffic between regions in 2018:

	Passenger Kms Flown		2018 IATA Traffic Results Available Seat Kms		Passenger Load Factor	
	(Millions)	Change (%)	(Millions)	Change (%)	Factor	Change (%)
North America - Central America / Caribbean	151,067	4.4	184,490	4.0	81.9%	0.3 p.p.
North America - South America	120,118	4.6	145,210	5.6	82.7%	0.3 p.p.
Within South America	41,401	0.6	51,690	2.0	80.1%	-1.1 p.p.
Central America/Caribbean - South America	35,785	7.1	43,598	8.0	82.1%	-0.7 p.p.
Within Central America	13,372	5.5	17,291	3.9	77.3%	1.2 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 2019. Preliminary figures indicate that real GDP increased by 4.3% in Panama and by 3.4% in Colombia, according to data of the World Economic and Financial Survey conducted by the International Monetary Fund or “IMF”.

	GDP (in US\$ billions)		2019 Real GDP (% Growth)	GDP per Capita	
	2019 Current Prices (US\$)			2019 Current Prices (US\$)	
Argentina	445		(3.1)	9,888	
Brazil	1,847		0.9	8,797	
Chile	294		2.5	15,399	
Colombia	328		3.4	6,508	
Mexico	1,274		0.4	10,118	
Panama	69		4.3	16,245	
USA	21,439		2.4	65,112	

Source: International Monetary Fund, World Economic Outlook Database, October 2019

Panama has benefited from a stable economy with moderate inflation and steady GDP growth. According to IMF estimates, from 2013 to 2019, Panama’s real GDP grew at an average annual rate of 5.1%, while inflation averaged 1.3% per year. The IMF currently estimates Panama’s population to be approximately 4.2 million in 2019, 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 50.4 million in 2019 according to the IMF, and has a land area of approximately 440,000 square miles. Colombia's GDP is estimated to be \$327.9 billion for 2019, and per capita income was approximately \$6.5 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, 2019, 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, Air Europa, 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 fleet allows 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. We also expect to incorporate a new Wingo operator, La Nueva Aerolínea S.A., which will be based in Panama and will initially operate one 737-800 from the *Panama Pacífico International Airport* outside of Panama City.

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,				
	2019	2018	2017	2016	2015
North America (1)	32.0%	31.2%	29.6%	28.8%	24.8%
South America	36.4%	40.6%	42.2%	42.2%	45.7%
Central America (2)	27.7%	24.5%	24.5%	23.1%	23.3%
Caribbean (3)	3.8%	3.7%	3.7%	5.9%	6.2%

(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 \$2,612.6 million in 2019, \$2,587.4 million in 2018, and \$2,444.3 million in 2017, representing 96.5%, 96.6%, and 96.9%, 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 2019, \$62.5 million in 2018, and \$55.3 million in 2017, representing 2.3%, 2.3%, and 2.2% 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**

In May 1998, Copa Airlines and Continental entered into a comprehensive alliance agreement to offer a more complete and seamless travel experience to passengers. The agreement encompasses a broad array of activities, including Copa's participation in Continental's frequent flyer programs and VIP lounges, as well as trademark agreements merged to permit joint marketing activities. Continental became a subsidiary of UAL after its merger with United Airlines in 2010, and UAL has recognized all benefits of our original alliance with Continental.

As a result of our alliance, we have benefited from Continental's and 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.

Our alliance relationship with UAL enjoys a grant of antitrust immunity from the U.S. Department of Transportation, or "DOT". The agreement expires in 2021, and is 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.

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.

*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.

## **Joint Business Agreement**

In November 2018, Copa Airlines 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.

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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. However, with the recently coronavirus (COVID-19) outbreak, we can provide no assurances of the approvals and subsequent implementation of the JBA.

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

*Sales and Distribution.* Approximately 65.7% of sales during 2019 were completed through travel agents, including OTAs and other airlines while approximately 34.3% 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 63 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, Gol, Interjet, Volaris and LATAM, among others. In order to remain competitive, we must constantly react to changes in prices and services offered by our competitors.

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The airline industry continues to experience 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, 2019, Copa operated a fleet consisting of 102 aircraft, including 14 Boeing 737-700 Next Generation aircraft, 68 Boeing 737-800 Next Generation aircraft and 14 Embraer 190 aircraft. Since March 2019, the six Copa's Boeing 737 MAX 9 aircraft have been temporarily grounded as a function of the worldwide grounding of the 737 MAX fleet. As of December 31, 2019, Copa had firm orders to purchase 65 Boeing 737 MAX aircraft to be delivered between 2020 and 2025. In October 2018 Copa signed an aircraft sale and purchase agreement with Azorra Aviation for the sale of five Embraer 190 aircraft in 2019. During 2019, we announced our intention to accelerate the exit of our entire Embraer 190 fleet by selling the remaining 14 aircraft by 2020.

The current composition of the Copa fleet as of December 31, 2019 is fully described below:

	Number of Aircraft		Average Term of Lease			Seating Capacity
	Total	Owned	Leased	Remaining (Years)	Average Age (Years)	
Boeing 737 MAX	6	6	0	—	1.1	166
Boeing 737-700	14	12	2	1.3	17.6	124
Boeing 737-800	68	41	27	2.9	7.4	154/160/186
Embraer 190	14	14	0	—	12.7	94
<b>Total</b>	<b>102</b>	<b>73</b>	<b>29</b>	<b>2.8</b>	<b>9.2</b>	<b>—</b>

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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	2020	2021	2022	2023	2024
737-700(1)	14	14	13	14	14
737-800	68	64	59	50	42
737-MAX(2)	16	29	41	53	63
Embraer 190(3)	9	0	0	0	0
Total Fleet	107	107	113	117	119

- (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. The delivery schedule above reflects contractual commitments; although, the timing of future deliveries is uncertain due to the mandatory grounding of Boeing 737 MAX 9 aircraft.
- (3) Assumes the sale of the remainder of our Embraer 190 fleet.

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, six of which were delivered between 2018 and 2019. 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. Following the Ethiopian Airlines accident involving a Boeing 737 MAX 8 aircraft, we suspended operations of our six Boeing 737 MAX 9 aircraft as regulatory authorities around the world grounded the aircraft.

Through several special purpose vehicles, we currently have beneficial ownership of 73 of our aircraft, including 14 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 2.9 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 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 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 a configuration with 10 business class seats in a three abreast configuration with 38-inch pitch. The Boeing 737 MAX 9 aircraft feature 16 full lie-flat seats in business class (Dreams) and a total of 166 seats.

Also, within the Copa Holdings fleet, there are four 737-800s dedicated to the operations of Wingo. These aircraft are equipped with 186 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 2019, 33 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 receives their airframe license and becomes a mechanic. After the next two years, each trainee receives their power plant license and is released as a mechanic into our work force. Presently, we have 106 students in the program.

Copa Airlines and Copa Colombia employ, system-wide, around 740 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 2021.

## 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.

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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 partially operating and is expected to operate at full capacity in 2020.
- 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.

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. None of the airlines operating at Tocumen 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. We also expect to inaugurate in 2020 a brand new Copa Club at the new Terminal 2 of Tocumen International Airport. This new lounge will have a capacity of approximately 420 passengers with an area of more than 20,000 square feet.

These passengers also have access to five other Copa Clubs in the region, which are strategically located in San José, Guatemala City, Santo Domingo, Medellin and Bogota.

### **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.



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<b>Aircraft Fuel Data</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Average price per gallon of jet fuel into plane (excluding hedge) (in U.S. dollars)	\$ 2.16	\$ 2.32	\$ 1.85
Gallons consumed (in millions)	321.4	328.1	307.0
Available seat miles (in millions)	25,113	25,817	23,936
Gallons per ASM (in hundredths)	1.28	1.27	1.28

In 2019, 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, decreased by 19.9% from \$64.9 per barrel to \$52.0 per barrel. In 2019, we did not hedge any of our fuel needs, and we have not hedged any part of our fuel needs for 2020. 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. However, during 2019, new fuel storage capacity, consisting of three 1 million-gallon tanks, were added to existing storage capacity. This addition resulted in an increase of airport fuel storage capacity from 1.5 million to 4.5 million gallons, which represents approximately seven days of fuel availability at current consumption levels.

### **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. By leveraging the purchasing power of our alliance partner, UAL, we have been able to negotiate lower premiums than those we would get if we were to purchase a standalone Hull and Airline Liability Insurance policy.

### **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 located in Panama, 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 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 and scimitars in our planes to reduce fuel consumption and recycling, among many others.

Starting in 2019, Copa is reporting the fuel consumption burned during its annual flight operations and its gas emissions to the Panamanian Civil Aviation Authority. As a result, Copa is in line with the global aviation effort led by ICAO to implement the Carbon Offsetting and Reduction Scheme for International Aviation.

From January to December 2019 we collected a total of 307.71 tons of recycling materials in Panama’s Copa facilities, and strengthen the recycling culture of our employees and contractors. Because of our recycling program, we obtained a significant reduction of the waste sent to the landfill. During the same period, we recycled vehicle oil and aircraft fuel, for which we outsourced the collection

of 11,542 gallons of hydrocarbons for use as alternative fuel for other industries, thus avoiding the contamination of natural resources. We also outsourced the collection of 378,375 gallons of oil and/or water from aircraft cleaning and painting operations, and also from vehicle maintenance process. The subsequent treatment of the collected water made it possible to recover 302,700 gallons of water which were then returned to nature. We have properly disposed of a total of 41,709 kilograms of chemical waste from Aircraft Maintenance operations. In comparison to 2018, in 2019 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.

### **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.

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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 renewed every five years. Copa Colombia's operation certificate was renewed in 2017.

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

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

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

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

### **United States**

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

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

Copa Airlines' operations in the United States are also subject to regulation by the FAA with respect to aviation safety matters, including aircraft maintenance and operations, equipment, aircraft noise, ground facilities, dispatch, communications, personnel, training, weather observation, air traffic control and other matters affecting air safety. The FAA requires each foreign air carrier serving the United States to obtain operational specifications pursuant to 14 CFR Part 129 of its regulations and to meet operational criteria associated with

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

*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 \$18 total, respectively.

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

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

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

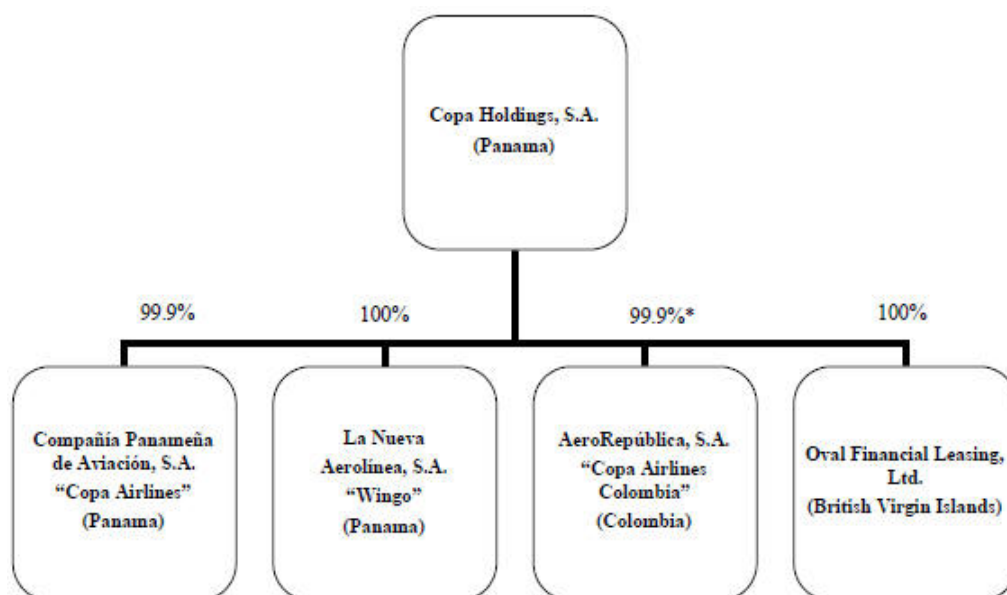
*Other Regulation.* U.S. laws and regulations have been proposed from time to time that could significantly increase the cost of airline operations by imposing additional requirements or restrictions on airlines. There can be no assurance that laws and regulations currently enacted or enacted in the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

#### **Other Jurisdictions**

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

### C. Organizational Structure

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



\* 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.

#### Other Property

At Tocumen International Airport, we lease two maintenance hangars, operations offices in the terminal, counter space, parking spaces and other operational properties from the entity that manages the airport. We pay approximately \$241,402 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 \$198,905 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.

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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. Discussions of year-over-year comparisons between 2018 and 2017 that are not included in this Form 20-F can be found in Part I, Item 5, Operating and Financial Review and Prospects” of our Form 20-F for the fiscal year ended December 31, 2018.*

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 361 daily scheduled flights among 80 destinations in 33 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, 2019, Copa Airlines and Copa Colombia operate a modern fleet of 88 Boeing 737 aircraft and 14 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 65 firm orders of Boeing 737 MAX aircraft, agreed to be delivered between 2020 and 2025. However, the Boeing 737 MAX fleet is still grounded, and we have suspended operations of our six Boeing 737 MAX 9.

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

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

In 2019, 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, decreased by 19.9% from \$64.9 per barrel to \$52.0 per barrel. In 2019, we did not hedge any of our fuel needs. For 2020 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 2019, a 1.1% increase over passenger revenue of \$2.6 billion in 2018 mainly driven by a 1.7% increase in passenger traffic compared to 2018. However, passenger average fare decreased 0.7% in 2019.

In Colombia, real GDP growth, at constant prices, was approximately 3.4% in 2019, which represented a faster growth rate than in 2018. Average inflation of consumer prices in Colombia rose approximately 3.6% in 2019, 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 35% in 2019. 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.

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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 0.1% in 2019 and is estimated to increase by 1.3% in 2020. In recent years, the Panamanian economy has outpaced the economic growth of the United States and of Latin America as a whole. Preliminary figures for 2019 indicate that the Panamanian economy grew by 4.3% (versus 3.7% in 2018). Headline inflation in Panama (as indicated by the consumer price index) presented no significant change in 2019 compared to 2018. Additionally, the Colombian economy has experienced relatively stable growth. The Colombian gross domestic product grew by 3.4% in 2019 and is estimated to grow by 3.6% in 2020, while headline inflation (as indicated by the consumer price index) rose by 3.6% in 2019.

### **Revenues**

We derive our revenues primarily from passenger transportation, which represented 96.5% of our revenues for the year ended December 31, 2019. In addition, 2.3% of our total revenues are derived from cargo and 1.2% from other activities.

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 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, non-air frequent flyer program revenue 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.

	2019	2018	2017	2016	2015
Capacity (in available seat miles, in millions)	25,113	25,817	23,936	22,004	21,675
Load factor	84.8%	83.4%	83.2%	80.4%	75.2%
Yield (in cents)	12.26	12.02	12.27	12.15	13.40

### **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 2019, as a result of the location of its hub, Copa purchased 57% 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	2019	2018	2017
Average price per gallon of jet fuel into plane (excluding hedge) (in U.S. dollars)	\$ 2.16	\$ 2.32	\$ 1.85
Gallons consumed (in millions)	321.4	328.1	307.0
Available seat miles (in millions)	25,113	25,817	23,936
Gallons per ASM (in hundredths)	1.28	1.27	1.28

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

*Passenger servicing.* Our passenger servicing expenses consist of 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](http://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.

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*Depreciation, amortization and impairment.* These expenses correspond primarily to the depreciation of aircraft owned by the company, engines, maintenance components, other related flight equipment and the depreciation of the right of use on leased assets.

*Flight operations.* These expenses are 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.

*Other operating and administrative expenses.* Other expenses include cargo and courier expenses, overhead expenditures and miscellaneous expenses. Also includes the expense for contract services, variable lease payments, short term and low value leases.

### **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. In February 2020, the Company received two notifications from the tax authority in Panama related to a tax audit process that began in 2019. The notifications include adjustments to the reported dividend tax for the years 2012 to 2016 and income tax 2016. The Company has filed an administrative appeal which is the first legal stage under Panamanian laws. 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 these notices. According to Panamanian laws, the statute of limitations is 3 and 15 years for income tax and dividend tax, respectively.

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 \$46.4 million in 2019, \$34.5 million in 2018 and \$49.3 million in 2017.

### **Critical Accounting Policies and Estimates**

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

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Our critical accounting policies and estimates are described below as those that are reflective of significant judgments and uncertainties and potentially result in materially different results under different assumptions and conditions. For a more extensive disclosure of these and other accounting policies, see notes 3 and 4 to our annual consolidated financial statements in Item 18 of this report.

### *Revenue recognition*

Revenue is recognized when control of the goods or services is 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 tickets.* Passenger revenue from tickets is recognized when transportation is provided rather than when a ticket is sold. The amount of passenger ticket sales, 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 using 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. A year after the sales is made, actual ticket breakage is removed from “Air Traffic liability” and recognized as revenue, and the provision is reversed.

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. Members in this program earn miles for travel on Copa Airlines, Star Alliance partners’ airlines and also by purchasing the goods and services of the Company network of non-airline partners and co-branded credit cards. The miles or points earned can be exchanged for flights on Copa or any of other Star Alliance partners’ airlines.

Passenger revenue includes flights redeemed under our frequent flyer program. 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 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 at least 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.

*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 are 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 operating revenue includes revenue associated with the marketing component of the frequent flyer program. This revenue is comprised of the marketing component of mileage sales to co-branded card, 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 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.

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

### *Accounting for 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.

The Company recognizes the depreciation on a straight-line basis, which for some aircraft components is akin to depreciation based on use, over the estimated useful life 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.

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 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 remaining value of the previously capitalized maintenance or the right-of-use asset ("ROU") component if any, is charged to expense upon completion of the subsequent maintenance event.

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.

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.

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 November 2019, the Company announced its decision to accelerate the exit of its Embraer 190 fleet and is initiated an active program to locate a buyer to sell the remaining 14 aircraft, spare engines, spare parts and inventory by 2020. The decision responds to the continued deterioration of the Embraer 190 fleet performance and the need to grow capacity in some markets aligned with the fleet optimization plan. This anticipated exit results in impairment losses of \$89.3 million to write down the assets to the lower of its carrying amount and its fair value less cost to sell. To meet its capacity demands, the Company is evaluating entering into a short term leaseback of the Embraer fleet.

