Copa Holdings, S.A.
Form 20-F
April 30, 2015
Table of Contents

As filed with the Securities and Exchange Commission on April 30, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

OR

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

OR

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

OR

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

Commission file number: 001-32696

COPA HOLDINGS, S.A.

(Exact name of Registrant as Specified in Its Charter)

Not Applicable

(Translation of Registrant s Name Into English)

Republic of Panama

(Jurisdiction of Incorporation or Organization)

Avenida Principal y Avenida de la Rotonda, Costa del Este

Complejo Business Park, Torre Norte

Parque Lefevre, Panama City

Panama

(Address of Principal Executive Offices)

Rafael Arias

Complejo Business Park, Torre Norte

Parque Lefevre, Panama City, Panama

+507 304 2431 (Telephone)

+507 304 2535 (Facsimile)

(Registrant s Contact Person)

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

Title of Each Class:	Name of Each Exchange On Which Registered
Class A Common Stock, without par value	New York Stock Exchange

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

None

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

None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report: At December 31, 2014, there were outstanding 43,988,423 shares of common stock, without par value, of which 33,050,298 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. x 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 x 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. x Yes ¨ No

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

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

Large Accelerated Filer x Accelerated Filer ¨ Non-accelerated Filer ¨

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 x 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 x No

Table of Contents

TABLE OF CONTENTS

Table of Contents

INTRODUCTION

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

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

Break-even load factor represents the load factor that would have resulted in total revenues being equal to total expenses.

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 revenue divided by available seat miles.

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

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

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

Market Data

This annual report contains certain statistical data regarding our airline routes and our competitive position and market share in, and the market size of, the Latin American airline industry. This information has been derived from a variety of sources, including the International Air Transport Association, the U.S. Federal Aviation Administration, the International Monetary Fund and other third-party sources, governmental agencies or industry or general publications. Information for which no source is cited has been prepared by us on the basis of our knowledge of Latin American airline markets and other information available to us. The methodology and terminology used by different sources are not always consistent, and data from different sources are not readily

ii

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 elsewhere in this annual report are our audited consolidated statement of financial position as of December 31, 2014 and 2013, and the related audited consolidated statements of income, changes in shareholders equity and cash flows for the years ended December 31, 2014, 2013 and 2012.

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).

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

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

Special Note About Forward-Looking Statements

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

- general economic, political and business conditions in Panama and Latin America and particularly in the geographic markets we serve;
- our management s expectations and estimates concerning our future financial performance and financing plans and programs;
- our level of debt and other fixed obligations;
- demand for passenger and cargo air service in the markets in which we operate;
- competition;

our capital expenditure plans;

changes in the regulatory environment in which we operate;

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

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

cyclical and seasonal fluctuations in our operating results;

defects or mechanical problems with our aircraft;

our ability to successfully implement our growth strategy;

our ability to obtain financing on commercially reasonable terms; and

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

Table of Contents

The words believe, may, will, aim, estimate, continue, anticipate, intend, expect and similar words a 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, 2014 and 2013, and for the years ended December 31, 2014, 2013 and 2012 has been derived from our audited consolidated financial statements included elsewhere in this annual report. The summary consolidated financial information as of December 31, 2012, 2011 and 2010, and for the years ended December 31, 2011 and 2010, has been derived from our consolidated financial statements for these periods.

	Year Ended December 31, (in thousands of dollars, except share and per share data and operating data)				
	2014	**2013**	**2012**	**2011**	**2010**
INCOME STATEMENT DATA					
Operating revenue:					
Passenger revenue	2,619,856	2,519,650	2,163,136	1,747,102	1,338,581

Cargo, mail and other	85,212	88,682	86,252	83,819	76,225
Total operating revenues	2,705,068	2,608,332	2,249,388	1,830,921	1,414,806
Operating expenses:					
Aircraft fuel	820,694	783,092	725,763	547,221	354,427
Salaries and benefits	299,182	276,156	247,405	213,094	178,845
Passenger servicing	268,762	250,604	217,137	160,725	133,718
Commissions	99,115	103,685	89,378	72,947	57,677
Reservations and sales	93,766	99,822	84,992	70,363	58,813
Maintenance, materials and repairs	101,421	92,993	92,166	70,969	62,229
Depreciation, amortization and impairment	115,147	137,412	89,217	75,458	62,962
Flight operations	132,156	121,903	104,993	83,782	70,648
Aircraft rentals	112,082	90,233	72,468	51,259	46,334
Landing fees and other rentals	53,746	50,288	46,233	41,881	40,320
Other	87,910	84,590	77,101	58,237	59,185
Total operating expenses	2,183,981	2,090,778	1,846,853	1,445,936	1,125,158
Operating income	521,087	517,554	402,535	384,985	289,648
Non-operating income (expense):					
Interest expense	(29,529)	(30,180)	(32,795)	(32,680)	(29,981)
Interest income	18,066	12,636	11,689	6,774	4,759
Other, net[1]	(111,316)	(11,440)	(15,086)	(13,068)	(4,403)
Total non-operating income (expense), net	(122,779)	(28,984)	(36,192)	(38,974)	(29,625)
Income before income taxes	398,308	488,570	366,343	346,011	260,023
Provision for income taxes	36,639	61,099	39,867	35,586	18,966
Net income	361,669	427,471	326,476	310,425	241,057

Table of Contents

STATEMENT OF FINANCIAL POSITION DATA					
Total cash, cash equivalents and short-term investments	766,603	1,131,689	651,103	506,146	402,603
Accounts receivable, net	122,150	135,056	136,336	143,001	89,387
Total current assets	1,011,449	1,401,153	917,490	754,242	594,383
Purchase deposits for flight equipment	321,175	327,545	245,544	242,287	205,972
Total property and equipment	2,505,336	2,348,514	2,284,631	2,000,191	1,772,528
Total assets	4,090,874	3,952,764	3,479,500	3,065,796	2,555,997
Long-term debt	928,964	913,507	1,069,836	936,657	888,681
Total shareholders equity	2,075,108	1,901,906	1,536,544	1,389, 531	1,144,656
Capital stock	81,811	77,123	70,717	63,528	55,867
CASH FLOWS DATA					
Net cash provided by operating activities	383,561	830,265	538,026	498,289	292,801
Net cash (used in) provided by investing activities	(152,853)	(565,720)	(654,605)	468,250	445,432
Net cash (used in) provided by financing activities	(142,420)	(201,268)	(54,299)	5,775	95,520
OTHER FINANCIAL DATA					
EBITDA(2)	524,918	643,526	476,666	447,375	348,207
Aircraft rentals	112,082	90,233	72,468	51,259	46,334
Operating margin(3)	19.3%	19.8%	17.9%	21.0%	20.5%
Weighted average shares used in computing net income per share (basic)	44,381,265	44,388,098	44,400,224	44,493,779	43,995,671
Weighted average shares used in computing net income per share (diluted)	44,393,055	44,403,352	44,413,343	44,493,779	43,995,671
Net income per share (basic)	8.15	9.63	7.35	6.98	5.48
Net income per share (diluted)	8.15	9.63	7.35	6.98	5.48

Dividends per share paid	$ 3.84	$ 1.46	$ 2.10	$ 1.64	$ 1.09
Dividends per share paid in advance[4]			$ 2.25		
Total number of shares at end of period	43,988,423	44,098,620	44,036,470	43,895,888	43,597,682
OPERATING DATA					
Revenue passengers carried[5]	11,681	11,345	10,214	8,723	7,998
Revenue passenger miles[6]	15,913	14,533	12,499	10,198	8,416
Available seat miles[7]	20,757	18,950	16,567	13,352	10,950
Load factor[8]	76.7%	76.7%	75.4%	76.4%	76.9%
Break-even load factor[9]	63.5%	61.1%	61.7%	60.1%	61.9%
Total block hours[10]	376,903	348,882	313,321	255,638	221,298
Average daily aircraft utilization[11]	11.0	11.1	10.9	10.5	10.2
Average passenger fare	224.3	222.1	211.8	200.3	167.4
Yield[12]	16.46	17.34	17.31	17.13	15.91
Passenger revenue per ASM[13]	12.62	13.30	13.06	13.08	12.22
Operating revenue per ASM[14]	13.03	13.76	13.58	13.71	12.92
Operating expenses per ASM (CASM)[15]	10.52	11.03	11.15	10.83	10.28
Departures	121,310	119,177	112,551	99,864	95,004
Average daily departures	332.4	326.5	307.7	273.6	260.3
Average number of aircraft	93.3	86.4	78.5	67.5	59.7
Airports served at period end	69	66	64	59	52
On-Time Performance [16]	90.5%	87.7%	85.5%	89.5%	89.3%
Stage Length [17]	1,214	1,140	1,076	1,017	919

(1) Consists primarily of changes in the fair value of fuel derivative contracts and foreign exchange gains/losses.

(2) EBITDA represents net income plus the sum of interest expense, income taxes, depreciation, amortization and impairment minus the sum of interest capitalized and interest income. 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, EBITDA should not be considered in isolation, as a substitute for net income prepared in accordance with IFRS or as a measure of a Company s profitability. In addition, our calculation of EBITDA may not be comparable to other companies similarly titled measures. The following table presents a reconciliation of our net income to EBITDA for the specified periods: Aircraft rentals represent a significant operating expense of our business. Because we leased several of our aircraft during the periods presented, we believe that when assessing our EBITDA you should also consider the impact of our aircraft rentals.

	2014	2013	2012	2011	2010
Net income	361,669	427,471	326,476	310,425	241,057

Interest expense	29,529	30,180	32,795	32,680	29,981
Income taxes	36,639	61,099	39,867	35,586	18,966
Depreciation, amortization and impairment	115,147	137,412	89,217	75,458	62,962
Interest income	(18,066)	(12,636)	(11,689)	(6,774)	(4,759)
EBITDA	524,918	643,526	476,666	447,375	348,207

Table of Contents

(3) Operating margin represents operating income as a percentage of operating revenues.
(4) 2012 dividend per share payment was accelerated from June 2013 to December 2012.
(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 scheduled 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.
(9) Load factor that would have resulted in total revenues being equal to total expenses. Excluding the effect of fuel derivative mark-to-market, this figure would have been 61.2% in 2010, 59.6% in 2011, 61.3% in 2012, 59.6% in 2013, and 59.1% in 2014.
(10) 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.
(11) Average number of block hours operated per day per aircraft for the total aircraft fleet.
(12) Average amount (in cents) one passenger pays to fly one mile.
(13) Passenger revenues (in cents) divided by the number of available seat miles.
(14) Total operating revenues for passenger related costs (in cents) divided by the number of available seat miles.
(15) Total operating expenses for passenger aircraft related costs (in cents) divided by the number of available seat miles.
(16) Percentage of flights that arrive at the destination gate within fourteen minutes of scheduled arrival.
(17) The average number of miles flown per flight.