*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 Cash Generating Unit (CGU) or group of CGU's 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. The Company performed an annual impairment test.

*Lease accounting.* The Company enters into contracts for the use of the aircraft it operates and real estate which include, airport and terminal facilities, sales offices, maintenance facilities, and general offices. The Company assesses, based on the terms and conditions of the arrangements, whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement date, the Company recognizes a ROU and a lease liability.

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The ROU is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the ROU or component, or lease term. The estimated useful life of ROU is determined on the same basis as those property and equipment.

The lease liability, is initially measured at the present value of the lease payments that are not paid at that date, discounted using the interest rate implicit in the lease, if that rate can be readily determined or the lessee's incremental borrowing rate.

For leases under IFRS 16 the Company recognizes a provision to estimate the costs for work required to be performed just before the redelivery of the aircraft to the lessors and which does not depend of the aircraft utilization, this provision is booked as a dismantling provision cost under "long term liabilities" in the consolidated statement of financial position.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or a rate, if there is a change in the Company's estimated amount expected to be payable under a residual value guarantee or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

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.

### *Provision for return condition*

The Company records a provision to accrue for the cost that will be incurred in order to return the lease aircraft to their lessor in the agreed-upon condition, excluded estimated dismantling costs not based on utilization of the aircraft which are included in the ROU asset and long term liabilities. 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. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning. Any difference in the actual maintenance cost incurred and the amount of the provision is recorded under "Maintenance, materials and repairs" in the consolidated statement of profit or loss. The effect of any changes in estimates, including those mentioned above, is also recognized under "Maintenance, materials and repairs" for the period.

*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.

- Amendments to IFRS 3 - *Definition of a business*
- Amendments to IAS 1 and IAS 8 - *Definition of material*
- Amendments to IFRS 9, IAS 39 and IFRS 7 – *Interest rate benchmark reform*

Effective from January 1, 2019, we were required to adopt the new accounting standard IFRS 16 *Leases* ("IFRS 16"). As a result, the Company has changed its accounting policy for lease contracts. IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an arrangement contains a lease*, SIC-15 *operating leases-incentives*, and SIC-27 *Evaluating the substance of transactions involving the legal form of a lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the statement of financial position.

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

### **Results of Operation**

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Operating revenues:</b>			
Passenger revenue	96.5%	96.6%	96.9%
Cargo and mail revenue	2.3%	2.3%	2.2%
Other operating revenue	1.2%	1.0%	0.9%
<b>Total operating revenues</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Operating expenses:</b>			
Fuel	25.7%	28.6%	22.7%
Wages, salaries, benefits and other employees expenses	16.6%	16.6%	16.5%
Passenger servicing	3.8%	3.9%	3.9%
Airport facilities and handling charges	6.7%	7.0%	6.8%
Sales and distribution	7.8%	7.8%	7.9%
Maintenance, materials and repairs	4.7%	4.1%	5.2%
Depreciation, amortization and impairment	13.7%	17.4%	11.0%
Flight operations	3.8%	4.0%	4.0%
Other operating and administrative expenses	4.4%	4.6%	4.5%
<b>Total operating expenses</b>	<b>87.2%</b>	<b>94.0%</b>	<b>82.6%</b>
<b>Operating income</b>	<b>12.8%</b>	<b>6.0%</b>	<b>17.4%</b>
<b>Non-operating income (expense):</b>			
Finance cost	-2.1%	-1.9%	-2.0%
Finance income	0.9%	0.9%	0.7%
Gain (loss) on foreign currency fluctuations	-0.6%	-0.4%	0.2%
Net change in fair value of derivatives	0.0%	0.0%	0.1%
Other non-operating income (expense)	-0.2%	0.0%	-0.1%
<b>Total non-operating income (expense)</b>	<b>-1.9%</b>	<b>-1.4%</b>	<b>-1.0%</b>
<b>Profit before income taxes</b>	<b>10.8%</b>	<b>4.6%</b>	<b>16.3%</b>
Income taxes	-1.7%	-1.3%	-2.0%
<b>Net profit</b>	<b>9.1%</b>	<b>3.3%</b>	<b>14.4%</b>

### **Year 2019 Compared to Year 2018**

Our consolidated net profit in 2019 totaled \$247.0 million, a 180.1% increase from net profit of \$88.2 million in 2018. In addition, we had consolidated operating profit of \$346.2 million in 2019, a 116.9% increase over operating profit of \$159.6 million in 2018. Our consolidated operating margin in 2019 was 12.8%, an increase of 6.8 percentage points versus 2018. This results include a non-cash loss of \$89.3 million in 2019 and \$188.6 million in 2018 related to an impairment of non-financial assets due to the sale of our Embraer fleet.

### **Operating revenue**

Our consolidated revenue totaled \$2.7 billion in 2019, a 1.1% increase over operating revenue of \$2.7 billion in 2018, mainly due to an increase of 1.0% in passenger revenue. This was driven by a 1.7% increase in passenger traffic partially offset by a 0.7% decrease in passenger average fare compared to 2018.

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*Passenger revenue.* Passenger revenue totaled \$2.6 billion in 2019, a 1.0% increase over passenger revenue of \$2.6 billion in 2018. This was driven by a 1.7% increase in passenger traffic, partially offset by a decrease of 0.7% in passenger average fare compared to 2018.

*Cargo and mail revenue.* Cargo and mail revenue totaled \$62.5 million in 2019, a minor difference from cargo and mail revenue of \$62.5 million in 2018, reflecting a decrease in capacity, that was offset by a higher average fare per kilo.

*Other operating revenue.* Other operating revenue totaled \$32.3 million in 2019, a 16.5% increase from other revenue of \$27.8 million in 2018 driven by an increase in frequent flyer program partnership revenues. Other operating revenue includes revenue associated with the marketing component of the frequent flyer program.

### **Operating expenses**

Our consolidated operating expenses totaled \$2.4 billion in 2019, a 6.2% decrease over operating expenses of \$2.5 billion in 2018. This resulted mainly from a decrease in fuel and depreciation expenses.

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

*Fuel.* Aircraft fuel totaled \$696.2 million in 2019, a 9.1% decrease from aircraft fuel of \$765.8 million in 2018, mainly due to a 7.2% lower effective fuel price and a 2.9% decrease in block hours.

*Wages, salaries and other employees' expenses.* Salaries and benefits totaled \$450.4 million in 2019, a 1.6% increase over salaries and benefits of \$443.3 million in 2018, mainly driven by the full year effect of inflationary salary adjustments, offset by headcount efficiencies and currency effect.

*Passenger servicing.* Passenger servicing totaled \$102.1 million in 2019 compared to \$104.3 million in 2018. This represented a 2.1% decrease driven by a lower effective rate per passenger.

*Airport facilities and handling charges.* Airport facilities and handling charges totaled \$182.0 million in 2019, a 2.4% decrease over \$186.4 million in 2018. This decrease was driven mainly by a 0.5% decrease in departures and lower effective rates related to airport services in North America.

*Sales and Distribution.* Sales and distribution totaled \$210.6 million in 2019, a 0.2% increase compared to \$210.2 million in 2018, due to 1.0% higher passenger revenue, offset by lower commission rates.

*Maintenance, materials and repairs.* Maintenance, materials and repairs totaled \$127.6 million in 2019, a 15.2% increase over maintenance, materials and repairs of \$110.7 million in 2018. This increase was primarily a result of landing gear and APU maintenance events which are expensed as incurred.

*Depreciation, amortization and impairment.* Depreciation totaled \$371.4 million in 2019, a 20.2% decrease over \$465.2 million in 2018, mainly due to a non-recurring impairment charge related to the Embraer fleet in 2018.

*Flight operations.* Flight operations amounted to \$102.8 million in 2019, a 5.2% decrease compared to \$108.4 million in 2018, mainly due to 2.9% less block hours and lower overflight rates.

*Other operating and administrative expenses.* Other expenses totaled \$118.1 million in 2019, a 4.6% decrease from \$123.7 million in 2018, mainly due to less overhead expenses.

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

Non-operating expense totaled \$52.7 million in 2019, as compared to non-operating expense of \$36.8 million in 2018 mainly due to a translational loss in foreign exchange rates and an increase in finance cost.

*Finance cost.* Finance cost totaled \$57.4 million in 2019, an 13.0% increase over finance cost of \$50.8 million in 2018, mainly as a result of a higher average debt balance with higher interest rates, and higher factoring flows.

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*Finance income.* Finance income totaled \$24.4 million in 2019, a 3.3% increase over finance income of \$23.6 million in 2018 mainly due to higher interest rates offset by a decrease in investments in 2019.

*Other non-operating income (expense).* Other non-operating expense totaled \$4.3 million in 2019, compared to \$0.2 million in 2018 mainly due to Embraer sales related expenses.

### **B. Liquidity and Capital Resources**

Our cash, cash equivalents, and short-term investments at December 31, 2019 increased by \$128.8 million, to \$851.1 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 2019.

Our cash, cash equivalent and short-term investment position represented 31.4% of our revenues for the year ended December 31, 2019; 19.6% of our total assets and 44.0% of our total equity as of December 31, 2019, 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 \$305.0 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, 2019, we had no outstanding borrowings under these credit lines, while as of December 31, 2018 we had outstanding borrowings of \$140.0 million under these credit lines.

#### ***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, 2019 were \$784.9 million, an increase of \$241.9 million over the \$543.0 million in 2018. Our principal source of cash is receipts from ticket sales to customers, which for the year ended December 31, 2019 increased by \$61.0 million over receipts in the year 2018.

#### ***Investing Activities***

Net cash flow used in investing activities was \$192.9 million in 2019 compared to a net cash flow used in investing activities of \$149.6 million in 2018. During 2019, we made capital expenditures of \$29.5 million, which consisted of expenditures related to the net of acquisition of property and equipment, reimbursements of advance payments on aircraft purchase contracts, and proceeds from sale of property equipment, compared to \$33.7 million in 2018. In 2019, the Company used \$121.4 million in acquisition and redemption from investments compared to \$63.7 million in 2018. Also, in 2019 we had advance payments on aircraft purchase contracts of \$75.4 million compared to \$216.7 million in 2018, and \$25.5 million in acquisition of intangible assets compared to \$30.2 million in 2018.

#### ***Financing Activities***

Net cash flow used in financing activities were \$545.3 million in 2019 compared to net cash flows used in financing activities of \$430.2 million in 2018. During 2019, \$95.0 million of proceeds from borrowings were offset by the repayment of \$426.8 million in debt, \$110.4 million in dividends paid and \$103.1 million in payment of lease liability. During 2018, \$225.0 million of proceeds from financing were offset by the repayment of \$401.3 million in debt, \$147.6 million in dividends declared and \$106.3 million in payment of lease liability.

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 \$128.1 million as of December 31, 2019 at an average weighted interest rate of 3.02%, \$98.5 million bears interest at a floating weighted average interest rate of 2.10% representing a spread of 20 bps over the 3 month LIBOR as of December 31, 2019. At December 31, 2019, the total amount outstanding under our Ex-Im-supported financings totaled \$226.6 million.

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 financings. We have financed 19 Boeing 737 Next Generation and 737 MAX aircraft since 2014 through JOLCO financing. As of December 31, 2019 JOLCO financed debt outstanding was \$828.8 million.

We complied with all required covenants in 2018 and 2019.

*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, 2019, the Company had one purchase contract with Boeing which entails 65 firm orders of Boeing 737 MAX aircraft, agreed to be delivered between 2020 and 2025. The aircraft under this contract have an approximate value of \$3.1 billion based on contractual obligations net of discounts and pre-delivery payments, including estimated amounts for contractual price escalation.

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 \$25.8 million as of December 31, 2019 (\$25.9 million as of December 31, 2018). 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 \$305.0 million. These lines of credit have been put in place to pre-delivery payments and for working capital purposes. As of December 31, 2019, we had no outstanding borrowings under these credit lines (2018: \$140.0 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”, “Wingo” and “Hub of the Americas” 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”, “Wingo” and “Hub of the Americas” are registered names and trademarks in Colombia, Panama, Ecuador, Venezuela, Mexico, Dominican Republic, and Guatemala.

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

#### D. Trend Information

Since the second quarter of 2019, and continuing until the end of the year, we have been able to deliver continuous year over year yield improvement, resulting in a significant unit revenue expansion, mainly due to a more stable macro-economic environment in the region, especially in Brazil.

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 2019 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, for the second consecutive year. In 2020, Wingo will significantly increase its capacity by transitioning its fleet from four B737-700 to four B737-800 with 44 additional seats per aircraft. With this, Wingo expects to improve both its unit costs and profitability. Additionally, in the second half of 2020, Wingo will receive a fifth aircraft, also a B737-800, which will most likely be based in Panama.

#### E. Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

#### F. Tabular Disclosure of Contractual Obligations

Our non-cancelable contractual obligations at December 31, 2019 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 (1)	3,102,354	495,097	1,194,497	1,153,663	259,097
Aircraft operating leases	286,876	99,309	146,810	40,757	0
Other operating leases (3)	42,153	8,247	14,210	10,631	9,065
Short-term debt and long-term debt (2)	1,055,421	117,238	225,692	246,610	465,881
<b>Total</b>	<b>4,486,804</b>	<b>719,891</b>	<b>1,581,209</b>	<b>1,451,661</b>	<b>734,042</b>

- (1) Based on contractual obligations net of discounts and pre-delivery payments, including estimated amounts for contractual price escalation.
- (2) Includes actual interest and estimated interest for floating-rate debt based on December 31, 2019 rates.
- (3) Only includes contracts classified as leases according to IFRS 16.

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, Jaime Arias, Jose Castañeda and Josh Connor were re-elected as directors for two-year terms at our annual shareholders' meeting held in 2019. 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. Mr. Roberto Artavia tendered his resignation as director of the Company in August 2019 and Mrs. Julianne Canavaggio was elected as director to fill the vacancy.

The following table sets forth the name, age and position of each member of our Board of Directors as of February 29, 2020. 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
Andrew Levy	Director	50
Josh Connor	Director	46
Julianne Canavaggio	Director	38

**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. Mr. Heilbron is Co-Founder and Executive Director at Editora del Caribe, S.A. He serves on the board of Grupo PTM Panama, S.A., Gold Mills de Panama, S.A., Calox Panameña, S.A., Inversiones Haripasa and he is a member of Babson College's Global Advisory Board. 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.

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**Mr. Carlos A. Motta** was elected as a director of Copa Holdings in 2014. He has held several positions within Motta Internacional, S.A. and is currently a director and part of the executive committee. He is the son of Mr. Stanley Motta. Mr. Motta serves on the board of Inversiones Bahia, Copa Holdings, ASSA Compañía de Seguros, S.A, Banco General, Motco Inc., Fundación Alberto C. Motta, IFF Panama (Panama Film Festival), and Junior Achievement Worldwide among others. Mr Motta is a member of YPO (Young Presidents Organization); AGLN (The Aspen Global Leadership Network); CEAL (Consejo Empresarial de America Latina). Mr. Motta received a bachelor's degree in marketing from Boston College and an MBA from Thunderbird (The American Graduate School of International Management).

**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 in finance, investor relations, and alliances. 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 a current member of the board of directors of Azul S.A. and served for eight years on the board of directors of Alliant Credit Union, one of the largest credit unions in the United States, last serving as Vice Chairman in 2018.

**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. Andrew Levy** is one of the independent directors of Copa Holdings. He is currently Chairman of Audit Committee and Independent Director Committees. CEO of Houston Air Holdings, Inc, owner of a small passenger charter airline in the US. 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. 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 Laguna Blanca School.

**Mrs. Julianne Canavaggio** was elected as an independent director of Copa Holdings in 2019. She is a Managing Director and Head of Central America and the Caribbean for Lazard, responsible for Lazard's financial advisory division in this geography. Ms. Canavaggio joined Lazard in 2014, and has held positions of increasing responsibility. Prior to joining Lazard, Julianne established a successful legal career in mergers and acquisitions across a variety of industries. Ms. Canavaggio currently serves on the board of directors of a Sustainable Luxury® real estate development company, as well as two private investment vehicles. She has previously served on the board of directors of a conglomerate of wholesale distribution operations for fragrances, cosmetics and skin care products, as well as a Panamanian chain of department stores in the mid-high range, and a general license bank authorized to operate in Panama in the banking and trust business (fiduciaries). Ms. Canavaggio holds a BA from Harvard University and a JD from Tulane University.

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The following table sets forth the name, age and position of each of our executive officers as of February 29, 2020. A brief biographical description of each of our executive officers follows the table.

Pedro Heilbron	Chief Executive Officer and Director	61
José Montero	Chief Financial Officer	50
Daniel Gunn	Senior Vice-President of Operations	52
Dennis Cary	Senior Vice-President of Commercial and Planning	55
Peter Donkersloot	Vice-President of Human Resources	36
Julio Toro	Vice-President of Technology	46
Bolívar Domínguez	Vice-President of Flight Operations	44
Timothy Manoles	Loyalty Vice-President	59
Christophe Didier	Vice-President of Sales	56
Christopher Amenechi	Vice-President of Pricing and Revenue Management	54
Eduardo Lombana	Chief Executive Officer of AeroRepública, S.A. (Copa Airlines Colombia)	58

**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.

**Mr. Peter Donkersloot** joined Copa Airlines in August 2019 and has served as Vice President of Human Resources since January 2020. Mr. Donkersloot has over fifteen years working experience holding key positions in five different countries (Jamaica, Panama, Peru, El Salvador and Guatemala). His experience ranges in Commercial Operations, Logistics, Risk Assessment, Strategic Planning and General Management. He holds a Global MBA from the Thunderbird School of Global Management along with professional qualifications in Industrial Engineering from the *Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM)*.

**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.

**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 is also a member since 2019 of the IATA Safety, Flight and Ground Operations Advisory Council (SFGOAC), responsible to act as advisor to the Board of Governors and the Director General of IATA on all matters connected with the improvement of safety and efficiency of civil air transport, ground operations and baggage. 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.

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

**Mr. 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 and equity investment in Gol and Aeromexico. Mr. Didier, a French and Brazilian National, holds a Master in Management from ESCP Europe business school based in Paris and speaks English, Spanish, Portuguese and French.

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

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

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 2019, we paid an aggregate of approximately \$5.0 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.