B. Capitalization and Indebtedness

Not applicable

C. Reasons for the Offer and Use of Proceeds

Not applicable

D. Risk Factors

Risks Relating to Our Company

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

We have been growing rapidly for more than ten years. Through a growth-oriented fleet plan, we intend to expand our service to new markets and to increase the frequency of flights to the markets we currently serve. Achieving these goals is essential in order for 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. We cannot ensure that we will have sufficient cash to fund such projects, and if we are unable to successfully expand our route system, our future revenue and earnings growth would be limited.

When we commence a new route, load factors tend to be lower than those on our established routes and our advertising and other promotional costs tend to be higher, which could result in initial losses that could have a negative impact on our results of operations as well as require a substantial amount of cash to fund. We also periodically run special promotional fare campaigns, particularly in connection with the opening of new routes. Promotional fares can have the effect of increasing load factors while reducing our yield on such routes during the period that they are in effect. The number of markets we serve and flight frequencies depend on our ability to identify the appropriate geographic markets upon which to focus and to gain suitable airport access and route approval in these markets. There can be no assurance that the new markets we enter will yield passenger traffic that is sufficient to make our operations in those new markets profitable. Any condition that would prevent or delay our access to key airports or routes, including limitations on the ability to process more passengers, the imposition of flight capacity restrictions, the inability to secure additional route rights under bilateral agreements or the inability to maintain our existing slots and banks and obtain additional slots and flight banks, 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 and retain skilled 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 growth strategy. In the past, the airline industry has experienced a pilot shortage that has disproportionately affected smaller and regional carriers. Expansion of our markets and flight frequencies may also strain our existing management resources and operational, financial and management information systems to the point where they may no longer be adequate to support our operations, requiring us to make significant expenditures in these areas. In light of these factors, we cannot ensure that we will be able to successfully establish new markets or expand our existing markets, and our failure to do so could harm our business and results of operations, as well as the value of our Class A shares.

Table of Contents

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

Passenger demand is heavily cyclical and highly dependent on global, regional and country-specific economic growth, economic expectations and foreign exchange rate variations. In the past, we have been negatively impacted by poor economic performance in certain emerging market countries in which we operate. 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. An adverse economic environment, whether global, regional or in a special 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 refinancing our debt and obtaining additional financing for new aircraft has increased and may continue to increase, which may negatively impact our business.

We currently finance our aircraft through bank loans and operating leases. In the past, we have been able to obtain lease or debt financing on terms attractive to us. We have obtained most of the financing for our Boeing aircraft purchases from commercial financial institutions utilizing guarantees provided by the Export-Import Bank of the United States. The Export-Import Bank provides guarantees to companies that purchase goods from U.S. companies for export, enabling them to obtain financing at substantially lower interest rates as compared to those that they could obtain without a guarantee. The Export-Import Bank does not provide similar guarantees in connection with financing for our aircraft purchases from Embraer since those aircraft are not exports from the United States. As of December 31, 2014, we had $616.7 million of outstanding indebtedness outstanding to financial institutions under financing arrangements guaranteed by the Export-Import Bank.

In February 2011, participants from the member states of the Organization for Economic Co-operation and Development (OECD), including the Export-Import Bank, agreed to a new common approach with respect to aircraft purchase financing (the 2011 Aircraft Sector Understanding). The 2011 Aircraft Sector Understanding unifies the terms, conditions and procedures governing large and regional aircraft exports and, in particular, attempts to reduce the subsidies from which we benefit by setting forth increased minimum guarantee premium rates based on a borrower s credit risk classification. Although aircraft delivered prior to December 31, 2012 pursuant to firm orders placed prior to December 31, 2010 are not covered by the 2011 Aircraft Sector Understanding, our future financing costs are expected to increase and our results of operation may be negatively affected as a result of this new regime. As a result, we have begun exploring other financing arrangements, including entering into sale-leaseback transactions to finance future aircraft purchases. We cannot predict whether the Export-Import Bank s credit support will continue to be available to us to fund future purchases of Boeing aircraft. In the future the Export-Import Bank may limit its exposure to Panama-based companies, to our airline or to airlines generally, or may encourage us to diversify our credit sources by limiting future guarantees.

Similarly, 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. The recent turmoil in the financial markets, for example, tightened the availability of credit and increased the cost of obtaining lease or debt financing. 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 derive significant benefits from our alliance with United Continental Holdings and cannot be certain that it will continue.

Historically, we maintained a broad commercial and marketing alliance with Continental Airlines, Inc. (Continental). On October 1, 2010, Continental merged with United Airlines and became a wholly-owned subsidiary of United Continental Holdings, Inc. (UAL). All of the benefits from our previous alliance with Continental have been recognized by UAL. In addition, the DOT has issued a route transfer order document whereby the antitrust immunity granted to Continental Airlines and Copa Airlines is now in effect between UAL and Copa Airlines. This alliance allows us to enhance our network and, in some cases, offer our customers services that we could not otherwise offer. Our alliance has provided us with support in negotiations for aircraft purchases, insurance and fuel purchases, sharing of best practices and engineering support in our maintenance operations, and significant other intangible support. This support has assisted us in our growth strategy, while also improving our operational performance and the quality of our service.

Table of Contents

If UAL were to experience severe financial difficulties or go bankrupt, our alliance and service agreements may be terminated or we may not realize the anticipated benefits from our relationship with UAL. In addition, high fuel costs, slowdowns in the global capital markets, industry competition and terrorism or other international hostilities may all affect UAL s profitability. We cannot be certain that UAL will be able to sustain its profitability, and as a result, we may be materially and adversely affected by a deterioration of UAL s financial condition.