#### ***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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Shares	28,497	43,355	36,229
Fair value	\$ 96.46	\$ 135.81	\$ 107.29
Contractual life	3 years	3 to 5 years	3 years

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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 \$6.1 million, \$7.1 million, and \$7.4 million in 2019, 2018, and 2017, respectively, and was recorded as a component of “Wages, salaries, benefits and other employees’ expenses” within operating expenses.

During the first quarter of 2020, the Compensation Committee of the Company’s Board of Directors approved two awards. Awards under these plans will grant approximately 50,381 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 \$5.4 million and the 2020 compensation cost for these plans will be \$2.5 million.

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

### **C. Board Practices**

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

Currently, our Board of Directors is comprised of eleven members. The number of directors elected each year varies. Messrs. Stanley Motta, Jose Castañeda, Jaime Arias and Josh Connor were re-elected as directors for two-year terms at our annual shareholders’ meeting held in 2019. 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. Mr. Roberto Artavia tendered his resignation as director of the Company in August 2019 and Mrs. Julianne Canavaggio was elected as director to fill the vacancy.

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.

Mrs. Julianne Canavaggio and Messrs. Jose Castañeda, Josh Connor, 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. The Committee’s chairman is Mr. Andrew Levy. All members are financially literate. Messrs. Castañeda, Connor, and Levy 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. Carlos Alberto Motta, Alvaro Heilbron, and José Castañeda are the members of our Nominating and Corporate Governance Committee, and Mr. Carlos Alberto Motta is the Chairman of the Nominating and Corporate Governance Committee.

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

- any transactions in excess of \$5 million between us and our controlling shareholders;
- the designation of certain primary share issuances that will not be included in the calculation of the percentage ownership pertaining to the Class B shares for purposes of determining whether the Class A shares should be converted to voting shares under our Articles of Incorporation; and
- the issuance of additional Class B shares or Class C shares to ensure Copa Airlines' compliance with aviation laws and regulations.

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

Mrs. Julianne Canavaggio and Messrs. Jose Castañeda, Josh Connor, and Andrew Levy, are 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.



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Approximately 78.5% of the Company's employees are located in Panama, while the remaining 21.5% are distributed among our foreign stations. Copa's employees can be categorized as follows:

<u>December 31,</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Pilots	1,391	1,426	1,290
Flight attendants	2,185	2,358	2,204
Mechanics	527	440	512
Customer service agents, reservation agents, ramp and others	2,544	2,905	2,919
Management and clerical	2,230	2,321	2,120
Total employees	8,877	9,450	9,045

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 2006, 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 Level C to provide 100% of our initial training. We leased a similar flight simulator for Embraer 190 until October 2015, when we decided to buy this simulator to serve our initial and recurrent training needs. In 2011, 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 FFTX technology training device accompanied by a new Virtual Procedure Trainer (VPT). In 2015, 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 available for use since May of 2019.

Approximately 61.8% of the Company's 8,877 employees are unionized. Our employees currently belong to nine union organizations; five covering employees in Panama and four covering employees in Colombia, in addition to union organizations in other countries to which we fly. Copa Airlines has traditionally had good relations with its employees and all the unions, and expects to continue to enjoy good relations with its employees and the unions in the future.

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

Copa entered into collective bargaining agreements with the pilots' union in July 2017, the industry union in December 2017, the mechanics' union in June 2018 and with the flight attendants' union in October 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.

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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 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 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, 2019 by each person known to us to beneficially own 5% or more of our common shares and all our directors and officers as a group.

Class A shares are limited voting shares entitled only to vote in certain specified circumstances. See "Item 10B. Additional Information – Memorandum and Articles of Association – Description of Capital Stock".

<b>Class A Shares Beneficially Owned</b>	<b>Shares</b>	<b>(%)(1)</b>
CIASA(2)	0	0.0%
Executive officers and directors as a group (14 persons)	110,492	0.4%
Others	31,227,364	99.6%
<b>Total</b>	<b>31,337,856</b>	

(1) Based on a total of 31,337,856 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 February 29, 2020. 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.

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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 8, 2020, we had 351 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.

#### ***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 \$4.2 million, \$3.8 million and \$3.0 million in 2019, 2018, or 2017, respectively. There have not been any material interest payments for the last three years. There was no outstanding debt balance at December 31 2019, 2018, or 2017.

#### ***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 \$11.2 million in 2019, \$9.7 million in 2018 and \$8.5 million in 2017.

#### ***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 four 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 \$376.8 million in 2019, \$398.7 million in 2018 and \$290.2 million in 2017.

***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 \$4.0 million, \$3.8 million and \$3.6 million in 2019, 2018 and 2017, 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 \$0.3 million, \$0.5 million and \$0.4 million in 2019, 2018 and 2017, 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 \$1.4 million, \$1.7 million, and \$1.4 million in 2019, 2018 and 2017, 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 \$3.5 million in 2019, \$5.8 million in 2018 and \$4.9 million in 2017.

***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. Payments to GBM International, Inc. totaled \$0.2 million, \$0.2 million and \$0.3 million in 2019, 2018, 2017, respectively.

***Other Transactions***

We also purchase most of the alcohol and some of the other beverages served on our aircraft from Motta Internacional, S.A. and Global Brands, S.A., both of which are controlled by our controlling shareholders. We do not have any formal contracts for these purchases, but pay wholesale prices based on price lists periodically submitted by those importers and comparisons to other options in the marketplace. We paid these entities approximately \$2.0 million in 2019, \$1.6 million in 2018 and \$1.7 million in 2017.

**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".

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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>
2019	December 13, 2019	\$28 million	0.65
2019	September 13, 2019	\$28 million	0.65
2019	June 14, 2019	\$28 million	0.65
2019	March 15, 2019	\$28 million	0.65
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	December 15, 2016	\$22 million	0.51
2016	September 13, 2016	\$22 million	0.51
2016	June 16, 2016	\$21 million	0.51
2016	March 16, 2016	\$21 million	0.51

### **B. Significant Changes**

None

### **Item 9. The Offer and Listing**

#### **A. Offer and Listing Details**

Our Class A shares have been listed on the New York Stock Exchange, or NYSE, under the symbol "CPA" since December 14, 2005.

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

Not applicable.

#### **C. Markets**

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

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

**Item 10. Additional Information**

**A. Share Capital**

Not applicable.

**B. Memorandum and Articles of Association**

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

**Objects and Purposes**

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

**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, 2019, we had 33,835,747 Class A shares issued and 31,337,856 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.

For a description of our common stock, see Exhibit 2.d to this annual report.

**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 October 2019.

***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 October 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.

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

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

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

- an individual citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

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

### ***Taxation of Dividends***

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

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

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

- have held Class A shares for less than a specified minimum period during which you are not protected from risk of loss, or
- are obligated to make 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 2019, and we expect to operate in such a manner so as not to become a PFIC in 2020 or the foreseeable future. However, the determination whether we are a PFIC must be made annually based on the facts and circumstances at that time, some of which may be beyond our control, such as our market capitalization and the valuation of our assets, including goodwill and other intangible assets, and the nature and sources of our income. If, contrary to our expectations, 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.

### ***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](http://www.sec.gov), from which you can electronically access the registration statement and its materials.

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

**I. Subsidiary Information**

Not applicable.

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

The risks inherent in our business are the potential losses arising from adverse changes to the price of fuel, interest rates and the U.S. dollar exchange rate. Please also refer to note 28 of our financial statements.

*Aircraft Fuel.* Our results of operations are affected by changes in the price and availability of aircraft fuel. 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, 2019, the Company did not have any outstanding fuel hedge contracts. Market risk is estimated as a hypothetical 10% increase in the December 31, 2019 cost per gallon of fuel. Based on projected 2020 fuel consumption, such an increase would result in an increase to aircraft fuel expense of approximately \$64.8 million in 2020. There are no hedged contracts for 2020.

*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 2020 than they did during 2019, our interest expense would increase by approximately \$0.9 million and the fair value of the debt would decrease by approximately \$6.5 million. If interest rates average 10% less in 2020 than they did in 2019, our interest income from marketable securities would decrease by approximately \$0.9 million and the fair value of our debt would increase by approximately \$6.5 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, 2019.

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*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 67.3% of revenues and 81.3% 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 8.7%, 8.3%, and 4.8% of our revenue in 2019, 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.

The following chart summarizes the Company's exchange risk exposure (assets and liabilities denominated in foreign currency) at December 31, 2019 and 2018:

	<u>As of December 31, 2019</u>	<u>As of December 31, 2018</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 22,818	\$ 24,123
Investments	—	2
Accounts receivables, net	73,018	68,171
Other assets	15,726	19,107
<b>Total assets</b>	<u>\$ 111,562</u>	<u>\$ 111,403</u>
<b>Liabilities</b>		
Accounts payables suppliers and agencies	\$ 51,313	\$ 48,501
Accumulated taxes and expenses payables	37,137	40,243
Other liabilities	18,513	20,771
<b>Total liabilities</b>	<u>\$ 106,963</u>	<u>\$ 109,515</u>
<b>Net position</b>	<u>\$ 4,599</u>	<u>\$ 1,888</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, 2019. 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, 2019. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013).

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Based on this assessment, Management believes that, as of December 31, 2019, 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, 2019 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 year 2019, the Company performed an internal project that successfully achieved the adoption of the IFRS16. Our internal controls over financial reporting were adjusted to mitigate key risks for the adoption of IFRS 16. A risk-based analysis was addressed and documented accordingly aligned with our internal control standards.

There has been no other change in our internal control over financial reporting during 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**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, 2019, 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, 2019, 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, 2019 and 2018 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, 2019, and the related notes, and our report dated April 8, 2020, 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 Limited Corp.

Panama City, Republic of Panama  
April 8, 2020



**Item 16. Reserved**

**Item 16A. Audit Committee Financial Expert**

Our Board of Directors has determined that Mrs. Julianne Canavaggio and Messrs. Jose Castañeda, Josh Connor and Andrew Levy qualify as an “audit committee financial experts” as defined by current SEC rules and meet the independence requirements of the SEC and the NYSE listing standards. For a discussion of the role of our audit committee, see “Item 6C. Board Practices—Audit Committee”.

**Item 16B. Code of Ethics**

Our Board of Directors has adopted a Code of Business Conduct and Ethics applicable to our directors, officers, employees and consultants. The Code of Business Conduct and Ethics can be found at [www.copaair.com](http://www.copaair.com) under the heading “Investor Relations—Corporate Governance”. Information found on this website is not incorporated by reference into this document.

**Item 16C. Principal Accountant Fees and Services**

The following table sets forth by category of service the total fees for services performed by our independent registered public accounting firm Ernst & Young and its affiliates during the fiscal years ended December 31, 2019, 2018 and 2017:

	2019	2018	2017
Audit Fees	\$ 944,220	\$981,810	\$1,025,000
Audit-Related Fees	—	—	—
Tax Fees	—	—	—
All Other Fees	\$ 245,000	—	—
<b>Total</b>	<b>\$1,189,220</b>	<b>\$981,810</b>	<b>\$1,025,000</b>

**Audit Fees**

Audit fees for 2019, 2018 and 2017 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 2019, 2018 or 2017.

**Tax Fees**

There were no tax fees for 2019, 2018 or 2017.

**All Other Fees**

Other fees for 2019 include amounts paid for permitted consulting services performed by Ernst & Young and pre-approved by our audit committee. There were no such fees in 2018 or 2017.

### 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 2019, none of the fees paid to Ernst & Young were approved pursuant to the de minimis exception.

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

None

### 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
<b>Program 2014 (EOMR)</b>				
December 2014	182,592	\$ 101.84	182,592	2,274,440
January 2015	139,196	\$ 104.13	321,788	2,084,941
February 2015	28,454	\$ 109.65	350,242	1,951,529
<b>ASR 2015</b>				
September 2015	500,000		850,242	
December 2015	1,460,250		2,310,492	
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 2017, 2018 or 2019.

### 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.

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### NYSE Standards

#### **Director Independence.**

Majority of board of directors must be independent. §303A.01

**Executive Sessions.** Non-management directors must meet regularly in executive sessions without management.

Independent directors should meet alone in an executive session at least once a year. §303A.03

**Nominating/Corporate Governance Committee.** Nominating/corporate governance committee of independent directors is required. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. §303A.04

**Compensation Committee.** Compensation committee of independent directors is required, which must approve or make a recommendation to the board regarding executive officer compensation. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. §303A.05

**Equity Compensation Plans.** Equity compensation plans require shareholder approval, subject to limited exemptions.

**Code of Ethics.** Corporate governance guidelines and a code of business conduct and ethics is required, with disclosure of any waiver for directors or executive officers. §303A.10

### Our Corporate Governance Practice

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.

Our Articles of Incorporation require us to have three independent directors as defined under the NYSE rules.

There are no mandatory requirements under Panamanian law that a company should hold, and we currently do not hold, such executive sessions.

Panamanian corporate governance standards recommend that registered companies have a nominating committee composed of three members of the board of directors, at least one of which should be an independent director, plus the chief executive officer and the chief financial officer. In Panama, the majority of public corporations do not have a nominating or corporate governance committee. Our Articles of Incorporation require that we maintain a Nominating and Corporate Governance Committee with at least one independent director until the first shareholders' meeting to elect directors after such time as the Class A shares are entitled to full voting rights.

Panamanian corporate governance standards recommend that the compensation of executives and directors be overseen by the nominating committee but do not otherwise address the need for a compensation committee.

While we maintain a compensation committee that operates under a charter as described by the NYSE governance standards, currently only one of the members of that committee is independent.

Under Panamanian law, shareholder approval is not required for equity compensation plans.

Panamanian corporate governance standards do not require the adoption of specific guidelines as contemplated by the NYSE standards, although they do require that companies disclose differences between their practices and a list of specified practices recommended by the SMV.

We have not adopted a set of corporate governance guidelines as contemplated by the NYSE, although we will be required to comply with the disclosure requirement of the SMV.

Panamanian corporate governance standards recommend that registered companies adopt a code of ethics covering such topics as its ethical and moral principles, how to address conflicts of interest, the appropriate use of resources, obligations to inform of acts of corruption and mechanism to enforce the compliance with established rules of conduct.

## **Item 16H. Mine Safety Disclosure**

None

**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**

- 2.d [Description of the registrant’s securities registered pursuant to Section 12 of the Securities Exchange Act of 1934.](#)
- 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**†	<a href="#"><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></a>
10.33**†	<a href="#"><u>Form of Amended and Restated Alliance Agreement between Continental Airlines, Inc. and Compañía Panameña de Aviación, S.A.</u></a>
10.34**	<a href="#"><u>Form of Amended and Restated Services Agreement between Continental Airlines, Inc. and Compañía Panameña de Aviación, S.A.</u></a>
10.35**	<a href="#"><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></a>
10.36**	<a href="#"><u>Form of Guaranteed Loan Agreement</u></a>
10.37**	<a href="#"><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></a>
10.38**	<a href="#"><u>Form of Copa Holdings, S.A. 2005 Stock Incentive Plan</u></a>
10.39**	<a href="#"><u>Form of Copa Holdings, S.A. Restricted Stock Award Agreement</u></a>
10.40*	<a href="#"><u>Form of Indemnification Agreement with the Registrant's directors</u></a>
10.41**	<a href="#"><u>Form of Amended and Restated Trademark License Agreement between Continental Airlines, Inc. and Compañía Panameña de Aviación, S.A.</u></a>
10.42*†	<a href="#"><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></a>
10.43*†	<a href="#"><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></a>
10.44*†	<a href="#"><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></a>
10.44 (2006)†	<a href="#"><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></a>
10.45*†	<a href="#"><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></a>
10.45 (2006)†	<a href="#"><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></a>
10.46 (2006)†	<a href="#"><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></a>
10.47 (2007)†	<a href="#"><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></a>
10.48 (2007)†	<a href="#"><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></a>
10.49 (2008)†	<a href="#"><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></a>
10.50 (2008)†	<a href="#"><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></a>
10.51 (2009)†	<a href="#"><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></a>
10.52 (2009)†	<a href="#"><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></a>

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10.53 (2009)†	<a href="#"><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></a>
10.54 (2010)†	<a href="#"><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></a>
10.55 (2010)†	<a href="#"><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></a>
10.56 (2010)†	<a href="#"><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></a>
10.57 (2011)†	<a href="#"><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></a>
10.58 (2012)†	<a href="#"><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></a>
10.62 (2017) †	<a href="#"><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></a>
12.1	<a href="#"><u>Certification of the Chief Executive Officer, pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934.</u></a>
12.2	<a href="#"><u>Certification of the Chief Financial Officer, pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934.</u></a>
13.1	<a href="#"><u>Certification of Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
13.2	<a href="#"><u>Certification of the Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
21.1**	<a href="#"><u>Subsidiaries of the Registrant</u></a>
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.
†	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 8, 2020

Consolidated Financial Statements

**Copa Holdings, S. A. and Subsidiaries**

*Year ended December 31, 2019*

*with Report of the Independent Registered Public Accounting Firm*

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## Report of the Independent Registered Public Accounting Firm

To the Board of Directors and 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, 2019 and 2018, 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, 2019 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, 2019 and 2018, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, 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 of December 31, 2019, 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 8, 2020 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.