In addition, if our alliance with UAL or our service agreements were terminated, our business, financial condition and results of operations would likely be materially and adversely affected. The loss of Copa s codesharing relationship with UAL would adversely affect our revenues.

We may not realize benefits from our new mileage program.

Copa Airlines has enjoyed a long-standing relationship with UAL and its loyalty program MileagePlus. Previously, we relied on UAL s MileagePlus frequent flyer program, in which we participated globally and on a co-branded basis in Latin America. We have grown our network and service, and plan to launch our loyalty program, ConnectMiles, in July 2015 to build a more direct relationship with our customers.

In March 2015, we unveiled details of the program: trademarks, benefits, qualifications for preferred status, air and non-air partners, and in May 2015, program enrollment will begin. ConnectMiles will officially launch in July 2015, when members can begin enjoying the exclusive, tailored benefits of the new Copa loyalty program, which has been designed to meet our customer s specific needs.

UAL s MileagePlus will continue to be the loyalty program for Copa until our new program begins. Our business may be adversely affected if our new mileage program does not become a competitive marketing program.

We may not realize benefits from our membership in Star Alliance.

In November 2010, Copa and Star Alliance jointly announced Copa s intention to join Star Alliance, which was the first global airline alliance created and still maintains the most member airlines. Copa officially joined Star Alliance on June 21, 2012.

On December 9, 2013, US Airways and American Airlines closed their merger transaction and, as a result of the merger transaction, US Airways exited Star Alliance on March 31, 2014. LATAM Airlines Group, the parent company of TAM following TAM s merger with LAN Airlines, exited Star Alliance on March 31, 2014 as well. In addition, on June 24, 2014, Air India had its membership approved by other members, and joined the alliance on July 11, 2014. It is unclear what impact these changes may have on the Star Alliance, and the benefits we realize from our membership in the group.

One of our main competitors, Avianca, also joined Star Alliance in 2012. We cannot predict the extent to which participating in the same alliance as one of our direct competitors may impact our revenues, our ability for future growth, or have any additional implications on our current operations. We also cannot predict whether any other direct competitors will join Star Alliance in the future. Our participation in Star Alliance could result in additional costs and the anticipated benefits may not be realized, which could have a material adverse effect on our business, results of operations and financial condition.

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

The 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. Non-stop service, which bypasses our hub in Panama, is more convenient and possibly less expensive than our connecting service and could significantly decrease demand for our service to those destinations. 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.

The Panamanian Aviation Act and certain of the bilateral agreements under which we operate contain Panamanian ownership requirements that are not clearly defined, and our failure to comply with these requirements could cause us to lose our authority to operate in Panama or to the international destinations we serve.

Under Law No. 21 of January 29, 2003, which regulates the aviation industry in the Republic of Panama and which we refer to as the Aviation Act , substantial ownership and effective control of our airline must remain in the hands of Panamanian nationals. 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 territory, we must continue to have substantial Panamanian ownership and effective control by Panamanian nationals to retain these rights. Neither substantial ownership nor effective control is defined in the Aviation Act or in the bilateral agreements, and it is unclear how a Panamanian court or, in the case of the bilateral agreements, foreign regulatory authorities, might interpret these requirements. In addition, the manner in which these requirements are interpreted may change over time. We cannot predict whether these requirements would be satisfied through ownership and control by Panamanian record holders, or if these requirements would be satisfied only by direct and indirect ownership and control by Panamanian beneficial owners.

Table of Contents

At the present time, Corporación de Inversiones Aereas, S.A., or CIASA , a Panamanian entity, is the record owner of all of our Class B voting shares, representing approximately 24.9% of our total share capital and all of the voting power of our capital stock.

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 can 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. We cannot ensure that the decree will not be challenged, modified or superseded in the future, that CIASA will continue to own a majority of the Class B shares, or that record ownership of a majority of our Class B shares by Panamanian entities will be sufficient to satisfy the substantial ownership requirement of the Aviation Act and the decree. A change in the ownership of the Class B shares or a determination by the Panamanian Civil Aviation Authority (the *Autoridad de Aeronáutica Civil*), which we refer to as the AAC , or a Panamanian court that substantial Panamanian ownership should be determined on the basis of our direct and indirect ownership, could cause us to lose our license to operate our airline in Panama. Likewise, if a foreign regulatory authority were to determine that our direct or indirect Panamanian ownership fails to satisfy the minimum Panamanian ownership requirements for a Panamanian carrier under the applicable bilateral agreement, we may lose the benefit of that agreement and be prohibited from flying to the relevant country or over its territory. Any such determination would have a material adverse effect on our business, financial condition and results of operations, as well as on the value of the Class A shares.

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

Our business, financial condition and results of operations could be adversely affected if we or certain aviation authorities in the countries to which we fly fail to maintain the required foreign and domestic governmental authorizations necessary for our operations. In order to maintain the necessary authorizations issued by the AAC, the Colombian Civil Aviation Administration (the *Unidad Administrativa Especial de Aeronáutica Civil* or 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. We cannot predict or control any actions that the AAC, the UAEAC, or foreign aviation regulators may take in the future, which could include restricting our operations or imposing new and costly regulations. Also, our fares are technically subject to review by the AAC, the UAEAC, and the regulators of certain other countries to which we fly, any of which may in the future impose restrictions on our fares.