### Material Uncertainty Related to Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 29 to the financial statements, as a result of the effects of COVID-19 global pandemic in March 2020 the Company and the entire aviation industry began to experience a significant drop in the demand for air travel, as evidenced by a significant reduction in forward sales over the next few months. In addition, several countries have either prohibited flights to their countries or imposed significant travel restrictions. On March 19, 2020 the Republic of Panama suspended all international passenger flights in Tocumen International Airport, where the Company's hub is located, for a period of 30 days in response to the virus. As a result of the government's decision the Company was compelled to suspend all its operations in the near term. These actions, which are largely outside the control of the Company, raise substantial doubt about the Company's ability to continue as a going concern. In response, the Company has accessed additional sources of liquidity, deferred capital expenditures, and is seeking various vendor relief. Management's plans in regard to these matters are further described in Note 29. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

**Adoption of IFRS 16 – Leases**

<i>Description of the Matter</i>	<p>Under IFRS 16 – Leases, the lessee is required to recognize the present value of future lease payments as a right-of-use asset and a corresponding financial liability.</p> <p>The Company adopted IFRS 16 under the full retrospectively approach, which required the initial assessment of all lease contracts from the beginning of the contracts and the restatement of each prior reporting period presented. As described in Note 5 to the consolidated financial statements, the initial application of IFRS 16 resulted in the recognition of a US\$384 million right of use asset and a US\$397 million lease liability as of December 31, 2017.</p> <p>Auditing the adoption of IFRS 16 was complex as it involved evaluating significant judgments and assumptions applied by Management in calculating the incremental borrowing rate, assessment of the contracts to determine if are lease, determining the lease term, assessing the leased aircraft’s return obligations that are not utilization based and the determination of the components of the right of use asset.</p>
<i>How We Addressed the Matter in Our Audit</i>	<p>We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company’s IFRS 16 adoption process including controls over management’s review of the significant assumptions described above, the data inputs used by the Company in the calculations of right of use assets and lease liabilities and the recording of the balances in the financial statements.</p> <p>To test the completeness and accuracy of the underlying data used to calculate the right of use asset and lease liability our procedures included, among others, comparing the leases’ terms and conditions as per the contracts to the data used in the calculation and comparing the leases included in the adoption analysis to the leases included in the total prior period lease expense to determine whether any agreements were omitted.</p> <p>To test the assumptions used in the model our procedures included, among others, testing the componentization of the leased aircraft, principally consisting of maintenance related components, and its useful lives by comparing them with the historical componentization of owned aircraft in the same fleet and evaluating the basis to determine the costs of the return obligations that are not utilization based and the useful lives. Further, we involved our specialists to assist in evaluating management’s methodology for determining the incremental borrowing rate (e.g., adjustments for collateral and lease term). We clerically tested the Company’s calculations to determine the right-of-use asset and lease liability as of January 1, 2017, December 31, 2017, December 31, 2018 and December 31, 2019.</p> <p>In addition, we compared the Company’s disclosures related to the adoption of IFRS 16 to the disclosure requirements in IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors and in IFRS 16.</p>

**Provision for Return Conditions**

<i>Description of the Matter</i>	<p>As described in Note 4 to the consolidated financial statements, the Company records a provision in accordance IAS 37 – Provisions, Contingent Liabilities and Contingent Assets to accrue for the expected cost that will be incurred to return aircrafts to their lessors in an agreed-upon condition. These payments are generally owed at the end of the lease term and represent a restoration obligation incurred over the lease term</p>
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as the aircraft and engines are utilized. The provision is based on the net present value of the estimated costs of returning the aircraft and is accrued during the term of the lease. These costs are reviewed annually and adjusted as appropriate. Changes in estimates between the provision balance and the expected costs are adjusted prospectively with any final difference recorded in the period when the aircraft is returned. As of December 31, 2019, the Company's provision for return conditions totaled US\$133 million.

Auditing this provision is a Critical Audit Matter because of the subjectivity and complexity of the required assumptions applied in the model used by the Company, including estimates of future maintenance costs, determination of an appropriate discount rate, application of inflation rates and operational estimates of aircraft utilization. Other key inputs include flight hours and flight cycles, route increases, entry of new aircraft, lease extensions and actual aircraft return costs.

*How We  
Addressed the  
Matter in Our  
Audit*

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's return condition estimation process. We tested controls over management's review of the expected return cost and discount rate calculation, the other significant assumptions and the data inputs outlined above that are used in the calculation.

To test the provision for return condition, we involved a valuation specialist to assist in the review of the discount rate. Our audit procedures included, among others, evaluating the methodology and the significant assumptions used, the review of the accuracy and completeness of the lease contract population and underlying data used by Management to calculate the return cost. We tested the inputs used in the calculation, including historical return costs incurred, and specified return conditions, discount rate, escalation rate based on contractual terms, leased aircraft return date and return condition requirements, including minimum flight hours and flight cycles (each established in the lease contracts), and the actual utilization reports from the Company's aircraft maintenance system records.

We compared the assumptions used by management to historical data and evaluated the change in the provision for return conditions from prior years in relation to changes in return costs and discount rates. In addition, we independently recalculated the discount rate as of December 31, 2019 and we compared our results with the Company's calculations.

***Frequent Flyer Deferred Revenue***

*Description of  
the Matter*

The Company's frequent flyer deferred revenue totaled US\$80 million as of December 31, 2019. As described in Note 3 to the consolidated financial statements, when a passenger elects to receive Copa's frequent flyer miles in connection with a flight, the Company recognizes a portion of the revenue related to the flight performance obligation when the air transportation is provided and defers a portion of the revenue (frequent flyer deferred revenue) representing the value of the related miles as a separate performance obligation. To determine the amount of revenue to be deferred, the Company estimates the selling price of miles. The selling price is based on an equivalent weighted average ticket value, which incorporates the expected redemption of miles including factors such as breakage (i.e., miles sold that will not be redeemed for an award before they expire) and other important redemption attributes such as cabin class, geographic region and redemptions on other airlines. The Company also sells miles to non-airline businesses with which it has marketing agreements. The portion of the revenue from these contracts that represents a mileage performance obligation is also deferred as frequent flyer deferred revenue.

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To estimate breakage the Company uses a statistical model that incorporates the internal historical redemption data as well as industry patterns. However, considering Copa's frequent flyer program was established in 2015, its historical redemption data is limited. Changes in the estimated breakage and estimated selling price of miles are applied on a prospective basis. The initial estimate of breakage is established at the time the miles are sold, but the expected breakage on outstanding miles is updated annually along with the estimated fair value of the miles sold. The Company engages a specialist to assist in the performance of the breakage calculation.

Auditing the breakage and fair value of the miles in the frequent flyer program is a Critical Audit Matter due to the complexity of the models used and the subjectivity of the assumptions applied as described above.

### *How We Addressed the Matter in Our Audit*

We obtained an understanding, evaluated the design and tested the controls that address the risks of material misstatement relating to the measurement and valuation of the frequent flyer program deferred revenue. We tested controls over management's review of the fair value and breakage calculations including the data inputs used for the calculation.

To test the fair value of miles, our procedures included evaluating the model used by management and the significant assumptions applied to determine the average fare, breakage and the number of miles required for each redemption category. We also tested the completeness and accuracy of the underlying data used by the Company.

In addition, to test the estimated miles that will expire without use, our procedures included evaluating the methodology used and the assumptions applied, including whether the historical redemption data used in the model is representative of future redemption behavior. We also evaluated the competence of management's specialist. To test the completeness and accuracy of the underlying data our procedures included a review of the actual redemptions made from program inception to 2019.

### ***Classification of Embraer Fleet as Held for Sale***

### *Description of the Matter*

As described in Note 13 to the consolidated financial statements, in November 2019, the Company announced its decision to accelerate the exit of its remaining 14 Embraer 190 aircraft and related spare parts, expendables and supplies in the near term. As a result of this decision the Company reclassified the Embraer fleet and spare parts, expendables and supplies to assets held for sale and recognized an impairment of US\$89 million upon measuring the assets at the lower of their carrying amount and fair value less cost to sell.

The Company determined the fair value of the aircraft (including engines) by reference to values established in a preliminary agreement with a potential buyer and confirmed the reasonableness of those amounts by reference to published sources and prior sales occurring during 2019. The Company engaged a specialist to assist in the performance of the fair value calculation of the spare parts, expendables and supplies.

Auditing the classification of the Embraer fleet as held for sale is a Critical Audit Matter due to the high degree of subjectivity applied by the Company to determine whether the assets meet the definition of held for sale and to measure the fair value less cost to sell of the aircraft and related spare parts, expendables and supplies.



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<i>How We Addressed the Matter in Our Audit</i>	<p>We obtained an understanding, evaluated the design and tested the controls that address the risks of material misstatement relating to the measurement of the impairment of non-financial assets. We tested controls over management's review of the fair value and cost to sell calculations including the data inputs used for the calculation.</p> <p>Our substantive audit procedures included, among others, evaluating management's efforts to complete the sale within one year from the date of classification to held for sale, including consideration of the fleet replacement plan. We compared the fair value of the aircraft to the preliminary agreement and prices from public sources and previous sales activity. We tested the assumptions applied to determine the fair value of the spare parts, expendables and supplies from the range of values determined by management's specialists. We also tested the accuracy and completeness of the underlying data used to determine the impairment loss. Further, we evaluated the competence of management's specialist involved in determining the fair value of the spare parts, expendables and supplies.</p>
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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 8, 2020

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

	Notes	2019	2018 Restated*	2017 Restated*
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	8	\$ 158,732	\$ 156,158	\$ 238,792
Investments	9	692,403	566,200	705,108
Accounts receivable	10,23	129,781	116,054	115,641
Expendable parts and supplies	11	69,100	86,530	81,825
Prepaid expenses	12	49,034	70,237	41,564
Prepaid income tax		1,181	10,357	—
Other current assets	17	14,206	14,056	11,701
		1,114,437	1,019,592	1,194,631
Asset held for sale	13	120,006	40,330	—
		1,234,443	1,059,922	1,194,631
<b>Non-current assets</b>				
Investments	9	134,347	138,846	65,953
Accounts receivable	10	2,139	1,177	2,444
Prepaid expenses	12	17,743	25,637	26,130
Property and equipment	13	2,532,402	2,698,131	2,614,216
Right of use assets	14	290,843	361,993	384,350
Net pension asset	15	249	5,091	3,185
Intangible assets	16	108,116	101,168	81,115
Deferred tax assets	22	19,215	16,041	19,099
Other non-current assets	17	17,881	33,899	31,140
		3,122,935	3,381,983	3,227,632
<b>Total assets</b>		<b>\$ 4,357,378</b>	<b>\$ 4,441,905</b>	<b>\$ 4,422,263</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
Current maturities of long-term debt	18	\$ 117,238	\$ 311,965	\$ 298,462
Current portion of lease liability	14	97,732	102,452	106,950
Trade, other payables and financial liabilities	19,23	133,502	140,239	129,961
Air traffic liability	7.2	497,374	471,676	477,168
Frequent flyer deferred revenue	7.2	35,120	30,342	17,197
Taxes and interest payable		51,611	44,749	70,077
Accrued expenses payable	20	55,373	47,390	61,278
Income tax payable		9,683	—	3,700
		997,633	1,148,813	1,164,793
<b>Non-current liabilities</b>				
Long-term debt	18	938,183	975,283	876,119
Lease liability	14	206,832	273,231	290,056
Frequent flyer deferred revenue	7.2	45,206	37,472	33,115
Other long-term liabilities	21	191,221	161,572	154,777
Deferred tax liabilities	22	43,397	48,940	52,465
		1,424,839	1,496,498	1,406,532
<b>Total liabilities</b>		<b>2,422,472</b>	<b>2,645,311</b>	<b>2,571,325</b>
<b>Equity</b>				
Issued capital	24			
Class A common stock - 33,835,747 (2018 -33,816,276) shares issued 31,337,856 (2018 - 31,257,686) outstanding		21,142	21,087	21,038
Class B common stock - 10,938,125 (2018 - 10,938,125) shares issued and outstanding, no par value		7,466	7,466	7,466
Additional paid in capital		86,135	80,041	72,945
Treasury stock		(136,388)	(136,388)	(136,388)
Retained earnings		1,965,179	1,828,615	1,889,765
Accumulated other comprehensive loss		(8,628)	(4,227)	(3,888)
<b>Total equity</b>		<b>1,934,906</b>	<b>1,796,594</b>	<b>1,850,938</b>
Commitments and contingencies	27	—	—	—
<b>Total liabilities and equity</b>		<b>\$ 4,357,378</b>	<b>\$ 4,441,905</b>	<b>\$ 4,422,263</b>

\* See in note 5

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>2019</u>	<u>2018</u> <u>Restated*</u>	<u>2017</u> <u>Restated*</u>
<b>Operating revenue</b>				
Passenger revenue		\$ 2,612,605	\$ 2,587,389	\$ 2,444,251
Cargo and mail revenue		62,460	62,483	55,290
Other operating revenue		32,343	27,755	22,245
	7	<u>2,707,408</u>	<u>2,677,627</u>	<u>2,521,786</u>
<b>Operating expenses</b>				
Fuel		696,249	765,781	572,746
Wages, salaries, benefits and other employees' expenses		450,439	443,287	415,147
Passenger servicing		102,103	104,346	99,447
Airport facilities and handling charges		181,959	186,422	171,040
Sales and distribution		210,623	210,158	200,256
Maintenance, materials and repairs		127,562	110,710	131,181
Depreciation and amortization	13,14,16	282,080	276,563	277,523
Impairment of non financial assets	13	89,344	188,624	—
Flight operations		102,806	108,437	101,647
Other operating and administrative expenses		118,090	123,737	114,415
		<u>2,361,255</u>	<u>2,518,065</u>	<u>2,083,402</u>
Operating profit		346,153	159,562	438,384
<b>Non-operating (expense) income</b>				
Finance cost	14,18	(57,432)	(50,825)	(51,096)
Finance income	18	24,405	23,628	17,939
(Loss) Gain on foreign currency fluctuations		(15,408)	(9,398)	6,218
Net change in fair value of derivatives		—	—	2,801
Other non-operating expense		(4,279)	(239)	(2,337)
		<u>(52,714)</u>	<u>(36,834)</u>	<u>(26,475)</u>
Profit before taxes		293,439	122,728	411,909
Income tax expense	22	(46,437)	(34,530)	(49,310)
Net profit		<u>\$ 247,002</u>	<u>\$ 88,198</u>	<u>\$ 362,599</u>
<b>Earnings per share</b>				
Basic and diluted	26	<u>\$ 5.81</u>	<u>\$ 2.08</u>	<u>\$ 8.55</u>

\* See in note 5

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>2019</u>	<u>2018</u> <u>Restated*</u>	<u>2017</u> <u>Restated*</u>
<b>Net profit</b>	<b>\$ 247,002</b>	<b>\$ 88,198</b>	<b>\$ 362,599</b>
<b>Other comprehensive loss</b>			
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods -			
Remeasurement of actuarial loss, net of amortization	(4,401)	(339)	(2,016)
<b>Total comprehensive income for the year</b>	<b>\$ 242,601</b>	<b>\$ 87,859</b>	<b>\$ 360,583</b>

\* See in note 5

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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					
<b>At January 1, 2017 (restated)</b>		31,112,356	10,938,125	\$ 20,988	\$ 7,466	\$ 64,986	\$(136,388)	\$ 1,673,509	\$ (1,872)	1,628,689
Adjustment on initial application of IFRS 16	5	—	—	—	—	—	—	(39,551)	—	(39,551)
<b>At January 1, 2017 (restated)</b>		31,112,356	10,938,125	\$ 20,988	\$ 7,466	\$ 64,986	\$(136,388)	\$ 1,633,958	\$ (1,872)	\$ 1,589,138
Net profit		—	—	—	—	—	—	362,599	—	362,599
Other comprehensive loss		—	—	—	—	—	—	—	(2,016)	(2,016)
Issuance of stock for employee awards		62,224	—	42	—	(42)	—	—	—	—
Share-based compensation expense		—	—	—	—	7,422	—	—	—	7,422
Dividends paid		—	—	—	—	—	—	(106,792)	—	(106,792)
Share options exercised		11,061	—	8	—	579	—	—	—	587
<b>At December 31, 2017 (restated)</b>		31,185,641	10,938,125	\$ 21,038	\$ 7,466	\$ 72,945	\$(136,388)	\$ 1,889,765	\$ (3,888)	\$ 1,850,938
Adjustment on initial application of IFRS 9	28.3	—	—	—	—	—	—	(1,744)	—	(1,744)
Net profit		—	—	—	—	—	—	88,198	—	88,198
Other comprehensive loss	15	—	—	—	—	—	—	—	(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)
<b>At December 31, 2018 (restated)</b>		31,257,686	10,938,125	\$ 21,087	\$ 7,466	\$ 80,041	\$(136,388)	\$ 1,828,615	\$ (4,227)	\$ 1,796,594
Net profit		—	—	—	—	—	—	247,002	—	247,002
Other comprehensive loss		—	—	—	—	—	—	—	(4,401)	(4,401)
Issuance of stock for employee awards		80,170	—	55	—	(55)	—	—	—	—
Share-based compensation expense	25	—	—	—	—	6,149	—	—	—	6,149
Dividends paid	24	—	—	—	—	—	—	(110,438)	—	(110,438)
<b>At December 31, 2019</b>		<u>31,337,856</u>	<u>10,938,125</u>	<u>\$ 21,142</u>	<u>\$ 7,466</u>	<u>\$ 86,135</u>	<u>\$(136,388)</u>	<u>\$ 1,965,179</u>	<u>\$ (8,628)</u>	<u>\$ 1,934,906</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)**

	<u>Notes</u>	<u>2019</u>	<u>2018</u> <u>Restated*</u>	<u>2017</u> <u>Restated*</u>
<b>Operating activities</b>				
Net profit		\$ 247,002	\$ 88,198	\$ 362,599
Adjustments for:				
Income tax expense		46,437	34,530	49,310
Finance cost	18	57,432	50,825	51,096
Finance income	18	(24,405)	(23,628)	92,260
Depreciation and amortization	13,14,16	282,080	276,563	167,324
Impairment of non financial assets		89,344	188,624	—
Disposal of assets		3,850	3,746	3,316
Impairment of financial assets	10	483	1,409	879
Allowance for obsolescence of expendable parts and supplies		164	159	182
Derivative instruments mark to market		—	—	(2,801)
Share-based compensation expense	25	6,149	7,145	7,422
Net foreign exchange differences		45,086	42,536	26,581
Change in:				
Accounts receivable		(17,054)	(3,150)	(3,534)
Accounts receivable from related parties	10	76	95	181
Other current assets		15,653	(50,241)	26,018
Other assets		20,678	(5,669)	(1,012)
Accounts payable		(2,984)	8,270	20,313
Accounts payable from related parties	19	(587)	2,584	4,199
Air traffic liability		25,698	(5,492)	77,372
Frequent flyer deferred revenue		12,512	17,502	13,630
Other liability		48,400	(24,515)	27,355
Cash from operating activities		856,014	609,491	922,690
Income tax paid		(42,999)	(38,698)	(51,077)
Interest paid		(52,234)	(49,317)	(50,342)
Interest received		24,102	21,537	14,235
Net cash from operating activities		784,883	543,013	835,506
<b>Investing activities</b>				
Acquisition of investments		(711,045)	(711,840)	(854,119)
Proceeds from redemption of investments		589,602	775,504	567,007
Advance payments on aircraft purchase contracts and other		(75,428)	(216,732)	(191,315)
Reimbursement of advance payments on aircraft purchase contracts		48,262	152,651	28,888
Acquisition of property and equipment		(62,397)	(118,997)	(109,945)
Proceeds from sale of property and equipment		43,603	—	6
Acquisition of intangible assets	16	(25,465)	(30,182)	(18,681)
Net cash used in investing activities		(192,868)	(149,596)	(578,159)
<b>Financing activities</b>				
Proceeds from new borrowings	18	95,000	225,000	147,798
Payments on loans and borrowings	18	(426,827)	(401,333)	(246,349)
Payment of lease liability	14	(103,069)	(106,254)	(108,174)
Dividends paid		(110,438)	(147,604)	(106,792)
Proceeds from exercise of share options		—	—	587
Net cash used in financing activities		(545,334)	(430,191)	(312,930)
Net increase (decrease) in cash and cash equivalents		46,681	(36,774)	(55,583)
Cash and cash equivalents at January 1		156,158	238,792	331,687
Effect of exchange rate change on cash		(44,107)	(45,860)	(37,312)
Cash and cash equivalents at December 31		<u>\$ 158,732</u>	<u>\$ 156,158</u>	<u>238,792</u>

\* See note 5

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

## 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.

Copa Colombia operates “Wingo” a brand under a 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 currently flights to 22 destinations, 6 domestic and 16 international, in 10 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 361 daily scheduled flights to 80 destinations in 33 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 Airlines 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.