We are also subject to international bilateral air transport agreements that provide for the exchange of air traffic rights between each of Panama and Colombia, and various other countries, and we must obtain permission from the applicable foreign governments to provide service to foreign destinations. There can be no assurance that existing bilateral agreements between the countries in which our airline operating companies are based and foreign governments will continue, or that we will be able to obtain more route rights under those agreements to accommodate our future expansion plans. Any modification, suspension or revocation of one or more bilateral agreements could have a material adverse effect on our business, financial condition and results of operations. The suspension of our permits to operate to certain airports or destinations, the cancellation of any of our provisional routes, the inability for us to obtain favorable take-off and landing authorizations at certain high-density airports or the imposition of other sanctions could also have a negative impact on our business. Due to the nature of bilateral agreements, we can fly to many destinations only from Panama and to certain destinations only from Colombia. 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 windshear avoidance systems, noise abatement and other environmental issues, and increased inspections and maintenance procedures to be conducted on older aircraft. Additional new regulations continue to be regularly implemented by the U.S. Transportation Security Administration, or TSA , as well. We expect to continue incurring expenses to comply with the FAA s regulations, and any increase in the cost of compliance could have an adverse effect on our financial condition and results of operations.

Table of Contents

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 its investigation, each country is given an International Aviation Safety Assessment, or IASA , rating. Since April 2004, IASA has rated Panama as a Category 1 jurisdiction. We cannot guarantee that the government of Panama and the AAC in particular, will continue to meet international safety standards, and we have no direct control over their compliance with IASA guidelines. If Panama s IASA rating were to be downgraded in the future, it could prohibit us from increasing service to the United States and UAL would have to suspend codesharing on our flights, causing us to lose direct revenue from codesharing as well as reducing flight options to our customers.

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

Our business is heavily dependent on our operations at our hub at Panama City s Tocumen International Airport. Substantially all of our Copa flights either depart from or arrive at our hub. Our operations and growth strategy is therefore, at least in part, dependent on its facilities and infrastructure, including the success of its multi-phase expansion projects, certain of which have been completed and others that are underway and are expected to be completed in 2017. Due to the magnitude of the construction required for a proposed new south terminal, we may experience logistical issues and/or be subject to increased passenger taxes and airport charges related to the financing of the construction.

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

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

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

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

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

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

The airline business is characterized by high leverage, and we have a high level of indebtedness. We also have significant expenditures in connection with our operating leases and facility rental costs, and substantially all of our property and equipment is pledged to secure indebtedness. For the year ended December 31, 2014, our interest expense and aircraft and facility rental expense under operating leases totaled $159.2 million. At December 31, 2014, approximately 56.7% of our total indebtedness bore interest at fixed rates and the remainder was determined with reference to LIBOR. All of our aircraft lease obligations bear interest at fixed rates. Accordingly, our financing and rent expense will not decrease significantly if market interest rates decline, but given LIBOR s record low rates, our financing costs could materially increase as LIBOR rates increase.

Table of Contents

As of April 10, 2015, we had firm commitments to purchase 21 Boeing 737-Next Generation aircraft, plus 61 additional Boeing 737-MAX 8 and 9, with an aggregate manufacturer s list price of approximately $9.7 billion. We will require substantial capital from external sources to meet our future financial commitments. In addition, the acquisition and financing of these aircraft will likely result in a substantial increase in our leverage and fixed financing costs. A high degree of leverage and fixed payment obligations could:

- limit our ability in the future to obtain additional financing for working capital or other important needs;
- impair our liquidity by diverting substantial cash from our operating needs to service fixed financing obligations; or
- limit our ability to plan for or react to changes in our business, in the airline industry or in general economic conditions.

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

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

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

- create material liens on our assets;
- take certain actions that may impair creditors rights to our aircraft;
- sell assets or engage in certain mergers or consolidations; and
- engage in other specified significant transactions.

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

If we fail to successfully take delivery of or reliably operate new aircraft, our business could be harmed.

We fly and rely on Boeing and Embraer aircraft. As of December 31, 2014, we operated a fleet of 72 Boeing aircraft. In 2015, we expect to take delivery of nine additional Boeing 737-800s, and in the future we expect to continue to incorporate new aircraft into our fleet. The decision to incorporate new aircraft is based on a variety of factors, including the implementation of our growth strategy. Acquisition of new aircraft involves a variety of risks relating to its 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, our fleet includes 26 Embraer 190 aircraft. Technical issues with our Embraer 190 aircraft would increase our maintenance expenses, and we cannot predict the reliability of the Embraer aircraft as the aircraft matures.

If we fail to successfully take delivery of or reliably operate new aircraft, our business, financial condition and results of operations could be harmed.

Table of Contents

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

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

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

We rely upon information technology systems to operate our business and increase our efficiency. We are highly reliant on certain systems for flight and operations, maintenance, reservations, check-in, revenue management, accounting and cargo distribution. Other systems are designed to decrease distribution costs through internet reservations and to maximize cargo distributions, crew utilization and to maximize flight operations. These systems may not deliver their anticipated benefits. In the ordinary course of business, our systems will continue to require modification and refinements to address changing business requirements. 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 attract fewer clients.

Information systems could also suffer disruptions due to events beyond our control, including natural disasters, power failures, terrorist attacks, equipment or software failures, computer viruses or cyber security attacks. In addition, any transition to new systems may result in a loss of data or service interruption that could harm our business. 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 loss, unlawful disclosure or misappropriation of, or unsanctioned access to, our customers , employees , business partners or our own information, or any other breaches of our information security.

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

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

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

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

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

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

The airline industry is by nature cyclical and seasonal, and our operating results may vary from quarter to quarter. In general, demand for air travel is higher in the third and fourth quarters, particularly in international markets, because of the increase in vacation travel during these periods relative to the remainder of the year. We tend to experience the highest levels of traffic and revenue in July and August, with a smaller peak in traffic in December and January. We generally experience our lowest levels of passenger traffic in April and May. Given our high proportion of fixed costs, seasonality can affect our profitability from quarter to quarter. Demand for air travel is also affected by factors such as economic conditions, war or the threat of war, fare levels and weather conditions.

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

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

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

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

In 2014, approximately 47.5% of our expenses and 40.2% of our revenues were denominated in U.S. dollars. The remainder of our expenses and revenues were denominated in the currencies of the various countries to which we fly, with the largest non-dollar amount denominated in Colombian Pesos due to our volume of business in Colombia. 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 vis-à-vis the U.S. dollar during the period of time between the time we are paid in local currencies and the time we are able to repatriate the revenues in U.S. dollars. Typically this process takes between one and two weeks in most countries to which we fly, excluding Venezuela.

Our substantial cash balances in Venezuelan bolivars are subject to unfavorable exchange controls, and our Venezuelan operations could be adversely affected by conditions in Venezuela or by relations between Panama and Venezuela.

We have substantial cash balances in Venezuelan bolivars subject to Venezuelan exchange controls. Foreign companies operating in Venezuela, including airlines, have experienced increasing delays for approvals by the Venezuelan government to repatriate funds. Our exposure subject to exchange controls in Venezuela pending repatriation was $484.7 million as of December 31, 2014, valued at the official 6.30 bolivars per U.S. dollar for the amounts corresponding to 2013 sales, and at the Sicad rate of 12 bolivars per U.S. dollar for the amounts that correspond to 2014 sales. See Item 5B. Operating and Financial Review and Prospects Liquidity and Capital Resources. The period of time required to exchange those funds into dollars and repatriate them has been increasing and is presently more than a year after the original request date. Our last repatriation was in November 2014, corresponding to requests from January, March and June 2014. Currently there are 14 months pending repatriation: ten months corresponding to 2013 sales of $435.3 million and four months corresponding to 2014 sales of $49.4 million.

Accordingly, our cash in Venezuela has been classified as follows: $26.1 million as cash and cash equivalents, which we expect to use over the next three months as part of our normal operations in Venezuela; $135.7 million as a short-term investment, representing the six repatriation months that we expect we will be approved in 2015; and $322.9 million as a long-term investment, for which we expect repatriation approval after the next 12 months.

Table of Contents

On January 8, 2010, and then again on February 8, 2013, the Venezuelan government announced its decision to implement new fixed exchange rates, which resulted in significant devaluations of the bolivar against the dollar. As a result, we incurred losses of $19.7 million in 2010 and $13.9 million in the first quarter of 2013. Given the uncertainty with respect to the exchange control regime in Venezuela, we continue to be exposed in respect of our cash balance in Venezuelan bolivars.

On January 23, 2014, the Venezuelan government issued a regulation to implement a new system for determining an additional variable exchange rate based on the result of limited periodic sales of dollars known as Sicad auctions (12 bolivars to the dollar based on the October 14, 2014 auction). The Sicad I rate is to be used for the repatriation of income from certain specified products and services, including airline ticket sales, and the government introduced new procedures for approval of the conversion and repatriation of local currency. On March 10, 2014, the Venezuelan government passed Regulation 27 (*Convenio Cambiario No. 27*), which introduced another auction-based currency regime, Sicad II, for general foreign exchange transactions lacking express authorization to use the preferential 6.3 official rate or the Sicad I rate. The regime began operating on March 24, 2014, and the average exchange rate for the auctions held that day was 51.86 bolivars per dollar. Additionally, Regulation 27 revoked certain earlier rules and confirmed that repatriation requests by airlines would be converted at the Sicad I rate, with the exception of repatriation requests only pending settlement by the Venezuelan Central Bank which instead would be converted at the 6.3 official rate.

Most recently, on February 10, 2015, the Venezuelan government replaced the Sicad II system with a new foreign exchange platform called the Marginal Currency System, or Simadi, which allows for legal trading of foreign currency based on supply and demand. The first Simadi rate published on February 12, 2015 was 170.0 bolivars per dollar. The new regulations did not mention airlines, which we believe are still expected to use the Sicad I rate in new repatriation requests.

We continue to work with Venezuelan authorities regarding the timing and exchange rate applicable to the repatriation of funds held in local currency. Further, the current, devaluated rates may have an ongoing adverse effect on our reported results if we are unable to fully adjust prices on flights to and from Venezuela, of which there can be no assurance. More generally, fluctuations in foreign currencies, including devaluations, cannot be predicted by the Company and can significantly affect the value of our assets located outside the United States. These conditions, as well as any further delays, devaluations or impositions of more stringent repatriation restrictions, may materially adversely affect our business, results of operations and financial condition.

To reduce our exposure to further accumulations of unremitted cash in Venezuela, we have reduced service to and from Venezuela and have restricted ticket sales for passengers paying in Venezuelan bolivars. These service reductions and restrictions can be expected to continue to have significant adverse effect on our consolidated operating revenues and consolidated net income, as our revenues from operations to and from Venezuela were significant prior to this reduction in service.

The following table shows a reconciliation of our funds requested for repatriation in Venezuelan bolivars up to December 31, 2014:

	2014	**2013**	**Total**
Exchange rate	VEF 12.0	VEF 6.3	
Net sales	$ 73.3	$ 478.8	$ 552.1
Funds repatriated	($ 23.6)	($ 43.3)	($ 66.9)

Interests and other repatriation costs	($ 0.3)	($ 0.2)	($ 0.5)
Pending funds	$ 49.4	$ 435.3	$ 484.7

Our maintenance costs will increase as our fleet ages.