Copa Airlines has the loyalty program “ConnectMiles”, designed to strengthen the relationship with its frequent flyers and provide exclusive attention. ConnectMiles members are eligible to earn and redeem miles to any of Star Alliance’s 1,300 (unaudited) destinations in 195 countries within 26 airlines members (unaudited).

As of December 31, 2019, the Company operates a fleet of 102 aircraft with an average age of 9.2 years, and consists of 68 Boeing 737-800 Next Generation aircraft, 14 Boeing 737-700 Next Generation aircraft, and 14 Embraer E190 aircraft.

On March 2019, the Federal Aviation Administration (FAA) grounded all U.S. registered Boeing 737 MAX aircraft an action that was followed by most of the world’s aviation regulators, including Panamanian aviation regulators. The Company’ grounded fleet currently includes 6 Boeing 737 MAX aircraft, in addition the Company have 65 aircraft on order (see note 27).

As of December 31, 2019 the Company has an investment in MAX aircraft (measured at net book value) of \$786.2 million, which included deposits made for future purchases of \$463.3 million.

## **COPA HOLDINGS, S. A. AND SUBSIDIARIES**

### Notes to the consolidated financial statements

The Company is currently in negotiations with Boeing over compensation for the damages that its have suffered as a result of the MAX grounding and expect those to be satisfactory resolved in the near term.

As part of its plan to increase efficiencies, the Company has decided to further accelerate the exit of its Embraer E190 fleet and is planning to sell the remaining 14 aircraft over the next year. However, the Company may enter into short term sale leasebacks to meet operating demand. As of December 31, 2019 the Embraer E190 fleet was classified as “Asset held for sale” in the consolidated statement of financial position (see note 13).

The consolidated financial statements for the year ended December 31, 2019 have been authorized for issuance by the Company’s Chief Executive Officer and Chief Financial Officer on April 8, 2020.

## **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.



**COPA HOLDINGS, S. A. AND SUBSIDIARIES**

Notes to the consolidated financial statements

**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.

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:

<u>Name</u>	<u>Country of Incorporation</u>	<u>Ownership interest</u>	
		<u>2019</u>	<u>2018</u>
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.

## COPA HOLDINGS, S. A. AND SUBSIDIARIES

### Notes to the consolidated financial statements

#### (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.

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 is 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 redeemed and ancillaries revenues associated 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, 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 using its historical experience with refundable and nonrefundable expired tickets and other facts. Revenue is recognized for tickets that are expected not to be used. A year after the sales is made, actual ticket breakage is removed from "Air Traffic liability" 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, reduces its "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.

## **COPA HOLDINGS, S. A. AND SUBSIDIARIES**

### Notes to the consolidated financial statements

Denied boarding compensation made to customers for voluntarily or involuntarily denied boarding reduces revenue when the voucher is issued to the passenger.

- Frequent flyer program

The Company's frequent flyer program objective, is to reward customer loyalty. Members in this program earn miles for travel on Copa Airlines, Star Alliance partners' airlines, and also by purchasing the goods and services of the Company network of non-airline partners and co-branded credit cards. The miles or points earned can be exchanged for flights on Copa or any of other Star Alliance partners' airlines.

Passenger revenue includes flights redeemed under our frequent flyer program.

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 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 at least 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 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 are 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.

## COPA HOLDINGS, S. A. AND SUBSIDIARIES

### Notes to the consolidated financial statements

#### **Other operating revenue**

Other operating revenue includes revenue associated with the marketing component of the frequent flyer program. This revenue is comprised of the marketing component of mileage sales to co-branded card, 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 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 is related to 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 accounts 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. Accounts 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.

## COPA HOLDINGS, S. A. AND SUBSIDIARIES

### Notes to the consolidated financial statements

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.

#### (ii) Subsequent measurement

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.

## COPA HOLDINGS, S. A. AND SUBSIDIARIES

### Notes to the consolidated financial statements

#### 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

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.

## COPA HOLDINGS, S. A. AND SUBSIDIARIES

### Notes to the consolidated financial statements

#### (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.

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 accounts 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.

## COPA HOLDINGS, S. A. AND SUBSIDIARIES

### Notes to the consolidated financial statements

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 asset is written off when there is 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
- 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.



## COPA HOLDINGS, S. A. AND SUBSIDIARIES

### Notes to the consolidated financial statements

#### (iii) Derecognition

Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as 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.

#### **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.

## COPA HOLDINGS, S. A. AND SUBSIDIARIES

### Notes to the consolidated financial statements

- 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, 2019 and 2018, the Company does not have financial instruments designated under hedge accounting.

#### ***(g) Impairment of non - 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.

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 under "Impairment of non financial assets" in the consolidated statement of profit or loss.

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.

**COPA HOLDINGS, S. A. AND SUBSIDIARIES**

## Notes to the consolidated financial statements

**(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.

The Company recognizes the depreciation on a straight-line basis, which for some aircraft components is akin to depreciation based on use, over the estimated useful life 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.

<u>Property and equipment</u>	<u>Estimate useful life (years)</u>	<u>Residual Value</u>
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	—

(\*) Excluding the Embraer 190 fleet, see note 13.

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 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 remaining value of the previously capitalized maintenance or the right-of-use asset ("ROU") component if any, is charged to expense upon completion of the subsequent maintenance event.

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.

## COPA HOLDINGS, S. A. AND SUBSIDIARIES

### Notes to the consolidated financial statements

#### **(k) Leases**

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract, conveys the right to control the use of an identified asset, the Company assesses whether:

- The Company has the right to obtain substantially all of the economic benefits from use of the identified asset; and
- The Company has the right to direct the use of the identified asset.

#### **The Company as a lessee**

At the commencement date, the Company recognizes a ROU and a lease liability.

The ROU is measured at cost and comprises:

- the amount of the initial measurement of the lease liability,
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Company incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

The ROU is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the ROU or component, or lease term. The estimated useful life of ROU is determined of the same basis of owned property and equipment.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. In this regard, the Company applies the following, by class of underlying asset:

- for the leases of real estate, the Company has elected to separate non-lease components.
- for aircraft leases, the value of major maintenance inspection or overhaul embedded in the aircraft is recognized as a separated component and is depreciated over the estimated time period until the first maintenance event is performed or the remaining life of lease term (as appropriate) which ever is shorter.

The lease liability, is initially measured at the present value of the lease payments that are not paid at that date, discounted using the interest rate implicit in the lease, if that rate can be readily determined or the lessee's incremental borrowing rate.

## COPA HOLDINGS, S. A. AND SUBSIDIARIES

### Notes to the consolidated financial statements

The lease payments included in the measurement of the lease liability comprise:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Variable lease payments that do not depend on an index or a rate are recognized as lease expenses in the period in which the event or condition that triggers the payment occurs, under “Other operating and administrative expenses” in the consolidated statement of profit or loss.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or a rate, if there is a change in the Company’s estimated amount expected to be payable under a residual value guarantee or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the ROU, or is recorded in profit or loss if the carrying amount of ROU has been reduced to zero.

Financing arrangements where it is certain that the asset will be purchased at the end of the lease term, are “in substance purchases” and not leases, in those cases, the related liability is considered a financial liability under IFRS 9 and the asset, as property and equipment, according to IAS 16.

The Company has elected not to recognize ROU and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term as “Other operating and administrative expenses” in the consolidated statement of profit or loss.

#### **The Company as lessor**

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 as part of other operating revenue.

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.

## COPA HOLDINGS, S. A. AND SUBSIDIARIES

### Notes to the consolidated financial statements

#### *(I) 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 CGU's 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 life 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 life 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.

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

- Licenses and software rights

## COPA HOLDINGS, S. A. AND SUBSIDIARIES

### Notes to the consolidated financial statements

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 life (from three to eight years) and the amortization is recognized in the consolidated statement of profit or loss. Costs associated with 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 life (from five to fifteen years).

#### **(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 arises 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.

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.

## COPA HOLDINGS, S. A. AND SUBSIDIARIES

### Notes to the consolidated financial statements

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.

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.

#### **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, such amounts are not include 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.



## COPA HOLDINGS, S. A. AND SUBSIDIARIES

### Notes to the consolidated financial statements

#### **(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 aircraft leases, the Company is contractually obliged to return the aircraft in a defined condition. The Company accrues a provision for return conditions which are based on the usage of leased aircraft throughout the duration of the lease.

Return conditions 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 adjustments, if any are recognized prospectively over the remaining lease term.

#### **(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 comprises 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).

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

## COPA HOLDINGS, S. A. AND SUBSIDIARIES

### Notes to the consolidated financial statements

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.

#### **(q) 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.

#### **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:

## **COPA HOLDINGS, S. A. AND SUBSIDIARIES**

### Notes to the consolidated financial statements

- Leases

The Company enters into contracts for the use of the aircraft and real estate which include, airport and terminal facilities, sales offices, maintenance facilities, and general offices. The Company assesses, based on the terms and conditions of the arrangements, whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

- Lease term

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company applies judgement in evaluating whether it is reasonably certain or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

### **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).

## COPA HOLDINGS, S. A. AND SUBSIDIARIES

### Notes to the consolidated financial statements

- 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 provision to accrue for the cost that will be incurred in order to return the lease aircraft to their lessor in the agreed-upon condition, excluded estimated dismantling costs not based on utilization of the aircraft which are included in the ROU asset and lease liability. 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. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning.

Any difference in the actual maintenance cost incurred and the amount of the provision is recorded under "Maintenance, materials and repairs" in the consolidated statement of profit or loss. The effect of any changes in estimates, including those mentioned above, is also recognized under "Maintenance, materials and repairs" 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), 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, less and estimate of the miles that will expire unused (breakage). The Company engages a specialist to assist in the performance of the breakage calculation.

- 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).

- Incremental borrowing rate for leases

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

## COPA HOLDINGS, S. A. AND SUBSIDIARIES

### Notes to the consolidated financial statements

- 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.

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.

## **COPA HOLDINGS, S. A. AND SUBSIDIARIES**

Notes to the consolidated financial statements

### **5. Adoption of new and amended standards and interpretations**

#### **IFRS 16 leases**

Except for the changes below, the Company has consistently applied the accounting policies to all periods present in these consolidated financial statement.

The Company has applied IFRS 16 with a date of initial application of 1 January 2019. As a result, the Company has changed its accounting policy for lease contracts as detailed in note 3 (k). IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 operating leases-incentives and SIC-27 Evaluating the substance of transactions involving the legal form of a lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the statement of financial position.

The Company has adopted the standard using the full retrospective approach and has restated comparatives for the 2018 and 2017 reporting periods. The details of the changes in accounting policies are disclosed below:

#### **The Company as a lessee**

Previously, the Company determined at contract inception, whether an arrangement is or contains a lease under IAS 17 and IFRIC 4 classifying leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company set up a project team which reviewed all of the Company's operating leases under IAS 17, over the new lease definition as explained in note 3(k) to classify the contracts in lease or contract services.

The Company has elected to present right-of-use assets and lease liabilities (short-term and long-term) separately in the consolidated statement of financial position. Moreover, rental expenses were previously presented under "aircraft rentals and other rentals" in the consolidated statement of profit or loss, with the adoption of IFRS 16 this caption was integrated under "Other operating and administrative expenses" which include the expense for contract services, variable lease payments, short term and low value lease.

The Company elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months, 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, photocopying machines, and others) that are considered of low value.

For leases that were not covered by the recognition exemptions under IFRS 16, the Company recognized ROU and lease liabilities measured under IFRS 16.

The main changes arising on the adoption of IFRS 16 include the capitalization of the following major classes of underlying assets previously classified as operating leases:

- **Aircraft**

As of December 31, 2019 and 2018 the Company has 29 (2017: 30) aircraft under long-term lease agreements (all previously operating leases under IAS 17) with an average lease term of 10 years. The lease term used on the IFRS 16 calculations, corresponds to the duration of the contracts signed except in cases where the Company is reasonably certain of exercising renewal options foreseen. Those long term contracts, include fix payments and variables under LIBOR and do not include residual value provisions.

## **COPA HOLDINGS, S. A. AND SUBSIDIARIES**

### Notes to the consolidated financial statements

These leases do not provide a readily determinable implicit rate, so the Company has estimated the incremental borrowing rate based on what it would have to pay to borrow over a similar term, and with a similar asset in a similar economic environment.

On ROU of lease aircraft, the Company has identified major maintenance inspection or overhaul embedded in the aircraft which has been recognized as a separated component and is depreciated over the estimated period until the first maintenance event is performed or the remaining lease term.

In addition, as part of the ROU cost as of the inception of the contract, the Company has capitalized an estimate of the costs from work required to be performed just before the redelivery of the aircraft to the lessors and which does not depend of the aircraft utilization. The related obligation is booked as a dismantling provision cost under “long term liabilities” in the consolidated statement of financial position.

- **Real estate**

The Company uses real estate assets including airport and terminal facilities, sales offices, maintenance facilities, and general offices. Contracts agreements include renewal options; a few have escalation clauses, but no purchase options. Most of the spaces in airport, are generally leased from government agencies that control the use of the airport, therefore, these agreements may include the use of non-exclusive areas where there is no dedicated asset. In other cases, although a dedicated asset exists, the lessor has an effective substitution right. As a result, in both cases the Company does not consider the existence of a lease contract.

Expenses related to the use of airports facilities outside the scope of IFRS 16 are recognized under “Other operating and administrative expenses” in the consolidated statement of profit or loss.

The Company has capitalized lease contracts concerning lounges and maintenance hangar highly customized for Company use, and administrative and sales offices. The lease term corresponds to the not terminable period completed, if necessary, by options of renewal which are reasonably certain. The discount rate used is the incremental borrowing rate based on mortgage rates.

### **The Company as a lessor**

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Company is the lessor. As of December 31, 2019 and 2018, the Company only acts as a lessor under operating leases.

**COPA HOLDINGS, S. A. AND SUBSIDIARIES**

Notes to the consolidated financial statements

The effect of adopting IFRS 16 is, as follows:

**Impact on the consolidated statement of financial position**

(increase/(decrease))

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>			
<b>Currents assets</b>			
Prepaid expenses	\$ (3,718)	\$ (4,147)	\$ (3,857)
<b>Total currents assets</b>	(3,718)	(4,147)	(3,857)
<b>Non-currents assets</b>			
Right of use assets	290,843	361,993	384,350
<b>Total non-currents assets</b>	290,843	361,993	384,350
<b>Total assets</b>	<u>\$ 287,125</u>	<u>\$ 357,846</u>	<u>\$ 380,493</u>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade, other payables and financial liabilities	\$ (819)	\$ (791)	\$ (629)
Current portion of lease liability	97,732	102,452	106,950
Accrued expenses payable	—	—	957
<b>Total current liabilities</b>	<u>96,913</u>	<u>101,661</u>	<u>107,278</u>
<b>Non-current liabilities</b>			
Lease liability	206,832	273,231	290,056
Other long-term liabilities	24,327	23,848	24,156
<b>Total non-current liabilities</b>	<u>231,159</u>	<u>297,079</u>	<u>314,212</u>
<b>Total liabilities</b>	<u>328,072</u>	<u>398,740</u>	<u>421,490</u>
<b>EQUITY</b>			
Retained earnings	(40,894)	(40,997)	(39,551)
Net (loss) profit	(52)	103	(1,446)
<b>Total equity</b>	<u>(40,946)</u>	<u>(40,894)</u>	<u>(40,997)</u>
<b>Total liabilities and equity</b>	<u>\$ 287,126</u>	<u>\$ 357,846</u>	<u>\$ 380,493</u>



**COPA HOLDINGS, S. A. AND SUBSIDIARIES**

Notes to the consolidated financial statements

**Impact on the consolidated statement of profit or loss**

(increase/(decrease))

	2019	2018	2017
<b>Operating expenses</b>			
Maintenance, materials and repairs	\$ —	\$ (967)	\$ (967)
Depreciation and amortization	102,824	107,127	110,199
Other operating and administrative expenses	(116,828)	(120,684)	(123,586)
	(14,004)	(14,524)	(14,354)
Operating profit	14,004	14,524	14,354
<b>Non-operating (expense) income</b>			
Finance cost	(14,140)	(14,975)	(15,873)
Gain on foreign currency fluctuations	84	554	73
	(14,056)	(14,421)	(15,800)
Net (loss) profit	<u>\$ (52)</u>	<u>\$ 103</u>	<u>\$ (1,446)</u>

There is no material impact on the Company's basic or diluted earnings per share for the year ended December 31, 2018 and 2017.

**Impact on the consolidated statement of cash flows**

(increase/(decrease))

	2018	2017
<b>Operating activities</b>		
Net profit (loss)	\$ 103	\$ (1,446)
Adjustments for:		
Finance cost	14,975	15,873
Depreciation and amortization	107,127	110,199
Net foreign exchange differences	(554)	(73)
Change in:		
Other current assets	290	248
Accounts payable	(550)	(630)
Other liability	(967)	(967)
Cash from operating activities	120,424	123,204
Interest paid	(14,170)	(15,030)
Net cash from operating activities	106,254	108,174
<b>Financing activities</b>		
Payment of lease liabilities	(106,254)	(108,174)
Net cash used in financing activities	(106,254)	(108,174)

The major impact on the consolidated statement of cash flows was the reclassification from operating cash flow to financing cash flow of the repayments of lease liabilities.