The average age of our fleet was approximately 6.2 years as of December 31, 2014. 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, as these warranties expire and the mileage on each aircraft increases, our maintenance costs may increase significantly, 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 59% of our 9,267 employees are unionized. There are currently four unions covering our employees based in Panama: the pilots union; the flight attendants union; the mechanics union; and a generalized union, which represents baggage handlers, aircraft cleaners, counter agents, and other non-executive administrative staff. Copa entered into collective bargaining agreements with the pilot union in August 2012, the generalized union in December 2013, the mechanics union in February 2014 and most recently Copa re-negotiated the collective bargaining with the flight attendants union in September 2014. Collective bargaining agreements in Panama are typically between three- and four-year terms.

Table of Contents

There are four unions covering employees in Colombia: the pilots union; the flight attendants union; the industry union; and the mechanics union. While negotiations were held with each of these unions, we were unable to sign new agreements and arbitration processes are ongoing in each case. Typically, once signed, collective bargaining agreements in Colombia remain in effect for 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. We also have union contracts with our Copa employees in Brazil and Mexico.

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 and benefits 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.

In 2014, approximately 61.4% of our revenues were derived from tickets sold by travel agents 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.

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

We have entered into agreements with third-party contractors to provide certain facilities and services required for our operations, such as heavy aircraft and engine maintenance, call center services, catering, ground handling, cargo and baggage handling, or below the wing aircraft services. At airports other than Tocumen International Airport, most of our below the wing aircraft services are performed by third-party contractors. Also, all of our overhaul maintenance and some of our C-checks are handled by third-party contractors in the United States and Costa Rica, and some line maintenance is handled at certain airports by contract workers rather than our employees. 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 harm our business and results of operations. Further, our reliance on third parties to provide reliable equipment or essential services on our behalf gives us less control over the costs, efficiency, timeliness and quality of our service. A contractor s negligence could compromise our aircraft or endanger passengers and crew. This could also have a material adverse effect on our business. We expect to be dependent on such agreements for the foreseeable future and if we enter any new market, we will need to have similar agreements in place.

We depend on a limited number of suppliers.

We are subject to the risks of having a limited number of suppliers for our aircraft and engines. One of the elements of our business strategy is to save costs by operating a simplified fleet. Copa currently operates the Boeing 737-700/800 Next Generation aircraft powered by CFM 56-7B engines from CFM International and the Embraer 190, powered by General Electric CF 34-10 engines. We currently intend to continue to rely exclusively on these aircraft for the foreseeable future. If any of Boeing, Embraer, CFM International or GE Engines were unable to perform their contractual obligations, or if we are unable to acquire or lease new aircraft or engines from aircraft or engine manufacturers or lessors on acceptable terms, we would have to find another supplier for a similar type of aircraft or engine.

If we have to lease or purchase aircraft from another supplier, we could lose the benefits we derive from our current fleet composition. We cannot ensure that any replacement aircraft would have the same operating advantages as the Boeing 737-700/800 Next Generation or Embraer 190 aircraft that would be replaced or that Copa could lease or purchase engines that would be as reliable and efficient as the CFM 56-7B and GE CF34-10. We may also incur substantial transition costs, including costs associated with 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 GE Engines to provide sufficient parts or related support services on a timely basis.

Table of Contents

Our business would be significantly harmed if a design defect or mechanical problem with any of the types of aircraft or components that we operate were discovered that would ground any of our aircraft while the defect or problem was corrected, 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 problems. Our business would also be significantly harmed 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 limited 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.

We are dependent on 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.

Our operations in Cuba, which has been identified by the U.S. Department of State as a state sponsor of terrorism, may adversely affect our reputation and the liquidity and value of our Class A shares.

We currently operate six daily departures to and from Cuba which provide passenger, cargo and mail transportation service. For the year ended December 31, 2014, our transported passengers to and from Cuba represented approximately 7% of our total passengers carried. Our operating revenues from Cuban operations during the year ended December 31, 2014 represented approximately 1.26% of our total consolidated operating revenues for such year. Our assets located in Cuba are insignificant.

Cuba has been identified by the United States government as a state sponsor of terrorism, and the U.S. Treasury Department s Office of Foreign Assets Control (OFAC) administers and enforces economic and trade sanctions based on U.S. foreign policy against Cuba and certain other targeted foreign countries. Our overall business reputation may suffer as a result of our activities in Cuba, particularly if such activities grow in the future. Certain U.S. states have enacted legislation regarding investments by pension funds and other retirement systems in companies, such as ours, that have business activities with Cuba and other countries that have been identified as terrorist-sponsoring states. Similar legislation may be pending in other states. As a result, pension funds and other retirement systems may be subject to new reporting requirements and other burdensome restrictions with respect to investments in companies such as ours. Pension funds and similar institutions represent an important source of demand for our shares, and if their willingness to invest in and hold our shares were to diminish as a result of any such requirements or restrictions, or for any other reason, it would likely have a material adverse effect on the liquidity and value of our Class A shares.

We incurred intangible write-off charges as a result of a change in the operating plan for Copa Colombia.