## COPA HOLDINGS, S. A. AND SUBSIDIARIES

Notes to the consolidated financial statements

### Other standards issued

The following amendments and interpretations effective for annual periods beginning on or after January 1, 2019, had no impact on the company's financial statements:

IFRIC 23 *Uncertainty over income tax treatments*. The Company determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities.

Amendment to IFRS 9 *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*

Annual Improvements Cycle 2015–2017: IFRS 3 *Business combinations*, IFRS 11 *Joint arrangements*, IAS 12 *Income taxes* and IAS 23 *Borrowing costs*.

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

### 6. Standards issued but not yet effective

The new and amended 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 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.

#### 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 this amendment has a material impact on its consolidated financial statements.

#### Amendments to IAS 1 and IAS 8 - *Definition of material*

In October 2018, the IASB has issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

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These amendments should be applied for annual periods beginning on or after January 1, 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 9, IAS 39 and IFRS 7 – Interest rate benchmark reform**

In September 2019, the IASB has issued amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* that provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that InterBank Offered Rate (IBOR) reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.

These amendments should be applied for annual periods beginning on or after January 1, 2020. Earlier application is permitted. Since the Company does not have financial instruments designated under hedge accounting, the amendments will not have an impact on its consolidated financial statements.

**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, 2019, 2018 and 2017.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Passenger revenue</b>			
Passenger revenue	\$ 2,581,179	\$ 2,567,316	\$ 2,434,820
Miles redeemed	31,426	20,073	9,431
	<u>2,612,605</u>	<u>2,587,389</u>	<u>2,444,251</u>
<b>Cargo and mail revenue</b>	62,460	62,483	55,290
<b>Other operating revenue</b>			
Frequent flyer program - marketing services	22,170	16,291	13,332
Other operating revenue	10,173	11,464	8,913
	<u>32,343</u>	<u>27,755</u>	<u>22,245</u>
	<u>\$ 2,707,408</u>	<u>\$ 2,677,627</u>	<u>\$ 2,521,786</u>

**7.2 Contract balances**

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

**COPA HOLDINGS, S. A. AND SUBSIDIARIES**

Notes to the consolidated financial statements

The table below presents the changes in air traffic liability:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 471,676	\$ 477,168	\$ 399,796
Deferred of revenue	2,514,601	2,537,772	2,511,970
Recognition of revenue	(2,488,903)	(2,543,264)	(2,434,598)
Balance at end of year	<u>\$ 497,374</u>	<u>\$ 471,676</u>	<u>\$ 477,168</u>

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

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

**Frequent flyer liability**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 67,814	\$ 50,312	\$ 36,682
Deferred of revenue	43,938	37,575	23,061
Recognition of revenue	(31,426)	(20,073)	(9,431)
Balance at end of year	<u>\$ 80,326</u>	<u>\$ 67,814</u>	<u>50,312</u>
Current	35,120	30,342	17,197
Non-current	45,206	37,472	33,115
	<u>\$ 80,326</u>	<u>\$ 67,814</u>	<u>\$ 50,312</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 :

	<u>2019</u>	<u>2018</u>	<u>2017</u>
North America	\$ 857,002	\$ 826,529	\$ 740,541
Panama	630,966	536,036	501,896
Central America and the Caribbean	211,567	210,800	202,390
Brazil	279,718	284,858	328,109
Argentina	156,149	234,042	211,777
Colombia	201,887	203,411	186,315
Others South America	337,776	354,196	328,513
	<u>\$ 2,675,065</u>	<u>\$ 2,649,872</u>	<u>\$ 2,499,541</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.

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**8. Cash and cash equivalents**

	<u>2019</u>	<u>2018</u>
Checking and saving accounts	\$ 118,367	\$ 121,799
Time deposits of no more than ninety days	40,000	34,000
Cash on hand	365	359
	<u>\$ 158,732</u>	<u>\$ 156,158</u>

As of December 31, 2019 and 2018, the Company's cash and cash equivalents are free of restriction or charges that could limit its availability.

Time deposits earned interest based on rates determined by the banks in which the instruments are held, ranging between 1.71% and 1.98% for U.S. dollars investments until December 2019 (2018: between 2.45% and 2.90% for U.S. dollars investments).

**9. Investments**

	<u>2019</u>			<u>2018</u>		
	<u>Current</u>	<u>Non Current</u>	<u>Total</u>	<u>Current</u>	<u>Non Current</u>	<u>Total</u>
Time deposits	\$ 640,500	\$ 60,000	\$ 700,500	\$ 531,002	\$ 65,000	\$ 596,002
Bonds	52,573	74,634	127,207	35,895	74,367	110,262
	693,073	134,634	827,707	566,897	139,367	706,264
Allowance for expected credit losses	(670)	(287)	(957)	(697)	(521)	(1,218)
	<u>\$ 692,403</u>	<u>\$ 134,347</u>	<u>\$ 826,750</u>	<u>\$ 566,200</u>	<u>\$ 138,846</u>	<u>\$ 705,046</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 with a contractual maturity of less than 365 days, bear interest at rates ranging between 2.00% and 3.75% (2018: between 2.62% and 3.75%), and those with a contractual maturity of more than 365 have rates ranging between 3.25% and 4.38% (2018: between 3.35% and 4.38%).

The Company acquired bonds with semiannual interest payment, the interest rates of these investments ranging between 2.06% and 3.32% (2018: between 2.53% and 3.32%).

All of the investments at amortized cost are denominated in 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.

**COPA HOLDINGS, S. A. AND SUBSIDIARIES**

Notes to the consolidated financial statements

**10. Accounts receivable**

	<u>2019</u>	<u>2018</u>
Credit cards	\$ 64,596	\$ 56,446
Travel agencies and airlines clearing house	31,087	32,978
Cargo and other travel agencies	19,389	11,766
Government	8,031	6,342
Trade receivables from related parties	147	223
Other	14,250	14,533
	<u>137,500</u>	<u>122,288</u>
Allowance for expected credit losses	(5,579)	(5,057)
	<u>\$ 131,921</u>	<u>\$ 117,231</u>
Current	129,781	116,054
Non-current	2,139	1,177
	<u>\$ 131,920</u>	<u>\$ 117,231</u>

Trade receivables are non-interest bearing and have maturities between 30 to 90 days.

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

As of December 31, 2019, the Company maintains a non-current account receivable with a government institution in the amount of \$2.1 million net of the expected credit losses (2018: \$1.2 million).

The category "Other" mainly includes receivables from miles partners and employees accounts.

The movement in the allowance for expected credit losses in respect of accounts receivable during the year was as follows.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ (5,057)	\$ (3,673)	\$ (3,739)
Adjustment on initial application of IFRS 9	—	(624)	—
Balance at beginning of year under IFRS 9	<u>(5,057)</u>	<u>(4,297)</u>	<u>(3,739)</u>
Additions	(744)	(1,311)	(879)
Write-offs	222	551	945
Balance at end of year	<u>\$ (5,579)</u>	<u>\$ (5,057)</u>	<u>\$ (3,673)</u>

The information about the credit exposures is disclosed in note 28.3.

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**11. Expendable parts and supplies**

	<u>2019</u>	<u>2018</u>
Material for repair and maintenance	\$ 66,418	\$ 93,654
Other inventories	3,686	3,315
	<u>70,104</u>	<u>96,969</u>
Allowance for obsolescence	(1,004)	(10,439)
	<u>\$ 69,100</u>	<u>\$ 86,530</u>

Expendable parts and supplies recognized when used as an expense in the accompanying consolidated statement of profit or loss under “Maintenance, materials and repairs” amount to \$32.4 million, \$31.9 million and \$28.1 million, for the years ended December 31, 2019, 2018 and 2017, respectively.

As of December 31, 2019 the expendables parts and supplies related to the Embraer E190 fleet were classified as “Asset held for sale”. Impairment losses of \$11.6 millions to write-down these assets to the lower of its carrying amount and its fair value less cost to sell have been included in “Impairment of non financial assets” in the consolidated statement of profit or loss (see note 13). The Company engaged a specialist to assist in the performance of the fair value calculation of the expendables and supplies.

As of December 31, 2018, the allowance for obsolescence included \$9.6 million, recorded as impairment of non-financial assets, which was the estimated amount of Embraer inventory that was not expected to be consumed during the next 5 year remaining fleet life of the Embraer 190 fleet.

**12. Prepaid expenses**

	<u>2019</u>	<u>2018</u>
Prepaid taxes	\$ 26,164	\$ 40,504
Prepaid commissions	4,298	4,694
Prepaid rent	1,197	2,702
Prepaid insurance	1,231	2,304
Prepaid to supplier	33,887	45,670
	<u>\$ 66,777</u>	<u>\$ 95,874</u>
Current	49,034	70,237
Non-current	17,743	25,637
	<u>\$ 66,777</u>	<u>\$ 95,874</u>

Prepaid taxes include \$8.4 million of tax advance of VAT and withholdings taxes (2018: \$14.9 million). The non-current portion of prepaid expenses corresponds to \$1.3 million (2018: \$11.2 million) of advance payments of taxes which are credited to future payments from tax dividends in Panama and \$16.5 million in tax credits (2018: \$14.4 million).

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Prepaid to supplier mainly includes operating expenses related to fuel and maintenance services. As of December 31, 2019, includes \$2.0 million (2018: \$24.0 million) paid in advance to GE Engines Services, LLC, for the purpose of future maintenance services related to aircraft engines.



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Notes to the consolidated financial statements

**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
<b>Cost -</b>								
Balance at January 1, 2017	\$ 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
Transfer of pre-delivery payments	—	78,143	(78,143)	—	—	—	—	—
Additions	—	109,286	67,357	2,693	2,450	3,269	4,436	189,491
Disposals	—	(184,685)	—	(102)	(570)	(134)	(340)	(185,831)
Assets held for sale	—	(413,677)	—	—	—	—	—	(413,677)
Reclassifications	—	—	—	10	—	12,752	(12,762)	—
Balance at December 31, 2019	\$ 6,301	\$ 3,038,594	\$ 463,274	\$ 56,337	\$ 32,798	\$ 65,291	\$ 5,587	\$ 3,668,182
<b>Accumulated depreciation -</b>								
Balance at January 1, 2017	\$ —	\$ (999,461)	\$ —	\$ (31,865)	\$ (25,581)	\$ (26,179)	\$ —	\$ (1,083,086)
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	\$ —	\$ (1,097,751)	\$ —	\$ (37,016)	\$ (22,959)	\$ (31,919)	\$ —	\$ (1,189,645)
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	\$ —	\$ (1,283,740)	\$ —	\$ (40,681)	\$ (25,086)	\$ (30,561)	\$ —	\$ (1,380,068)
Depreciation for the year	—	(148,832)	—	(3,292)	(2,938)	(5,757)	—	(160,819)
Disposals	—	178,168	—	102	518	—	—	178,788
Assets held for sale	—	226,319	—	—	—	—	—	226,319
Balance at December 31, 2019	\$ —	\$ (1,028,085)	\$ —	\$ (43,871)	\$ (27,506)	\$ (36,318)	\$ —	\$ (1,135,780)
<b>Carrying amounts -</b>								
At December 31, 2017	\$ 6,301	\$ 2,154,478	\$ 413,633	\$ 11,337	\$ 4,565	\$ 18,124	\$ 5,778	\$ 2,614,216
At December 31, 2018	\$ 6,301	\$ 2,165,787	\$ 474,060	\$ 13,055	\$ 5,832	\$ 18,843	\$ 14,253	\$ 2,698,131
At December 31, 2019	\$ 6,301	\$ 2,010,509	\$ 463,274	\$ 12,466	\$ 5,292	\$ 28,973	\$ 5,587	\$ 2,532,402

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### **Flight equipment**

Flight equipment comprises aircraft, engines, aircraft components and major maintenance of own and leased aircraft.

The Company has acquired aircraft through Japanese Operating Leases with Call Option (JOLCO) arrangements. These arrangements establish semi-annual payments of obligations, and have a term of 10 years, with a purchase option at the end of the period. During 2019, 2 new aircraft Boeing 737 MAX 9 were acquired through this type of arrangements (2018: 2 Boeing 737-800 and 4 Boeing 737 MAX 9).

Aircraft with a carrying value of \$1.5 billion (include aircraft acquired through JOLCO) are pledged as collateral for the obligation of the special purpose entities as of December 31, 2019 (2018: \$1.6 billion).

In March 2019, the Federal Aviation Administration (FAA) grounded all U.S. registered Boeing 737 MAX aircraft. The Company' fleet currently includes 6 Boeing 737 MAX aircraft with an additional 65 aircraft on order (see note 27). The Company does not expect any recognition of impairment of this fleet, since there is no available evidence of obsolescence or physical damage of these assets, it has no plans to dispose of the fleet, reassess the lifetime or change the expected use of the aircraft once the FAA restriction is finalized.

The Company is currently in negotiations with Boeing over compensation for the damages that its have suffered as a result of the MAX grounding and expect those to be satisfactory resolved in the near term.

### **Purchase deposits for flight equipment**

The additions for \$67.3 million include \$75.4 million of advance payments on aircraft and engines purchase contracts made during 2019 (2018: \$216.7 million), which includes \$1.4 million of borrowing costs capitalized during the year ended December 31, 2019 (2018: \$1.4 million and 2017: \$1.8 million), and \$8.1 million of credits received on aircraft adquisition The rate used to determine the amount of borrowing costs eligible for capitalization was 3.40%, which is the interest rate of the specific borrowing (see note 18).

As of December 31, 2019 the total amount of purchase deposits for flight equipments correspond to the future purchase of MAX aircraft and engines (see note 27).

### **Other property and equipment**

During 2019, the Company capitalized as "Leasehold improvements" \$11.6 million of a new hangar located at the Tocumen International Airport.

As of December 31, 2019 and 2018 construction in progress mainly comprises remodeling projects for airport facilities and offices.

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**Assets held for sale**

During 2018, the shareholders of the Company approved the plan to sell five aircraft Embraer 190. During 2019, the Company has completed the sale of the five Embraer 190 according to the sales plan, no significant additional gain or loss was recognized.

In November, 2019 the Company announced its decision to accelerate the exit of its Embraer 190 fleet and is initiated an active program to locate a buyer to sell the remaining 14 aircraft, spare engines, spare parts and inventory by 2020. The decision responds to the continued deterioration of the Embraer 190 fleet performance and the need to grow capacity in some markets aligned with the fleet optimization plan. This anticipated exit results in impairment losses of \$89.3 million to write down the assets to the lower of its carrying amount and its fair value less cost to sell, which have been included under "Impairment of non financial assets" in the accompanying consolidated statement of profit or loss. To meet its capacity demands, the Company is evaluating entering into a short term sale leaseback of the Embraer fleet.

During 2018 the Company reassessed the Embraer 190 assets given its updated fleet plan and other considerations, as consequence the expected useful life of the Embraer 190 fleet was shortened to 5 years from the year 2019. This review over the useful live 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.

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 theses changes on the expected depreciation expense of this fleet amounts to \$0.3 million per year.

At 31 December 2019, the assets held for sale comprised the following assets:

Assets	2019	2018
Flight equipment	\$ 109,665	40,330
Expendable parts and supplies	10,341	—
	<u>\$ 120,006</u>	<u>\$ 40,330</u>

**14. Leases****The Company as a lessee**

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.

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.

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Information about leases for which the Company is a lessee is presented below:

*Right of use assets*

	<u>Aircraft</u>	<u>Real estate</u>	<u>Total</u>
<b>Balance at January 1, 2018</b>	\$ 350,517	\$ 33,833	\$ 384,350
Additions	83,389	1,381	84,770
Depreciation expense	(100,857)	(6,270)	(107,127)
<b>Balance at December 31, 2018</b>	<u>\$ 333,049</u>	<u>\$ 28,944</u>	<u>\$ 361,993</u>
Additions	23,162	8,512	31,674
Depreciation expense	(95,564)	(7,260)	(102,824)
<b>Balance at December 31, 2019</b>	<u>\$ 260,647</u>	<u>\$ 30,196</u>	<u>\$ 290,843</u>

Additions to the right-of-use assets include new leases, contract extensions ,changes in discount rate and changes in rental payments.

*Lease liabilities*

	<u>2019</u>	<u>2018</u>
<b>Current portion of lease liability</b>		
Aircraft	\$ 91,246	\$ 96,853
Real estate	6,486	5,599
	<u>\$ 97,732</u>	<u>\$ 102,452</u>
<b>Long-term lease liability</b>		
Aircraft	\$179,031	\$246,292
Real estate	27,801	26,939
	<u>\$206,832</u>	<u>\$273,231</u>
	<u>\$304,564</u>	<u>\$375,683</u>

For leases under IFRS 16 the Company recognizes a provision to estimate the costs for work required to be performed just before the redelivery of the aircraft to the lessors and which does not depend of the aircraft utilization, this provision is booked as a dismantling provision cost under “long term liabilities” in the consolidated statement of financial position. As of December 31, 2019 the total liability related to leases including the provision of dismantling amounts to \$328.9 million (2018: \$399.5 million).

Total cash outflow for leases for the years ended as December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Aircraft	\$107,610	\$ 112,707
Real estate	9,458	8,329
	<u>\$ 117,068</u>	<u>\$ 121,036</u>

As of December 31, 2019, the average incremental borrowing rate of leased aircraft is 3.57% (2018: 3.4%).

The maturity analysis of lease liabilities is disclosed in note 28.5.

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*Amounts recognized in the consolidated statement of profit or loss related to leases:*

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Depreciation and amortization</b>			
Aircraft	\$ 95,564	\$ 100,857	\$ 104,282
Real estate	7,260	6,270	5,917
	<u>\$ 102,824</u>	<u>\$ 107,127</u>	<u>\$ 110,199</u>
<b>Other operating and administrative expenses</b>			
Short-term leases	\$ 364	\$ 1,412	\$ 1,373
Leases of low-value assets	733	853	758
Variable lease payments not include in the measurement of lease liabilities	706	611	542
	<u>\$ 1,803</u>	<u>\$ 2,876</u>	<u>\$ 2,673</u>
<b>Finance cost</b>			
Aircraft	\$ 11,221	\$ 12,074	\$ 12,956
Real estate	2,073	2,105	2,151
Unwinding of discount and changes in the discount rate	846	796	766
	<u>\$ 14,140</u>	<u>\$ 14,975</u>	<u>\$ 15,873</u>
	<u>\$ 118,767</u>	<u>\$ 124,978</u>	<u>\$ 128,745</u>

Some property leases in airport contain variable payment terms that are linked to the number of passenger using the areas.