During 2013, we recognized an intangible write-off charge of $31.2 million as a result of shifting Copa Colombia s capacity from domestic to international markets. As of December 31, 2014, we had goodwill and intangible assets of $20.4 million principally relating to our acquisition of Copa Colombia. Our consolidated financial statements have been prepared in accordance with IFRS, under which goodwill and other intangible assets of indefinite life are not amortized and are tested for impairment annually, or when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is assessed under IFRS by comparing the carrying amount to the recoverable amount of the cash-generating unit that has been measured at the higher of its value-in-use and its fair value, by applying cash flow projections in the functional currency based on the Company s approved business plan covering a five-year period followed by the a long-term growth rate. If the value-in-use of a reporting unit is lower than its corresponding carrying amount, we recognize the difference as an impairment charge corresponding to the fair value using methodologies generally accepted in the markets to determine the value of entities. We may recognize additional impairment charges in future periods as a result of further changes in the operations of Copa Colombia or a deterioration in conditions in the markets in which Copa Colombia operates.

Risks Relating to the Airline Industry

The airline industry is highly competitive.

We face intense competition throughout our route network. Overall airline industry profit margins are low and industry earnings are volatile. Airlines compete in the areas of pricing, scheduling (frequency and flight times), on-time performance, frequent flyer programs and other services. Some of our competitors, such as American Airlines, 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. 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.

Table of Contents

We compete with a number of other airlines that currently serve some of the routes on which we operate, including Avianca-Taca, American Airlines, Delta airlines, AeroMéxico, and the LAN Group, among others. Strategic alliances, bankruptcy restructurings and industry consolidations characterize the airline industry and tend to intensify competition. In 2011, the LAN Group acquired Aires, a low-cost Colombian air carrier, which is now operated as LAN Colombia. In 2012, the LAN Group acquired the Brazilian TAM Airlines, which resulted in the creation of the LATAM Airlines Group (LATAM). In addition, several other air carriers have reorganized in recent years, including certain of our competitors, such as Avianca-Taca and Delta, and have benefited from lower operating costs and fare discounting in order to maintain cash flows and to enhance continued customer loyalty.

In addition, since 2008, the airline industry has experienced increased consolidation and changes in international alliances, both of which have altered and will continue to alter the competitive landscape in the industry by resulting in the formation of airlines and alliances with increased financial resources, more extensive global networks and altered cost structures. For example, Grupo Viva is a new and expanding low-cost competitor created by Icelandia Anatron and Grupo IAMSA. Although we intend to compete vigorously and maintain our strong competitive position in the industry, Avianca-Taca and LAN Colombia represent a significant portion of the domestic market in Colombia and have access to greater resources as a result of their recent combinations. Therefore, Copa Colombia faces stronger competition than in recent years, and its prior results may not be indicative of its future performance. In addition, both we and Avianca-Taca joined Star Alliance on June 21, 2012. We cannot predict the extent to which participating in the same alliance as one of our direct competitors may impact our revenues, current operations or ability for future growth.

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 could not 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.

Changes in aviation technology may affect our competitiveness.

Aircraft rely on advanced technology. From time to time, new technology renders aircraft models obsolete, which could result in a negative impact on our financial results.

We may face increasing competition from low-cost carriers offering discounted fares.

Traditional hub-and-spoke carriers in the United States and Europe continue to face 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 Gol Intelligent Airlines or Gol, which continues to grow both in Brazil as well as in other South American countries; Grupo Viva, which is growing in domestic markets in Mexico and Colombia; Spirit, which serves Latin America, including Panama, from Fort

Lauderdale, JetBlue, which flies from Orlando to Bogota, San José, San Juan, Santo Domingo, and Nassau; and a number of low-cost carriers which operate within Mexico, among others, the low-cost carrier business model appears to be gaining acceptance in the Latin American aviation industry. As a result, we may face new and substantial competition from low-cost carriers in the future which could result in significant and lasting downward pressure on the fares we charge for flights on our routes.

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 39.3% of operating expenses in 2012, 37.4% in 2013 and 37.6% in 2014. Jet fuel costs have been subject to wide fluctuations as a result of increases in demand, sudden disruptions in and other concerns about global supply, as well as market speculation. Fuel prices reached record levels during the middle of 2008, decreased substantially in 2009, and have increased once again during each of the last three years. 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. If a future fuel supply shortage were to arise 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, higher fuel prices or further reductions of scheduled airline services could result. We cannot assure that we would be able to offset any increases in the price of fuel by increasing our fares.

Table of Contents

We routinely enter into derivative contracts for a portion of our fuel needs to protect against rising fuel costs, although in recent periods, we have entered into such arrangements on a much more selective basis. These agreements provide only limited protection against increases in the price of fuel or our counterparties inability to perform under the agreement, can be less effective during volatile market conditions and may be unavailable to us in the event of a deterioration in our financial condition. Because of the large volume of jet fuel that we consume in our business, entering into derivative contracts for any substantial portion of our future projected fuel requirements is costly. Fuel prices are likely to increase above their current levels and may do so in the near future, which could materially and negatively affect our operating results. Conversely, declines in fuel prices may increase the costs associated with our fuel hedging arrangements to the extent we have entered into swaps or collars. Swaps and put options sold as part of a collar obligate us to make payments to the counterparty upon settlement of the contracts if the price of the commodity hedged falls below the agreed upon amount. Historically, declining crude oil prices have resulted in our being required to post significant amounts of collateral to cover potential amounts owed with respect to swap and collar contracts that have not yet settled. Additionally, lower fuel prices may result in lower fares through the reduction or elimination of fuel surcharges.

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. In addition, as is common with most of our competitors, we may, from time to time, face considerable turnover of our employees. Should the turnover of employees sharply increase, our training costs will be significantly higher. 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 or replace departing employees. A failure to hire and retain qualified employees at a reasonable cost could materially adversely affect our business, financial condition and results of operations.

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

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

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