The unwinding of discount and changes in the discount rate over leased aircraft correspond to the interest expenses of the discounted dismantling provision (see note 18).

**The Company as a lessor**

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 2022. The carrying amount of the two aircraft under operating leases is up to \$37.7 million (2018: \$40.7 million).

Total lease income amounts to \$3.5 million for the period ended December 31, 2019 (2018: \$3.5 million and 2017: \$3.5 million), included under "Other operating revenue" in the accompanying consolidated statement of profit or loss.

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date

The future minimum lease receivables under non-cancellable leases are as follows:

	<u>2019</u>	<u>2018</u>
Up to one year	\$3,220	\$3,480
One to five years	5,875	1,595
Total minimum lease rental receivables	<u>\$9,095</u>	<u>\$5,075</u>

**COPA HOLDINGS, S. A. AND SUBSIDIARIES**

Notes to the consolidated financial statements

**15. Net pension assets**

	<u>2019</u>	<u>2018</u>
Pension assets	\$ 29,086	\$ 28,339
Post-employment benefits	(28,195)	(22,568)
Other employee benefits	(642)	(680)
Total employee benefits liability	<u>\$(28,837)</u>	<u>\$(23,248)</u>
Net pension asset	<u>\$ 249</u>	<u>\$ 5,091</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.

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:

<b>Year ended December 31, 2019</b>	<b>Defined benefit obligation</b>	<b>Fair value of assets</b>	<b>Defined benefit assets (liability)</b>
Current service cost	\$ 2,192	\$ —	\$ 2,192
Interest cost on net benefit obligation	887	(979)	(92)
Net benefit expense	<u>\$ 3,079</u>	<u>\$ (979)</u>	<u>\$ 2,100</u>
<b>Year ended December 31, 2018</b>	<b>Defined benefit obligation</b>	<b>Fair value of assets</b>	<b>Defined benefit assets (liability)</b>
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>
<b>Year ended December 31, 2017</b>	<b>Defined benefit obligation</b>	<b>Fair value of assets</b>	<b>Defined benefit assets (liability)</b>
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>

**COPA HOLDINGS, S. A. AND SUBSIDIARIES**

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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, 2017	\$ (16,498)	\$ 25,946	\$ (622)	\$ 8,826
Current service cost	(1,767)	—	—	(1,767)
Interest cost	(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
At 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	—	4,780	—	4,780
Benefits paid	1,242	(1,451)	—	(209)
Adjustments	—	—	(68)	(68)
As of December 31, 2018	\$ (22,568)	\$ 28,339	\$ (680)	\$ 5,091
Current service cost	(2,192)	—	—	(2,192)
Interest (cost) income	(887)	979	—	92
Experience gain (loss)	(1,681)	—	—	(1,681)
Investment return	—	138	—	138
Assumption changes	(1,874)	—	—	(1,874)
Employer contributions	—	1,903	—	1,903
Benefits paid	1,007	(1,086)	—	(79)
Adjustments	—	(1,187)	38	(1,149)
As of December 31, 2019	<u>\$ (28,195)</u>	<u>\$ 29,086</u>	<u>\$ (642)</u>	<u>\$ 249</u>

As of December 31, 2019 and 2018, plan assets are comprised totally by fixed term deposits.

For the year ended December 31, 2019 actuarial loss of 4.4 million (2018: \$0.3 million and 2017: \$2.0 million) were recognized in other comprehensive income.

As of December 31, 2019 employer contributions is a net amount of regular contributions by \$4.4 million (2018: \$4.8 million and 2017: \$3.5 million) and retirement of interest earned by \$2.5 million (2018: null and 2017: \$5.2 million).

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Economic assumptions -			
Discount rate	2.52%	3.91%	3.15%
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 2019</u>		<u>December, 31 2018</u>		<u>December, 31 2017</u>	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Discount rate (0.5% movement)	\$ 709	\$ (751)	\$ 538	\$ (569)	\$ 506	\$ (537)
Salary rate (0.5% movement)	(144)	136	(103)	93	(99)	89

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

	<u>2019</u>	<u>2018</u>
Up to one year	\$ 5,169	\$ 4,163
One to five years	14,008	12,293
Over five years	14,049	13,076
Total expected payments	<u>\$33,226</u>	<u>\$29,532</u>



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**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>	
<b>Cost -</b>				
Balance at January 1, 2017	\$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
Disposals	—	—	—	—
Reclassifications	—	16,730	(16,730)	—
Balance at December 31, 2018	\$20,380	\$ 94,124	\$ 41,632	\$ 156,136
Additions	—	8,503	16,962	25,465
Disposals	—	(86)	—	(86)
Reclassifications	—	40,660	(40,660)	—
Balance at December 31, 2019	\$20,380	\$ 143,201	\$ 17,934	\$ 181,515
<b>Amortization -</b>				
Balance at January 1, 2017	\$ —	\$ (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)
Disposals	—	—	—	—
Balance at December 31, 2018	\$ —	\$ (54,968)	\$ —	\$ (54,968)
Amortization for the year	—	(18,437)	—	(18,437)
Disposals	—	6	—	6
Balance at December 31, 2019	\$ —	\$ (73,399)	\$ —	\$ (73,399)
<b>Carrying amounts -</b>				
<b>At December 31, 2017</b>	<u>\$20,380</u>	<u>\$ 29,844</u>	<u>\$ 30,891</u>	<u>\$ 81,115</u>
<b>At December 31, 2018</b>	<u>\$20,380</u>	<u>\$ 39,156</u>	<u>\$ 41,632</u>	<u>\$ 101,168</u>
<b>At December 31, 2019</b>	<u>\$20,380</u>	<u>\$ 69,802</u>	<u>\$ 17,934</u>	<u>\$ 108,116</u>

**Goodwill**

For impairment testing, goodwill acquired through business combinations is allocated to the air transportation CGU. Goodwill is tested for impairment annually as at 30 August and when circumstances indicate that the carrying value may be impaired.

The Company considers the relationship between its market capitalization and its book value, among other factors, when reviewing for indicators of impairment. As of December 30, 2019, the market capitalization of the Company is greater than the book value of its equity, indicating goodwill is not impaired.

The recoverable amount of \$4.3 billion (2018: \$5.2 billion) has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. 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.

## COPA HOLDINGS, S. A. AND SUBSIDIARIES

### Notes to the consolidated financial statements

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, 2019 and 2018 mainly comprise the development of an operational system.

During 2019, the Company capitalized \$23.6 million of the new tickets reservation system. During 2018, the Company capitalized a \$16.7 million of a new internet booking engine, renew aircraft maintenance systems and other programs.

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Notes to the consolidated financial statements

**17. Other assets**

	<u>2019</u>	<u>2018</u>
<b>Current -</b>		
Interest receivable	\$12,838	\$12,534
Other	1,368	1,522
	<u>14,206</u>	<u>14,056</u>
<b>Non-current -</b>		
Guarantee deposits	4,121	20,015
Deposits for litigation	10,548	10,672
Other	3,212	3,212
	<u>17,881</u>	<u>33,899</u>
	<u>\$32,087</u>	<u>\$47,955</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**

	<u>2019</u>		
	<u>Due through</u>	<u>Effective rates ranged</u>	<u>Carrying Amount</u>
Long-term fixed rate debt	2029	1.49% to 4.90%	732,657
Long-term variable rate debt	2029	2.15% to 3.50%	322,764
			<u>1,055,421</u>
Current maturities			(117,238)
Long-term debt			<u>\$ 938,183</u>
	<u>2018</u>		
	<u>Due through</u>	<u>Effective rates ranged</u>	<u>Carrying Amount</u>
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
			<u>1,287,248</u>
Current maturities			(311,965)
Long-term debt			<u>\$ 975,283</u>

**COPA HOLDINGS, S. A. AND SUBSIDIARIES**

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

Year ending December 31, 2020	117,238
2021	115,965
2022	109,727
2023	88,786
2024	157,824
Thereafter	465,881
	<u>\$1,055,421</u>

As of December 31, 2019, long-term fixed rate debt included \$604.5 million (2018: \$601.3 million) and long-term variable debt included \$224.3 million corresponding to aircraft acquisitions using JOLCO arrangements (2018: \$175.5 million).

As of December 31, 2019 the Company had \$226.6 million (2018: \$297.8 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 \$128.1 million as of December 31, 2019 (2018: \$178.3 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. During 2019, the Company paid off its 2 remaining aircraft under SOAR structure, therefore there is no any outstanding balance as of December 31, 2019 (2018: \$15.0 million).

As of December 31, 2019, the Company do not have any outstanding balances related to its lines of credits (2018: \$140.0 million).

**COPA HOLDINGS, S. A. AND SUBSIDIARIES**

Notes to the consolidated financial statements

The detail of finance cost and income is as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Finance income -</b>			
Interest income on short-term bank deposits	\$ 1,432	\$ 1,670	\$ 1,499
Interest income on investment	22,973	21,958	16,440
	<u>\$ 24,405</u>	<u>\$ 23,628</u>	<u>\$ 17,939</u>
<b>Finance cost -</b>			
Interests expense on bank loans	\$(36,676)	\$(34,687)	\$(32,599)
Interest on factoring	(1,316)	(1,163)	(2,624)
Interest on lease liabilities (see note 14)	(13,294)	(14,179)	(15,107)
Other finance cost	(6,146)	(796)	(766)
	<u>\$(57,432)</u>	<u>\$(50,825)</u>	<u>\$(51,096)</u>

Changes in liabilities arising from financing activities:

	<u>2018</u>	<u>Cash flows</u>	<u>New debt</u>	<u>Non-cash transactions</u>	<u>2019</u>
Loans and borrowings	\$1,287,248	\$(426,827)	\$ 95,000	\$ 100,000	\$1,055,421
Lease liability	375,683	(103,069)	—	31,950	304,564
Dividends payable	—	(110,438)	—	—	(110,438)
Total liabilities from financing activities	<u>\$1,662,931</u>	<u>\$(640,334)</u>	<u>\$ 95,000</u>	<u>\$ 131,950</u>	<u>\$1,249,547</u>

	<u>2017</u>	<u>Cash flows</u>	<u>New debt</u>	<u>Non-cash transactions</u>	<u>2018</u>
Loans and borrowings	\$1,174,581	\$(401,333)	\$225,000	\$ 289,000	\$1,287,248
Lease liability	397,006	(106,254)	—	84,931	375,683
Dividends payable	—	(147,604)	—	—	(147,604)
Total liabilities from financing activities	<u>\$1,571,587</u>	<u>\$(655,191)</u>	<u>\$225,000</u>	<u>\$ 373,931</u>	<u>\$1,515,327</u>

The Company had non-cash additions to right-of-use asset and lease liabilities of \$31.9 million in 2019 (2018: 84.9 million).

During 2019, the Company's non-cash investing and financing transactions are comprised of \$100.0 million related to the acquisition of two new aircraft that are financed using the JOLCO structure (2018: \$289.0 million).

The Company classifies interest paid as cash flows from operating activities.

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**19. Trade, other payables and financial liabilities**

	2019	2018
Account payables	\$ 119,332	\$ 124,962
Account payables to related parties	14,086	14,673
	<u>133,418</u>	<u>139,635</u>
Others	84	604
	<u>\$ 133,502</u>	<u>\$ 140,239</u>

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

**20. Accrued expenses payable**

	2019	2018
Accruals and estimations	\$ 4,616	\$ 4,500
Labor related provisions	44,401	36,953
Liability for social security contributions	5,617	4,955
Other	739	982
	<u>\$ 55,373</u>	<u>\$ 47,390</u>

As of December 31, 2019, accruals and estimations include the estimated balance of the current portion of the provision for maintenance of \$4.6 million (2018: \$4.5 million) (see note 21).

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	Dismantling provision	Other long-term liabilities	Total
Balance at January 1, 2019	\$ 12,879	\$ 103,501	\$ 23,848	\$ 25,844	\$ 166,072
Increases	524	24,213	—	4,307	29,044
Used	(26)	—	—	(4,616)	(4,642)
Adjustment	—	—	(367)	—	(367)
Effect of movements in exchange rates	(416)	—	—	—	(416)
Unwinding of discount and changes in the discount rate	—	5,300	846	—	6,146
Balance at December 31, 2019	<u>\$ 12,961</u>	<u>\$ 133,014</u>	<u>\$ 24,327</u>	<u>\$ 25,535</u>	<u>\$ 195,837</u>
Current	—	—	—	4,616	4,616
Non-current	12,961	133,014	24,327	20,919	191,221
	<u>\$ 12,961</u>	<u>\$ 133,014</u>	<u>\$ 24,327</u>	<u>\$ 25,535</u>	<u>\$ 195,837</u>

## **COPA HOLDINGS, S. A. AND SUBSIDIARIES**

Notes to the consolidated financial statements

### **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, 2019, the aggregate amount in such account totaled \$10.4 million (2018: \$10.6 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 return conditions related to aircraft held under operating leases throughout the duration of the lease. The Company does not plan to return aircraft in 2020.

The unwinding of the discount and changes in the discount rate is expensed as incurred and recognised in the statement of profit or loss as a finance cost.

### **Dismantling provision**

For leases under IFRS 16 the Company recognizes a dismantling provision to estimate the costs for work required to be performed just before the redelivery of the aircraft to the lessors and which does not depend of the aircraft utilization.

### **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 is billed by power by the hour and charged to the consolidated statement of profit or loss. As of December 31, 2019, the provision for maintenance amounts to \$20.1 million (2018: \$22.9 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 \$3.0 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.

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**22. Income taxes**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Current taxes expense -</b>			
Current period	\$(55,847)	\$(35,258)	\$(43,034)
Adjustment for prior period	693	261	455
	<u>\$(55,154)</u>	<u>\$(34,997)</u>	<u>\$(42,579)</u>
<b>Deferred taxes expenses -</b>			
Origination and reversal of temporary differences	8,717	467	(6,731)
<b>Total income tax expense</b>	<u>\$(46,437)</u>	<u>\$(34,530)</u>	<u>\$(49,310)</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, 32%, 31% and 30% for the taxable year, 2020, 2021 and 2022, respectively according to the law N°1943 published on December 28, 2018. Deferred tax expected to reverse in the year 2020, has been measured using the effective rate that will apply in Colombia for the period (32%).

The balances of deferred taxes are as follows:

	<u>Statement of financial position</u>		<u>Statement of profit or loss</u>		
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Deferred tax liabilities</b>					
Maintenance deposits	\$(29,863)	\$(29,863)	\$ —	\$ 3,277	\$ 2,796
Prepaid dividend tax	(7,403)	(8,859)	(1,456)	(5,244)	1,671
Property and equipment	(2,896)	(7,396)	(4,500)	(2,136)	2,107
Other	(4,690)	(4,691)	(1)	641	(1,962)
Set off tax	1,455	1,869	414	(63)	2,879
	<u>\$(43,397)</u>	<u>\$(48,940)</u>	<u>\$(5,543)</u>	<u>\$(3,525)</u>	<u>\$ 7,491</u>
<b>Deferred tax assets</b>					
Provision for return conditions	\$ 10,095	\$ 7,136	\$(2,959)	\$ 723	\$ (253)
Air traffic liability	2,039	1,792	(247)	(511)	(266)
Fuel derivative	—	—	—	—	107
Other provisions	6,826	4,687	(2,139)	(271)	(272)
Tax loss	1,710	4,295	2,585	3,054	2,803
Set off tax	(1,455)	(1,869)	(414)	63	(2,879)
	<u>\$ 19,215</u>	<u>\$ 16,041</u>	<u>\$(3,174)</u>	<u>\$ 3,058</u>	<u>\$ (760)</u>
	<u>\$(24,182)</u>	<u>\$(32,899)</u>	<u>\$(8,717)</u>	<u>\$ (467)</u>	<u>\$ 6,731</u>

At December 31, 2019 the deferred tax assets include an amount of \$1.7 million (\$4.3 million at December, 2018) which relates to tax losses carried forward of Copa Colombia. During 2019, 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 two 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 \$272.5 million as of December 31, 2019 (2018: \$453.8 million).



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Reconciliation of the effective tax rate is as follows:

	<u>Tax rate</u>	<u>2019</u>	<u>Tax rate</u>	<u>2018</u>	<u>Tax rate</u>	<u>2017</u>
Net income		\$ 247,002		\$ 88,198		\$ 362,599
Total income tax expense		46,437		34,530		49,310
Profit excluding income tax		293,439		122,728		411,909
Income taxes at Panamanian statutory rates	25.0%	73,360	25.0%	30,682	25.0%	102,977
Stations - Taxable / Panama	(13.7%)	(40,205)	(19.3%)	(23,745)	(7.6%)	(31,272)
Stations - Taxable / Non Panama	2.4%	7,043	9.0%	11,052	1.6%	6,447
Stations - Non Taxable / Non Panama	(4.9%)	(14,444)	3.3%	4,106	(9.4%)	(38,684)
Dividend tax	7.2%	21,376	10.3%	12,696	2.5%	10,297
(Over) under provided in prior periods	(0.2%)	(693)	(0.2%)	(261)	(0.1%)	(455)
Provision for income taxes	<u>15.8%</u>	<u>\$ 46,437</u>	<u>28.1%</u>	<u>\$ 34,530</u>	<u>12.0%</u>	<u>\$ 49,310</u>

**23. Accounts and transactions with related parties**

	<u>2019</u>	<u>2018</u>
<b>Account receivable -</b>		
Panama Air Cargo Terminal	\$ 101	\$ 102
Banco General, S.A.	24	102
Petróleos Delta, S.A.	22	10
Editora del Caribe, S.A.	—	8
Lubricantes Delta, S.A.	—	1
	<u>\$ 147</u>	<u>\$ 223</u>
<b>Account payable -</b>		
Petróleos Delta, S.A.	\$13,330	\$12,150
Assa Compañía de Seguros, S.A.	283	2,224
Panama Air Cargo Terminal	250	53
Banco General, S.A.	151	135
Motta International, S.A.	32	48
Desarrollos Inmobiliarios del Este, S.A.	20	20
Cable Onda, S.A.	20	—
Galindo, Arias & López	—	43
	<u>\$14,086</u>	<u>\$14,673</u>

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**COPA HOLDINGS, S. A. AND SUBSIDIARIES**

Notes to the consolidated financial statements

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

Related party	Transaction	Amount of transaction 2019	Amount of transaction 2018	Amount of transaction 2017
Petróleos Delta, S.A.	Purchase of jet fuel	\$ 376,765	\$ 398,733	\$ 290,172
ASSA Compañía de Seguros, S.A.	Insurance	11,215	9,735	8,527
Panama Air Cargo Terminal	Handling	3,522	5,849	4,869
Profuturo Administradora de Fondos de Pensión y Cesantía	Payments	5,145	4,716	2,386
Desarrollo Inmobiliario del Este, S.A.	Property leasing	4,017	3,838	3,625
Motta International	Purchase	1,854	1,585	1,632
Cable Onda, S.A.	Communications	1,396	1,687	1,448
Galindo, Arias & López	Legal services	309	490	373
GBM International, Inc.	Technological support	240	231	273
Global Brands, S.A.	Purchase	108	55	79
Banco General, S.A.	Interest income	\$ (4,181)	\$ (3,781)	\$ (2,986)

*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 manages the Company's reserves for pension purposes. Also the Company has interest receivable by \$2.1 million (2018: \$1.8 million) due to short and long term time deposits in this financial institution.

*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, 2019, the Company does not maintain guarantee deposits with Petróleos Delta, S. A. (2018: \$16.1 million). 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. This contract is a lease contract under IFRS 16.

*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.

**COPA HOLDINGS, S. A. AND SUBSIDIARIES**

Notes to the consolidated financial statements

*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>2019</u>	<u>2018</u>	<u>2017</u>
Short-term employee benefits	\$4,969	\$ 6,104	\$ 5,133
Post-employment pension	95	117	99
Share-based payments	3,246	5,092	5,524
	<u>\$8,310</u>	<u>\$11,313</u>	<u>\$10,756</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 \$3.0 million established in 2006 (see note 21).

**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, 2019, the Company had 33,835,747 Class A shares issued (2018: 33,816,276 ) and 31,337,856 shares outstanding (2018: 31,257,686 ), 10,938,125 Class B shares issued and outstanding (2018: 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.

## **COPA HOLDINGS, S. A. AND SUBSIDIARIES**

### Notes to the consolidated financial statements

- 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.

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 2019, the Company paid quarterly dividends in the amount of \$0.65 per share (2018: \$0.87 per share).

### **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 factor. Between November 2014 and September 2015, the Company repurchased 2,310,492 shares for a total amount of \$136.4 million. As of December 31, 2019, the Company had \$113.6 million remaining to purchase shares under its share repurchase program.

## **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.

**COPA HOLDINGS, S. A. AND SUBSIDIARIES**

Notes to the consolidated financial statements

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 \$6.1 million, \$7.1 million, and \$7.4 million in 2019, 2018, and 2017, 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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## Notes to the consolidated financial statements

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:

<b>Grant date</b>	<b>Number of instruments</b>	<b>Vesting conditions</b>	<b>Contractual life</b>
April, 2015	4,915	15% first three anniversaries 25% fourth 30% fifth anniversary	5 years
June, 2015	5,839	15% first three anniversaries 25% fourth 30% fifth anniversary	5 years
February, 2016	147,000	15% first three anniversaries 25% fourth 30% fifth anniversary	5 years
February, 2016	63,000	Fifth anniversary	5 years
May, 2016	7,899	15% first three anniversaries 25% fourth 30% fifth anniversary	5 years
February, 2017	22,012	One-third every anniversary	3 years
February, 2017	11,980	One-third every anniversary	3 years
February, 2017	2,237	Third anniversary	3 years
February, 2018		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
February, 2019		1% first month 33% first three anniversaries	3 years
June, 2019	9,256	33% first three anniversaries	3 years
June, 2019	977	33% first three anniversaries	3 years
August, 2019	1,039	33% first three anniversaries	3 years
December, 2019	1,724	100% first anniversary	1 year

Non-vested stock awards were measured at their fair value on the grant date. For the 2019 grants, the fair value of these non-vested stock awards amounts to \$96.46 per share (2018: \$135.81).

**COPA HOLDINGS, S. A. AND SUBSIDIARIES**

## Notes to the consolidated financial statements

A summary of the non-vested stock award activity under the plan as of December 31, 2019, 2018 and 2017 with changes during these years is as follows (in number of shares):

	2019	2018	2017
Non-vested as of January 1	271,904	304,153	333,183
Granted	28,947	43,355	36,229
Vested	(80,170)	(72,045)	(62,224)
Forfeited	(9,476)	(3,559)	(3,035)
Non-vested as of December 31	<u>211,205</u>	<u>271,904</u>	<u>304,153</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 \$4.0 million (2018: \$9.8 million), with a weighted average remaining contractual life of 2.1 years (2018: 2.3 years). Additionally, the Company estimates that the 2020 compensation cost related to these plans amounts to \$3.2 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:

	2019	2018	2017
<b>Basic and diluted earnings per share -</b>			
Net income	\$247,002	\$88,198	\$362,599
Weighted-average shares outstanding	42,258	42,182	42,111
Non-vested dividend participating awards	225	274	308
	<u>42,483</u>	<u>42,456</u>	<u>42,419</u>
	<u>5.81</u>	<u>2.08</u>	<u>8.55</u>

**COPA HOLDINGS, S. A. AND SUBSIDIARIES**

Notes to the consolidated financial statements

**27. Commitments and contingencies***Purchase contracts*

As of December 31, 2019, the Company had one purchase contract with Boeing entailing sixty five (65) firm orders of Boeing 737 MAX aircraft, agreed to be delivered between 2020 and 2025. The aircraft contractual obligations net of discounts and pre-delivery payments, including estimated amounts for contractual price escalation, are as follows:

Year ending December 31, 2020	495,097
2021	567,088
2022	627,409
2023	648,753
2024	504,910
Thereafter	259,097
	<u>\$3,102,354</u>

As of December 31, 2019 the Company has paid \$468.8 million in predelivery deposits of 737 MAX aircraft.

In March 2019, the FAA issued an order to suspend operations of all Boeing 737 MAX aircraft in the U.S. and by U.S. aircraft operators. Non-U.S. civil aviation authorities also issued directives to similar effect as consequence Boeing has suspended deliveries of the Boeing 737 MAX until clearance is granted by the appropriate regulatory authorities. As result, delivery of the aircraft is subject to change which may result in certain commitments being deferred to later periods.

*Labor unions*

Approximately 61.8% of the Company's 8,877 employees are unionized. There are currently nine (9) union organizations, five (5) 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 five (5) unions covering employees in Panama include the pilots' union (UNPAC); the flight attendants' union (SIPANAB); the mechanics' union (SITECMAP), the industry union (SIELAS), which represents ground personnel, messengers, drivers, passenger service agents, counter agents, and other non-executive administrative staff, and other industry union named UGETRACA which represents ground personnel and flight attendants.

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. Copa does not have a collective bargain agreement negotiated with UGETRACA because they do not have the eligible amount of employees.

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 HOLDINGS, S. A. AND SUBSIDIARIES**

### Notes to the consolidated financial statements

Copa entered into collective bargaining with ACDAC and ACAV in January 2018. ACDAC has not yet resolved and ACAV ended with a new arbitration collective document for two years expiring in 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 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 \$25.8 million as of December 31, 2019 (2018: \$25.9 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 \$305.0 million. These lines of credit have been put in place to pre-delivery payments and for working capital purposes. As of December 31, 2019, the Company do not have any outstanding borrowings under these credit lines (2018: \$140.0 million).

#### *Tax audit*

The Company received notifications from the tax authorities in Panama and 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, 2019 and 2018, the Company did not have any outstanding fuel hedge contracts.

**COPA HOLDINGS, S. A. AND SUBSIDIARIES**

## Notes to the consolidated financial statements

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, 2019 cost per gallon of fuel. Based on projected 2020 fuel consumption, such an increase would result in an increase to aircraft fuel expense of approximately \$64.8 million in 2020 (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 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 67.3% of revenues and 81.3% of expenses. A significant part of our revenue is denominated in foreign currencies, including the Brazilian real, Colombian peso and Argentinian peso, which represented 8.7%, 8.3% and 4.8%, respectively (2018: 22.7%, 11.4% and 7.2% respectively).

Generally, the Company's exposure to most of these foreign currencies, is limited to the period of up to two weeks between the completion of a sale and the conversion to U.S. dollar. The following chart summarizes the Company's foreign currency risk exposure (assets and liabilities denominated in foreign currency) as of December 31:

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 22,818	\$ 24,123
Investments	—	2
Accounts receivable, net	73,018	68,171
Other assets	15,726	19,107
Total assets	<u>\$ 111,562</u>	<u>\$ 111,403</u>
<b>Liabilities</b>		
Accounts payable	51,313	48,501
Taxes payable	37,137	40,243
Other liabilities	18,513	20,771
Total liabilities	<u>\$ 106,963</u>	<u>\$ 109,515</u>
Net position	<u>\$ 4,599</u>	<u>\$ 1,888</u>

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

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**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 accounts receivable. IFRS 9 requires the Company to recognize an allowance for ECLs for all financial assets not held at fair value through profit or loss.

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, the Company only conducts business with financial institutions that have an investment grade above BBB- from Standard & Poor's and liquidity indicators aligning with or above the market average. For the investments in financial instruments, different from deposits in bank, the Company requires a grade above A- from Standard & Poor's.

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 monitoring 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 for the year ended December 31 was as follows:

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	\$(1,218)	\$(1,120)
Reversal/(Additions)	261	(98)
Balance at end of year	<u>\$ (957)</u>	<u>\$(1,218)</u>

*Accounts receivable*

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.

**COPA HOLDINGS, S. A. AND SUBSIDIARIES**

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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 as of December 31:

	2019					
	Total	Current	Days past due			
			<30	30-60	60-90	>90
Expected credit loss rate		0.1%	2.3%	3.7%	12.0%	33.3%
Gross carrying amount	\$ 137,500	\$ 111,779	\$ 6,170	\$ 2,786	\$ 1,636	\$ 15,129
Expected credit loss	\$ 5,579	\$ 99	\$ 141	\$ 104	\$ 196	\$ 5,039

	2018					
	Total	Current	Days past due			
			<30	30-60	60-90	>90
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

**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, 2019 and 2018, fixed interest rates range from 1.49% 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 2020 than in 2019, the interest expense would increase by approximately \$0.9 million and the fair value of the debt would decrease by approximately \$6.5 million. If interest rates average 10% less in 2020 than in 2019, the interest income from marketable securities would decrease by approximately \$0.9 million and the fair value of the debt would increase by approximately \$6.5 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, 2019.

**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).

**COPA HOLDINGS, S. A. AND SUBSIDIARIES**

Notes to the consolidated financial statements

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.

**December 31, 2019**

	Note	Carrying amount	Contractual cash flow	Less than twelve months	Between 1 and 4 years	More than 4 years
<b>Non-derivative financial liabilities</b>						
Debt	18	\$ 1,055,421	\$ 1,197,635	\$ 146,434	\$ 556,257	\$ 494,944
Lease liability	14	304,564	329,029	107,556	212,408	9,065
Account payable	19	119,332	119,332	119,332	—	—
Account payable to related parties	19	14,086	14,086	14,086	—	—
		\$ 1,493,403	\$ 1,660,082	\$ 387,408	\$ 768,665	\$ 504,009

**December 31, 2018**

	Note	Carrying amount	Contractual cash flow	Less than twelve months	Between 1 and 4 years	More than 4 years
<b>Non-derivative financial liabilities</b>						
Debt	18	\$ 1,287,248	\$ 1,465,223	\$ 348,654	\$ 529,624	\$ 586,945
Lease liability	14	375,683	407,117	114,576	277,513	15,028
Account payable	19	124,962	124,962	124,962	—	—
Account payable to related parties	19	14,673	14,673	14,673	—	—
		\$ 1,802,566	\$ 2,011,975	\$ 602,865	\$ 807,137	\$ 601,973

**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:

	2019	2018
Total debt (note 18)	\$ 1,055,421	\$ 1,287,248
Less: non-restricted cash and cash equivalents and short-term investments	(851,135)	(722,358)
Net debt	204,286	564,890
Total equity	1,934,906	1,796,594
Total capitalization	2,139,192	2,361,484
Gearing ratio	9.5%	23.9%

**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	
		2019	2018	2019	2018
<b>Financial assets</b>					
Cash and cash equivalents	8	\$ 158,732	\$ 156,158	\$ 158,732	\$ 156,158
Short-term investments	9	692,403	566,200	692,403	566,200
Account receivable	10	131,920	117,231	131,920	117,231
Long-term investments	9	134,347	138,846	155,051	138,349
<b>Financial liabilities</b>					
Debt	18	1,055,421	1,287,248	1,063,617	1,147,248
Account payable	19	133,418	139,635	133,418	139,635

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 2020, the Compensation Committee of the Company's Board of Directors approved two awards. Awards under these plans will grant approximately 50,381 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 \$5.4 million and the 2020 compensation cost for these plans will be \$2.5 million.

*Taxes*

In February 2020, the Company received two notifications from the tax authority in Panama related to a tax audit process that began in 2019. The notification includes potentially significant adjustments to the reported dividend tax for the years 2012 to 2016 and income tax 2016. The Company has filed an administrative appeal which is the first legal stage under Panamanian laws. The Company, along with its tax advisors, has concluded that it is probable that the Company's tax position will be upheld. As a result, it is not probable that the Company will incur any significant additional tax as a result. According to Panamanian laws, the statute of limitations is 3 and 15 years for income tax and dividend tax, respectively.

## **COPA HOLDINGS, S. A. AND SUBSIDIARIES**

### Notes to the consolidated financial statements

#### *Coronavirus 2019 (COVID-19)*

In December 2019, a novel strain of coronavirus (“COVID-19”) was reported in Wuhan, China. The virus has promulgated significantly outside China, and now exists in most of the world. As a result, the World Health Organization has declared COVID-19 a pandemic. In addition, on March 13, 2020 the U.S. government declared a state of emergency and took some important actions including enhanced screenings, quarantine requirements and travel restrictions to certain countries. Additionally, on March 19, 2020 the government of Panama issued a decree suspending all commercial passenger flights to and from Panama for a period of one month effective March 22, 2020. Other countries have put in place similar measures.

As of the date of this report, the Company is experiencing decline in medium-term demand as evidenced by a significant reduction in forward sales over the next few months, with declines of as much as 80% compared to forward sales during the same period the previous year.

Following the suspension of its operations, the Company implemented certain initiatives, including cost savings, deferral of the company’s non-essential capital expenditures, and the drawing of \$300 million from short and medium-term liquidity facilities.

The extent of the impact of the COVID-19 on the Company’s operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related travel advisories and restrictions and the impact of the COVID-19 on overall demand for air travel, all of which are highly uncertain and cannot be predicted. If traffic on the Company’s routes were to remain at these levels for an extended period, and/or routes in other parts of the Company’s network begin to see significant declines in demand, the results of operations for 2020 would be materially adversely affected, and the Company may have to take additional actions to preserve our long- term sustainability.

#### *Uncertainty related to going concern*

As a result of the COVID-19 global pandemic which is affecting the entire aviation industry, the Company has implemented several measures to raise and maintain very robust liquidity levels, including the acceleration of collection of its accounts receivable through higher factoring levels, negotiating longer payment terms with its main suppliers, as well as drawing on currently available lines of credit, for approximately \$300 million. The Company also can access additional funding through the refinancing of its unencumbered aircraft and engines and aircraft spare parts, as well as requesting advances from banks secured by future maturities of investments (time deposits and fixed income instruments), which could generate an additional inflow for approximately \$400 million. This additional \$700 million would increase the cash position which as of March 15, 2020 was around \$1.0 billion. The Company is also reducing operational expenses and non-essential capital expenditure outflows, and it expects to decrease its monthly cash burn ratio to approximately \$70 million per month for the remainder of 2020. The Company anticipates that these initiatives to obtain additional sources of liquidity, along with measures to contain operational expenses and non-essential capex outflows, will provide ample resources to endure a prolonged downturn in demand.

#### *Credit card processors*

Due to the decrease in sales during the first quarter of 2020, the Company liquidity could be adversely impacted in the event one or more of its credit card processors were to impose material reserve requirements for payments due to the Company from credit card transactions.

The Company has agreements with financial institutions that process customer credit card transactions for the sale of air travel and other services. Under certain of the Company’s credit card processing agreements, the financial institutions in certain circumstances have the right to require that the Company maintains a reserve equal to a portion of advance ticket sales that has been processed by that financial institution, but for which the Company has not yet provided the air transportation. Such financial institutions may require additional cash or other collateral reserves to be established or additional withholding of payments related to receivables collected if the Company does not maintain certain minimum levels of unrestricted cash, cash equivalents and short-term investments (collectively, “Unrestricted Liquidity”).

The Company follows a policy of giving passengers credit to be redeemed in future dates instead of providing refunds, in those jurisdictions where permitted. This helps the Company maintain healthy levels of Unrestricted Liquidity.

## DESCRIPTION OF SECURITIES

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 attached as an exhibit to our annual report on 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, 2019, we had 33,835,747 Class A shares issued and 31,337,856 Class A shares outstanding; 10,938,125 Class B shares issued and outstanding, and no Class C shares outstanding. Class A and Class B shares have the same economic rights and privileges, including the right to receive dividends, except as described in this section.

### Class A Shares

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

- a transformation of Copa Holdings into another corporate type;
- a merger, consolidation or spin-off of Copa Holdings;
- a change of corporate purpose;
- voluntarily delisting Class A shares from the NYSE;
- approving the nomination of Independent Directors nominated by our board of 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***

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.

### ***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.

**Listing**

Our Class A shares have been listed on the NYSE under the symbol "CPA" since December 14, 2005. 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.

<b>Panama</b>	<b>Directors</b>	<b>Delaware</b>
---------------	------------------	-----------------

**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.

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

*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.

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.

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

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

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

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.

## 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 8, 2020

/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 8, 2020

/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, 2019 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 8, 2020

/s/ Pedro Heilbron

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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, 2019 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 8, 2020

/s/ Jose Montero

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Jose Montero  
Chief Financial Officer

(Section 906 CFO Certification)